

## Recruitment Marketing in a fee-compressed environment – beyond performance

Sasha Jensen, founder and CEO of executive search firm Context Jensen Partners, explores how investor relations teams can maintain positive dialogue with clients despite a downward trend in fees

The call for hedge funds and other alternative asset managers to reduce fees has reached fever pitch, with many allocators increasingly skeptical that they are getting their money's worth. Demands for lower fees have only increased as many funds continue to struggle with volatile markets through the first half of 2016. However, that doesn't mean funds have to pump the brakes on fundraising. On the contrary, today's fee-compressed environment provides marketers with an opportunity to show a fund's value outside of just performance. Here are three ways investor relations teams can help maintain and improve fundraising despite negative pressure on fees.

### Investment consultant relationships

Relationships with investment consultants are increasingly important. We have seen a strong up-trend in the hiring of marketing professionals specialised in the consultant universe. Institutional allocators, especially



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those with a fiduciary responsibility, are keen to ensure the quality of the managers on their platform. Many allocators are looking to consolidate managers (especially if consolidation leads to better managers providing incentivised pricing for larger ticket clients), and are relying on investment consultants to pluck out the true value-add managers from those that cannot provide sustainable, long-term outperformance.

Many allocators today are more concerned with a hedge fund's investment and risk management processes, according to the 2016 Context Summits' *Allocator Trends Report*. A survey of attendees at Context Summits Miami found that 81% and 71% of allocators cite strong investment and risk management processes, respectively, as a key metric in manager evaluation. In comparison, 70% of allocators cited performance and 60% cited fees as key factors in their selection process. These figures show that allocators are increasingly looking beyond performance when evaluating managers. Given the labour- and time-intensive nature of fund due diligence, many investors rely on consultants to perform this analysis, especially when looking to invest in niche or emerging managers.

### Value-add research

Another tactic a number of managers have adopted is the provision of extensive, value-add investment and macro-economic research as part of the firm's client service offering. Firms like AQR brand themselves as thought leaders and place quantitative research teams within their IR departments to support existing clients with views on their portfolios and the economy at large, extending beyond the client's investments at the firm. In doing so, clients become 'sticky' as they grow dependent on these free, objective and cutting-edge advisory and research services, which enable investors to justify management fees beyond a particular fund's current performance.

### Distribution channels

A third key trend is the pursuit of different distribution channels. Given the increased pressure on fees, a number of large alternative asset managers have found retail distribution channels particularly attractive, diversifying fundraising sources and potentially counteracting further future fee compression. Firms like Blackstone and KKR have been building out their retail distribution platforms for over five years and others are now following suit. Fulcrum Asset Management hired Matthew Wright in July 2015 and Rothschild Asset Management added Jennifer Kulp to its staff in September 2015 to spearhead their respective moves into the retail space. AQR has been building out its Advisor Solutions Group, with Joe O'Connell joining from Lord Abbett in March 2016. Man Group promoted Matthew Stadtmayer to head up the firm's US private wealth management group, who in turn hired Mike Martin as a managing director from Abbey Capital.

While wirehouses still impose hefty charges to host funds on their retail distribution platforms, which has historically been a major impediment for access to the high-net-worth and financial advisor markets, there is no discounting of management fees on these platforms. If discounting on the institutional side continues as expected, then institutional and retail channels could potentially prove equally profitable in the near future. A number of managers are already acting as first movers in this space, driven in large part by their marketing efforts to retail investors and advisors. As allocators become more educated about their options, the industry should continue to mature and grow.

While recent headlines have focused on the struggle between managers and allocators around management fees, we believe there are structural opportunities for marketing platforms to defend against depressed fees before they even take a seat at the negotiating table. ■