

Opinion

Why Marketers Must Adapt – Or Get Laughed Out of the Room



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For years, the typical investor sales pitch went something like this:

"This fund has produced double-digit annualized returns since inception. It'll be a great fit for your portfolio!"

It's a convincing pitch. Indeed, in the early years of the alternative investment industry, this statement was often more fact than fiction. Many of the world's best fund managers, like **George Soros** and **Paul Tudor Jones**, were known for consistently cranking out double-digit – and sometimes even triple-digit – returns. It's no surprise, then, that so many investors were willing to pay the "2 and 20" (or higher) percentage fees for a chance to allocate to these titans of finance.

But the days of sky-high returns are now long gone, and marketers still using this archaic sales pitch are likely to be laughed out of the room. Marketers now need to adapt and adjust to a changed investment landscape if they hope to successfully secure and maintain investor dollars.

Increased competition across the industry, continued central bank intervention and a highly volatile market all make high returns unlikely to be sustainable over any long-term period. As a result, many investors in search of alpha are now shifting to strategies that offer less correlation to the public markets and longer lock-ups with regular income. These strategies include private equity, alternative credit, infrastructure, real estate and real assets. In just

one recent example, **Blackstone Group** is raising \$5 billion for a vehicle that could have an investment horizon of up to 15 years and fund life of 20 years.

Other large asset managers, such as <u>Brookfield Asset Management</u> and <u>Macquarie</u>, are launching ever-larger funds focused exclusively on infrastructure or real estate investments, which may not come to fruition for 10-plus years. These types of fundraises are likely to increase in frequency and scope, especially in light of President-elect Donald Trump's proposed plans for infrastructure spending.

This changing allocation landscape demands a marketer with a unique skill-set – one that prioritizes relationships over performance and is able to keep investors on board through multiple market cycles. At a minimum, marketers should have strong interpersonal and communication skills, an intimate knowledge of the challenges of investing in more esoteric or long-term strategies, and a strong technical ability to talk the book on investment strategy specifics.

For example, marketers should take steps to proactively engage both current and prospective investors on a more regular basis, especially given that standard investor letters are unlikely to offer much insight into the potential performance of long-dated investments. These conversations may touch more on a manager's market outlook or the impact of recent regulations, rather than the specifics of any individual investments.

With data showing clear outperformance more difficult to come by, marketers will also be forced to find new ways to differentiate their funds from those of competitors. One possibility is highlighting an investment team's experience with a particular type of strategy. For newer asset classes, like water-related investments, having an academic on board who is an expert in agriculture or climate change will signal to investors that their assets are in capable hands.

Many alternative asset managers are now realizing the importance of having these kinds of deeper institutional-quality marketing operations, and the number of recent hires and the targeted areas for them back this up.

According to proprietary <u>Context Jensen Partners</u> data published in our quarterly newsletter tracking marketing moves across the alternatives industry, there were 157 private equity hires through the first three quarters of 2016, more than the double number of hires over the same period in 2015, and already up 25% over full-year 2015 numbers. The gains are even more pronounced in the private real estate fund industry, with a jump from 22 marketing hires to 78 over the same time period. Credit-focused hedge fund strategies are also gaining traction with 122 moves through Q3, up from 102 moves in 2015 and more than any other alts strategy except for private equity.

Taken together, these trends point to a seismic change in the traditional relationship between marketers and investors, as alts firms deepen the level of service and responsiveness they provide to clients. Without regular performance numbers to point to, marketers specializing in these types of strategies must rely on a different set of tactics.