

> [www.novus.com](http://www.novus.com)

# An Allocator's View on Effective Hedge Fund Marketing: **Part II**

*By Joe Peta & Stan Altshuller*

## ***What is effective hedge fund marketing?***

The world of marketing has changed, and it's critical for managers to rethink how they communicate with investors by taking a moment to see things from the investor's point of view.

Investors today have access to more information than they can effectively consume. They are being bombarded by emails, marketing brochures, pitch books, and bold claims from managers competing for their capital. Increasingly, this sort of "push marketing" is having less impact on investors who have heard it all before. To be competitive in today's environment managers need to



differentiate themselves by clearly demonstrating their value to the investor through data-supported narrative.

An increasing number of innovative managers have evolved their marketing efforts by tapping technology and data analytics to help them quantify the value they deliver. Through the use of portfolio intelligence tools, they have gained an edge in raising and retaining capital. Demonstrating their skill and highlighting the drivers behind their investment process, these managers can substantiate their claims and win the trust of investors along with their capital. In the meantime, managers who continue to rely on subjective claims alone will be at a significant disadvantage, even if they are as skilled as they claim.

Here are four specific steps to take your marketing to the next level:

#### **1. Focus on what makes you unique**

Investors are looking for unique opportunities—not another “fundamental l/s” fund. Focus on your key differentiators and connect them to your background and expertise.

#### **2. Align your message with the objectives of your investors**

Investors from pensions to funds of funds are faced with criticism of putting up with sub-par returns, paying high fees and not fully grasping the complexities and risks of hedge funds. Whether they are looking for uncorrelated sources of returns, absolute returns, or alpha, it is your job to understand investor needs and challenges.

#### **3. Talk about your “fund” as a business**

Besides running a portfolio, you are running a business, and investors are keen to understand the strengths and challenges of your organization.

Organizational structure is often highlighted in marketing documents but few talk about organizational ‘health’. What is the reason the fund was launched? What are your beliefs and guiding principles? If you are clear on those and you dedicate time to them in your messaging, you are more likely to attract strong, long-term partners who share your values.

The rest of the article will focus on our final point – and one we feel is most critical in separating effective marketing from mediocre. It is the ability to show value rather than just tell folks about it.

#### **4. Show, don't tell**

A picture is worth a thousand words. In our day and age, it's worth a lot more since no one has the time to read a thousand words but they are happy to quickly glance at a chart and discover the insight for themselves. Of course, it's critical which data you choose to visualize.

Remember, investors care about the skills you bring to the table. For purposes of differentiation, it's imperative that a fund identifies the skills it possesses. In [last year's piece](#), we presented a table of five skill sets hedge fund managers can

**"Fund managers need to be able to stand out not just by telling investors what they are good at, but by 'showing' or proving their value proposition in a compelling, easily retained way."**

employ to create alpha. One of the skills we covered was security selection skill, or the consistent ability to choose investments that outperform their respective benchmarks. Here, we'll draw a distinction between telling and showing, and provide a brief overview of how two managers effectively demonstrate their security selection skill.

# Case Study:

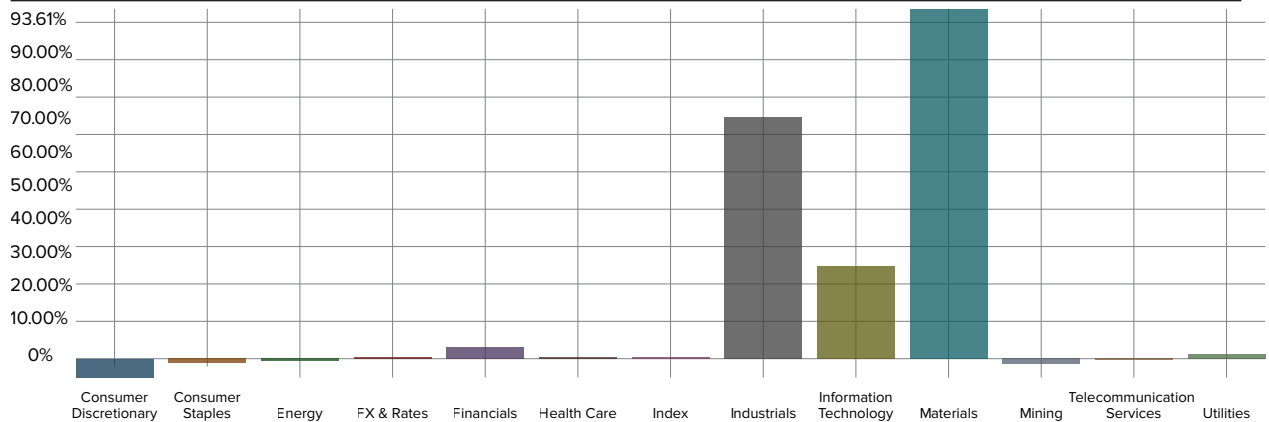
## Impala Asset Management

Impala Asset Management is a multi-billion dollar long-short hedge fund founded in 2004 by Robert Bishop, (Formerly the CIO of Soros Fund Management and a PM at Maverick & Kingdon). Impala now employs dozens of analysts and invests globally, primarily in companies within cyclical sectors including consumer cyclicals, industrials and materials. Impala is known for its deep fundamental analysis and strong understanding of the businesses they invest in.

That is the story they want to tell. When communicating with investors, they build a unique narrative by showing, explaining and demonstrating rather than hoping the audience will take them at their word. To do this, Impala has leveraged Novus to organize and dissect their trading data. The endeavor has paid off – the data strongly supports their story and the result is a powerful, memorable and objective message.

Throughout its 10-year history, Impala has invested over 93% of its gross exposure in the sectors it knows best, Industrials, Materials, and Consumer Discretionary. Moreover, since 2004 Impala has generated 93 percentage points in Materials and 70 percentage points in Industrials just based on security selection. That is 163 percentage points of security selection alpha in just those two sectors.

### Impala Asset Management Security Selection Alpha by Sector [April 2004 - December 2014]



Focusing on security selection within each sector, this chart paints a compelling picture of long-term alpha generation through picking stocks within Materials and Industrials.

Many firms say they know what they are good at and stick to it; Impala has more than ten years' worth of data to show investors that's so.

### Impala Asset Management Key Stats

# 93%

**of risk based exposure is attributable to the Top 3 Sectors. [2009-2014]**

# 163%

**of Security Selection Alpha in Top 2 Sectors. [2004-2014]**

# Case Study:

## Buckingham Capital Management

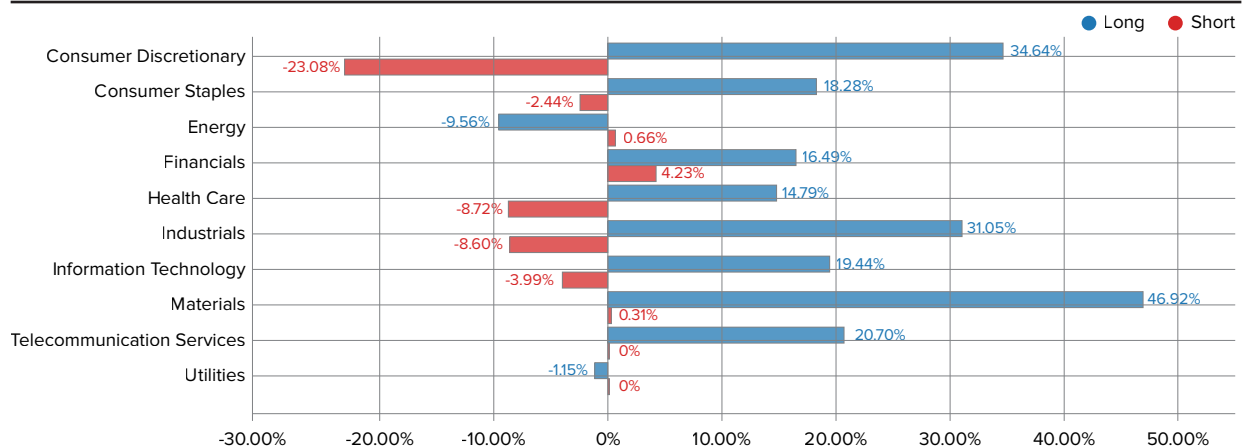
Whether knowing your companies, or some variation of “kicking tires” or “deep diving”, nearly every single manager uses fundamental security selection as a selling point. However, any investor will tell you, this is not a differentiating point because everyone tells them that.

The value that a hedge fund offers to investors managing an endowment-style portfolio lies in its ability to provide superior risk-adjusted returns. Those are most commonly achieved, when deploying less net exposure to the market, through the shorting of stock. A manager with 80% long exposure and 30% short exposure is only 50% net long. But if the longs outperform the shorts (either by advancing more in up markets, or declining less in down markets) the investor will capture more of a market's advance than its exposure would yield alone. A manager's ability to identify the relative value of securities and his ability to capitalize on it demonstrates security selection skill.

Buckingham Capital Management, a rarity in the world of hedge funds in that its founder has been investing since before the 1987 crash, has compiled an enviable record of security selection; not only on an outright basis, but on a relative basis as well.

In every year but one from 2009 through 2014, Buckingham returned to its investors a larger share of the market's gains than their net-exposure to the market during that year. What's remarkable about the alpha they've generated is that it has come from superior relative-value stock selection across every sector they've invested in. Take a look at this chart which shows Buckingham's return on capital, long and short, across every sector they've invested in since 2009:

**Buckingham Capital Management** Annualized Return [January 2009 - December 2014]



*BCM manages assets in two investment strategies: a long/short multi-sector strategy (“The Diversified Strategy”), and a long/short consumer-focused strategy. The portfolio included in this case study is BCM's Diversified Strategy, which is co-managed by David Keidan and Brian Clifford.*

It reflects a large positive spread in every sector, except energy which currently represents less than 1% of the book. In the eight sectors where both longs and shorts have been entered into over the last six years, Buckingham can show investors that they have captured positive relative value and generated alpha through security selection.

---

**Buckingham Capital Management** Key Stats

---

**61%****of securities generated alpha on the long side. [2009-2014]****56%****of securities generated alpha on the short side. [2009-2014]**

---

Clearly, it takes effort to do this sort of analysis, while simply 'telling' investors what you're good at takes a lot less. But the efforts pay off. Like in our prior example, this manager has made a business decision to invest in analyzing their own trading data through Novus, and has used the resulting insights to craft a strong, differentiating message.

**Conclusion**

In speaking with our investor clients – some of America's largest endowments, pension plans, family offices etc. – we've learned that a differentiated marketing pitch is crucial for managers raising assets. But if you're a manager, you can't 'show' investors what you're core skills are, or how you're unique without the proper tools to measure and display them. This also involves the cleansing of data to support such analysis.

That's why we founded Novus – to enable investors to consistently maximize their performance potential through the discovery of true investment acumen, proprietary industry insights and expertise and effortless data management and enlightenment.

**For more information, please contact:**

---

**Joe Peta**

Managing Director, San Francisco  
Email: [jpeta@novus.com](mailto:jpeta@novus.com)

Joe is a Managing Director overseeing Novus' West Coast business development efforts. He joined Novus after 12 years at Lehman Brothers, where he ran biotech trading as a sell-side market maker and later ran the trading desk for a Lehman-sponsored \$200+ million long/short equity hedge fund. While recovering from an injury suffered as a pedestrian in New York, Joe wrote a memoir, *Trading Bases, a Story About Wall Street, Gambling, and Baseball*. Examining the overlap of critical reasoning used in baseball's front offices and by asset managers. Joe's widely hailed memoir was named a Top 10 Sports book by *Publisher's Weekly* and a Top 10 Business book by the editors at Amazon. Joe earned his M.B.A. at Stanford University and an accounting degree from Virginia Tech. He has been featured on CNBC, Bloomberg TV, *Fortune* and the *Wall Street Journal*. He resides in San Francisco with his wife and two daughters.

**Stan Altshuller**

Co-founder & Chief Research Officer  
Email: [stan@novus.com](mailto:stan@novus.com)

Mr. Altshuller is Novus' Chief Research Officer and charged with spearheading various business initiatives, leading the research team and overseeing blueprinting and competitive analytics for the Novus Platform™. Before co-founding Novus in 2007, Stan worked in Ivy Asset Management's Portfolio Management Group as part of a team responsible for constructing, monitoring and managing all of Ivy's portfolios. At Ivy, he designed and implemented a set of tools and processes for analyzing multi-manager portfolios focusing on key drivers and risks across the entire product line. Prior to Ivy, Stan served at Lyster Watson & Co., where he was responsible for quantitative analysis, manager screening and portfolio modeling. Stan holds a B.S. in Mathematics and a B.A. in Economics from Brandeis University.

**To learn more about the Novus Platform™, please contact our sales team:**

[sales@novus.com](mailto:sales@novus.com).

**NOVUS PARTNERS, INC.**  
**200 PARK AVENUE**  
**NEW YORK, NEW YORK 10166**  
**212-586-3030**  
**[www.novus.com](http://www.novus.com)**

**Disclaimer**

This Publication is protected by U.S. and International Copyright laws. All rights reserved. No part of this Publication or its contents, may be copied, downloaded, further transmitted, or otherwise reproduced, stored, disseminated, transferred, or used, in any form or by any means without written consent from Novus Partners, Inc.

The information in this report is not intended to be, and shall not constitute, an offer to sell or a solicitation of an offer to buy any security or investment product or service. The information in this report is subject to change without notice, and Novus assumes no responsibility to update the information contained in this report.