Utilizing Investor Relations Strategies in an Evolving Investment Landscape I June 2019

It's no secret that the investment management landscape is changing. The competing dichotomy of lower fees versus more robust infrastructure continues to grow and is creating higher and higher barriers to entry for emerging managers, while slimming the chances of survival for those already off the ground. Amid an environment of shrinking fees, where investors are demanding lighter management fees, shrunken performance fees and conservative expenses, on the back of 'rockin' performance — it is getting more expensive just to remain in business. Not only is the cost of hiring top talent growing, but the complexity of running a top tier shop is growing. The list of requirements across infrastructure and systems, for an LP to even consider an investment in a fund, has grown exponentially over the past decade. Investors are getting more sophisticated in their approach to diligence — as are managers in managing money. The LP checklist spans across every aspect of a GP's infrastructure internally and externally. The basics are things like third-party administration, cyber security programs and regular reporting. Other requirements include mock audits, chaperoning of expert network calls to avoid MNPI risk, full shadow of the administrator's books via general ledger, third-party valuation agents, monitoring of AIFMD communications, FATCA compliance, not to mention all the reporting requirements (e.g. ILPA compliant reporting, reporting to risk aggregators like Albourne's Open protocol, Hedgeforum, and risk-weighted reporting for insurance companies).

However, this article is not a manifesto to discourage investment managers from starting or expanding. On the contrary, below we will lay out a few ways that investment managers can differentiate themselves from the pack via investor relations and communications strategy. Let's be real, the complexity of this business isn't going anywhere. We are simply pointing out the dichotomy between lower fees and more expensive requirements from LPs. We still want to win the capital that pays to keep our businesses solid, and we still want to produce strong returns from investments.

4 ways to differentiate your strategy through investor relations

Know your limited partner

The importance of knowing your current or potential investor and their needs, allocation preferences and hardships is paramount to fostering a successful long-term relationship. It may seem obvious, but I can't tell you how many investor meetings I have sat in where the GP doesn't know or understand the LP — they continue to push their own agenda on the investor during a meeting, instead of taking time to let the investor guide the meeting. The move to a listening-based, solutions approach has been a fundamental shift in the capital raising realm over the past 20 odd years. Fostering a relationship of trust, and mutual partnership is the single most important task a GP and investor relations professional can master in winning and maintaining institutional capital. An investor who feels heard and in true partnership with their manager is an investor who is more likely to re-up and cultivate a more dynamic relationship with the GP. Investor relations programs present a unique opportunity to establish this type of trust and deepen the LP-GP relationship.

Thought leadership

Investors are overwhelmed with choice. When competing for institutional capital allocations, it can often be difficult for an allocator to separate one good manager from the next at investment committee. Theoretically, the GP has made it that far because they check the boxes of performance, strategy and infrastructure. Institutional capital allocations are still partly driven by respect, trust and the ability to build a long-term mutually beneficial relationship. Research has shown that thought leadership has been a differentiating factor to separate a GP from the pack. Thought pieces have the ability to deepen the GP-LP relationship, sparking conversation between the two, for an initial prospect or a seasoned relationship. The task of "creating content" can be daunting; I have experienced this working in-house. However, a few tactics can be employed to come up with interesting content. First, employ an unlikely resource; your IR team or PM is not always the best person to get thought leadership off the ground. Do not underestimate the power of employing junior members of the investment team to write on specific thematic topics, or even utilizing legal, human resources or the office of the COO to give anecdotal thoughts on your organization and its asset class. IR can help flesh out ideas and bring the piece to life, but LPs like hearing from different areas of an organization. Second, you don't have to be an economist; there is enough literature out there commenting on our current economy, fiscal policy and presidential administration to satiate everyone's appetite. Think about alternative ways to provide interesting information on your specific strategy to the investor community. Perhaps your sourcing team has interesting stories to share, or your TMT team wants to write about systemic trends in their sector. I have seen GPs who do "notes from the road", whereby every member of the investment team writes up thoughts on meetings they are having with bankers and potential portfolio companies and they get collated and shared with investors. These specific and experiential content pieces are really interesting to the investor community.

Your PPM isn't everything

Anecdotally, I recently had a conversation with a placement agent in the industry and we were discussing the decline in use of the PPM as a marketing tool for managers and investors alike. GPs are generally getting smarter about the way they provide information during the fundraising period. Investors are also gravitating towards other means of content, particularly at the offset. A rise in the use of video content, either to talk about the strategy, the firm, or full product presentations has proved to be captivating to LPs. Think creatively about what you put in your data room. We can help you bring this to life at Tarplin Consulting.

Regularly scheduled programming

Perhaps the most important tactic we can emphasize is creating a robust, regular, and trackable client service program that addresses your investors' needs. Do this by creating a plan for communication with your investor, ask them what type of update calls and meetings they want and how often they want them. Collect and store information on your investor and create multiple touch points throughout the year, utilizing face-to-face meetings, video conference and your ongoing communications strategy as a firm. Consistently re-sell your investment strategy and philosophy, as well as your competitive advantages throughout your program. Develop a sense of the investors' profile and allocations on an annual basis and record it in your CRM (what is their allocation structure, what other managers do they use and are they happy, what are their investment goals and key areas of concern both strategically and systemically?). This type of robust and reportable program enhances your ability to raise and retain capital.

Please contact info@tarplinconsulting.com to discuss the ideas we mentioned here and your investor relations program.