Raising Capital

01 Marketing and Regulation

A cautious approach is needed towards marketing, particularly as stringent rules regulate the marketing of funds. Before starting the process of marketing in a certain jurisdiction, it is vital to understand the registration and authorisation requirements which apply for the types of investors the fund is targeting its marketing towards. Further problems arise where marketing is planned across several jurisdictions, as compliance with fund regulations and interaction with local authorities is needed in each jurisdiction in which the fund is marketed. The rare exceptions to this rule – reverse solicitation and pre-marketing – are explored further below.

One of the most significant regulatory barriers faced by funds is the EU AIFMD, although it does offer an exclusive marketing passport that can provide certain EU funds with access continent wide. With this in mind, EU marketing and non-EU marketing will be considered separately below.

THE UNITED STATES IN FOCUS: KEY CONSIDERATIONS

Managers to private investment funds wishing to attract US investors[3] must consider all relevant US federal securities and related statutes. This section focuses on the main federal statutes for consideration.

(i) US Securities Act of 1933, as amended (the "Securities Act").

Offers and sales of securities within the United States are subject to the registration requirements of the Securities Act and equivalent state securities regulatory regimes. As private investment funds (or private funds) offer securities to eligible investors through the issuance of limited partner interests or limited liability company interests (or similar securities), a private fund is required to either register those securities with the Securities and Exchange Commission (the "SEC" or the "Commission") or rely on one or more exemptions from such registration. Private fund issuers typically rely on an exemption from such registration (and the lengthy requirements that follow any such registration) which is found in Rule 506(b) of the Securities Act[4]. Under this exemption, the private fund would not be required to register its interests being offered to eligible investors so long as, among other things, the purchaser of such interests is an accredited investor and there is no general solicitation or general advertising involved in attracting such prospective investor. Private funds relying on this exemption must file a Form D and also file any state blue sky notice filings and pay filing fees depending on the states in which eligible investors who purchase interests in the private fund reside. Finally, the private fund must also ensure that such eligible investors do not meet the "bad actor" test under Rule 506(d) of the Securities Act or invest in thresholds that do not taint the entire private fund's offering.

(ii) US Investment Company Act of 1940, as amended (the "*Investment Company Act*" or the "*Company Act*").

In addition to registration or exemption therefrom of the securities being offered to US investors in a private fund as discussed above, the private fund itself must determine if it is required to register as an investment company with the SEC under the Investment Company Act or if there are one or more exceptions from registration that can be relied on in lieu of such registration. Private funds raising capital from US investors generally do not register as an investment company under the Investment Company Act and instead opt to qualify for an exception from such registration pursuant to Section 3(c)(1) or Section 3(c)(7) under the Investment Company Act:

- Section 3(c)(1) generally provides that an issuer (i.e., a private fund) need not register as an investment company so long as the private fund does not publicly offer its securities and has 100 or fewer beneficial owners of its outstanding securities (for foreign issuers, generally only U.S. persons are counted although this is not always the case and must be analyzed in conjunction with counsel);
- Section 3(c)(7) generally provides that an issuer (i.e., a private fund) need not register as an investment company so long as the private fund does not publicly offer its securities and limits its beneficial owners to "qualified purchasers"[5] (for foreign issuers, generally only U.S. persons are counted although this is not always the case and must be analyzed in conjunction with counsel).

It should be noted that the above exceptions are nuanced and should be analyzed in conjunction with counsel (for example, in certain instances there are "look-through" rules that could apply which would have the effect of altering some of the calculations). We would also note that depending on the types of investments the private fund will be making, there may be other exceptions available to the private fund that are worth consideration. Please contact us with any questions.

(iii) US Commodity Exchange Act, as amended (the "*CEA*").

If a private fund located in the US or a private fund with US investors engages in the trading of "commodity interests" (as defined herein), the private fund's general partner and/or investment manager will need to either register with the National Futures Association ("***NFA***") and the Commodity Futures Trading Commission (the "***CFTC***") as a commodity pool operator (a "***CPO***") and/or a commodity trading advisor (a "***CTA***") or rely on an exemption from such registrations.

- **CPO.** A CPO is an individual or organization that operates a "commodity pool" and solicits funds for that commodity pool. A "***commodity pool***" is an enterprise in which funds contributed by a number of persons are combined for the purpose of trading futures or options on futures, retail off-exchange forex contracts, or swaps (i.e., commodity interests (as defined below)), or to invest in another commodity pool. A private fund would be considered a commodity pool if it engages in any trading of commodity interests[6]. A CPO is required to register with the NFA and the CFTC unless it can rely on an exemption from such registration. While there are several exemptions available under the CEA that can be relied on, many sponsors of private fund issuers rely on the "*de minimis*" exemption found under Section 4.13(a)(3) of the CEA[7]. In a nutshell, as long as (I) the trading of commodity interests within the commodity pool (i.e. the private fund) is done on a "*de minimis*" basis, (II) all investors in the pool are "accredited investors" and (III) the investors in the pool are not marketed as or in a vehicle for trading in commodity futures or commodity options markets and the interests in the pool are exemption from registration under the Securities Act and are not marketed publicly (or at least in reliance on Rule 506(c)), then no CPO registration will be required. De minimis trading limits the amount of commodity interest trading that can be conducted within the private fund. Please contact us with any questions. The CPO of a private fund is typically the sponsor or general partner of the private fund.

- **CTA**. A CTA is an individual or organization that, for compensation or profit, advises others, directly or indirectly, as to the value of or the advisability of trading futures contracts, options on futures, retail off-exchange forex contracts or swaps (i.e., commodity interests). A CTA would be required to register with the NFA and the CFTC as such unless an exemption can be relied on. While there are several exemptions available under the CEA, many CTAs rely on Section 4.14(a)(10) which would permit exemption from registration as long as, during the course of the preceding 12 months, it has not furnished commodity trading advise to more than 15 persons and it does not hold itself out generally to the public as a commodity trading advisor. As a private fund would generally be deemed "1" person for this purpose, CTAs typically rely on this exemption from such registration. The investment manager of the private fund typically serves as the private fund's CTA. We note there are other CTA exemptions to consider, please contact us with any questions.

(iv) The US Investment Advisers Act of 1940, as amended (the "*Advisers Act*"). Investment advisers have an obligation to determine whether they will be required to register under the Advisers Act as an investment adviser or whether they can rely on one or more exemptions from such registration. Registration as an investment adviser with the SEC is generally required once an investment adviser has regulatory assets under management of $100 million or more.[8] However, there are exemptions from registration that investment advisers should consider when determining what their regulatory obligations are under the Advisers Act.

- The first exemption to consider is the foreign private adviser exemption (the "***Foreign Private Adviser Exemption***"). An investment adviser can rely on the Foreign Private Adviser Exemption if: (i) it has no place of business in the US, (ii) it has, in total, fewer than 15 clients in the US and investors in the US in private funds advised by the adviser, (iii) it has aggregate assets under management attributable to such clients and investors of less than $25 million and (iv) it neither holds itself out generally to the public in the US as an investment adviser nor acts as an investment adviser to any registered investment company or business development company. The Foreign Private Adviser Exemption is self-executing and any investment adviser that can rely on it need not make any filing with the SEC (although there may be other unrelated filings an investment adviser needs to make with the SEC separately).

- Another exemption an investment adviser may rely on if it has its principal office and place of business in the US or it cannot avail itself of the Foreign Private Adviser Exemption, is the private fund adviser exemption (the "***Private Fund Adviser Exemption***"). An investment adviser can rely on the Private Fund Adviser Exemption if: (i) it acts solely as an investment adviser to one or more qualifying private funds (i.e., private funds that themselves rely on either Section 3(c)(1) or Section 3(c)(7) of the Company Act) and (ii) it manages private fund assets of less than $150 million. Investment advisers that are relying on the Private Fund Adviser Exemption are often "mid-sized advisers" (i.e., advisers with between $25 million and $100 million of regulatory assets under management). These mid-sized advisers are typically subject to state registration, however, if a mid-sized adviser is exempt from registration as an investment adviser in the state in which it has its principal office and place of business (or is excluded from the definition of investment adviser in that state), then the adviser would likely be able to be treated as an exempt reporting adviser (an "***ERA***"). The ERA exemption, unlike the Foreign Private Adviser Exemption, is not self-executing and requires a filing with the SEC. Additionally, the ERA will be subject to certain substantive provisions of the Advisers Act and will be eligible for routine examination by the SEC.[9] Please contact us with additional questions.

Registering With the SEC As an Investment Adviser or Claiming an Exemption as an ERA: The Key Steps

ESTABLISH AN IARD ACCOUNT

The electronic filing system for SEC registered advisers or ERAs is the Investment Adviser Registration Depositary ("***IARD***").

As soon as the investment adviser has opened an account, it needs to complete the User Account Acknowledgement Form, Account Administration Entitlement Form and IARD Participant Acknowledgement Form. Following the filing of these forms, the adviser will need to fund the IARD Financial Account.

FORM ADV, PART 1A

Form ADV is the standard form used by investment advisers to register with the SEC and state securities authorities. Part 1 is in a check-the-box, fill-in-the-blank format. Complete Part 1A, paying particular attention to the sections concerning employees, clients, affiliates, fees, custodial arrangements, private funds, related persons, control and indirect ownership and participation or interest in client transactions.

FORM ADV, PART 2A

Part 2A involves narrative disclosures that advisers must provide to clients and prospective clients according to the SEC's 'brochure rule.' This disclosure focuses on conflicts of interest, the manager's methods of analysis and investment strategies, fees and compensations, brokerage arrangements, code of ethics, proxy voting, custody, other financial activities and affiliations and financial arrangements.

FORM ADV, PART 2B

Part 2B comprises information about advisory personnel providing clients with investment advice.

NOTICE FILINGS

It is possible that SEC-registered advisers may be required to produce notice filings with the states wherein they provide investment advice and wherein clients reside. On the basis that state notice filing requirements vary, individual state requirements must also be reviewed.

One of the most significant regulatory barriers faced by funds is the EU AIFMD, although it does offer an exclusive marketing passport that can provide certain EU funds with access continent wide.

COMPLIANCE MANUALS

SEC-registered investment advisers are required to (i) adopt and implement policies and procedures designed to avoid violations of the Advisers Act; (ii) review these policies annually for their adequacy and the effectiveness of their implementation; and (iii) appoint a chief compliance officer responsible for administering the policies and procedures.

PRIVACY

SEC-registered investment advisers are also required to adopt policies and procedures to protect and safeguard client data.

INSIDER TRADING

All SEC-registered investment advisers must have reasonably designed written policies and procedures to avoid the misuse of material non-public information by the adviser and its associated persons.

CODE OF ETHICS

SEC-registered investment advisers are required to adopt and enforce a code of ethics that creates a set of standards and conduct expected of supervised persons and reflect the adviser's fiduciary duties. Advisers are also expected under SEC rules to review the trading activity of particular supervised persons of the adviser.

OTHER DOCUMENTS AND PROCESSES

Furthermore, registered advisers will need to review the following and bring them in line with SEC expectations:

- dentifying and mitigating any actual or potential conflicts of interest
- trading practices (such as the allocation of investment opportunities, handling trade errors, execution quality and brokerage arrangements)
- proxy voting practices
- oversight of billing, general supervision and oversight, books and records systems, the adequacy of disclosures within documentation, custodial arrangements, cybersecurity and privacy policies and practices, vendor agreements, employee training and advertising practices
- internal audit and compliance reviews/forensic testing

MARKETING IN EUROPE

The European Union is the one of the largest single markets in the world and so an attractive market to sell into, but navigating the AIFMD can prove challenging and frustrating (we discuss this landmark Directive in **Your Management Business - Section 6: An Introduction to the Alternative Investment Fund Managers Directive (AIFMD).** Securing a marketing passport, negotiating National Private Placement Regimes ("***NPPR***s"), or relying on reverse solicitation to reach investors on the continent are key for fund managers looking to enter this space. We discuss each of these marketing options in the following section.

UK domiciled fund managers have lost access to the EU AIFMD marketing passporting and so must now navigate a significantly more complex system of national private placement regimes. For more information see our breakdown below.

SECURING AN EU PASSPORT

The most beneficial tool for marketing within the EU are the 'passporting rights' granted by AIFMD. The passporting rights allow an investment manager to carry out activities in any EU member state using only its home state authorization through a 'marketing passport'. This significantly impacts costs, while immediately gives funds a wide reach across the continent. Effectively, a 'win win'. However, access to these passports is restricted to EU UCITS and EU AIFs with a EU AIFMs. While plans to extend AIFMD passporting rights to jurisdictions like Guernsey and Jersey have been put forward over the last few years, the European Securities and Markets Authority ("***ESMA***") has yet to set out a timetable for such an extension to non-EU AIFMs and non-EU AIFs and any developments seem highly unlikely.

There are several options if you cannot secure the EU's marketing passport. One is to simply rely on an exemption to authorisation in each state via the NPPRs. However, for a plethora of reasons this is not possible in all member states and complying with the requirements of every jurisdiction will quickly, and likely significantly, raise compliance costs and potentially become a regulatory nightmare. As a result, funds primarily targeting EU investors normally domicile the fund in an EU member state, such as Ireland or Luxembourg (we cover both in **The Fund - Section 2: Fund Domiciles Cayman, Ireland and Luxembourg**) and establish their own local EU AIFM or work with a local third party EU AIFM. This, handily, brings the fund into eligibility for an AIFMD marketing passport, even if the fund may ultimately be managed by an investment manager from outside the EU.

MARKETING THROUGH NPPR IN THE EU

While AIFMD has raised significant walls in accessing the EU market, it does not mean that funds without a passport cannot market to continental based investors.

Non-eligible AIFs always have the option of complying with local NPPRs, governing individual member state marketing. As NPPRs were introduced via an EU-wide Directive, each member state had the ability to implement NPPRs as they saw fit, resulting in rules which are inconsistent between member states.

Ultimately, this means the NPPR of each member state contains country specific variations. Complying with multiple country-specific laws quickly raises compliance costs, assuming the fund can even secure authorisation in the first place. Many states have implemented a 'gold plate' within their NPPR regimes, effectively making marketing without an AIFMD passport almost impossible (e.g. France, Spain and Italy). That said, gaining access to other jurisdictions is achievable, particularly for countries such as Luxembourg which have applied minimal additional country specific requirements.

The following requirements determine the level of ease:

- local disclaimer or country specific wrapper/ supplement to material provided to investors (e.g. to offering document/private placement memorandum/ prospectus/slide deck)
- a prior written notification/ registration/ authorisation with local regulator
- length of regulatory approval period
- appointment of a local third party (e.g. a local paying agent/facilities agent/representative etc.)
- translation requirements
- monetary minima requirements

AIFMD: universal base set of *NPPR* requirements

The universal base set of AIFMD NPPR requirements, which apply in every member state are:

- a co-operation agreement/ memorandum of understanding (MoU) must be in place between the regulator in the country of domicile of the non-EU AIF/non-EU AIFM and the relevant Member State. In major jurisdictions it is likely that these are already in place
- the Financial Action Task Force (FATF) must not have designated the jurisdiction of the non-EU AIF/ non-EU AIFM to be 'non-cooperative'.

- the AIFM will have to comply with certain AIFMD requirements. These include the requirement for the AIFM to make initial/ongoing AIFMD-mandated disclosures to investors, reporting certain specified information in respect of the fund and the AIFM to the relevant country competent authorities ("Annex IV reporting"); and meeting transparency requirements through issuing an annual report within six months of the financial year end for each relevant AIF. This annual report must contain both certain mandated information by the AIFMD and anything required under any specific rules or regulations issued by the relevant member state. The Annex IV reporting obligations are not overly onerous and, in particular, US AIFMs will find the content in the same vein as to that already required by the SEC's Form PF.

PRE-MARKETING

Promotional activities which do not trigger a jurisdiction's "marketing" requirement are referred to as 'pre-marketing'. Pre-marketing could be a useful tool for an investment manager wanting to gauge interest or tap into particular cornerstone investors without needing to acquire full marketing authorisation, which in itself may be a lengthy and/or onerous process.

It is important, however, to approach pre-marketing carefully. The measure for whether pre-marketing is appropriate in a particular situation is determined by how "marketing" (in a regulatory sense) is defined. The UK does not consider the circulation to prospective investors of a draft Private Placement Memorandum ("***PPM***") as marketing under the UK's AIFMD marketing rules, so long as it is set out that no subscription is possible. The EU, however, has recently defined "pre-marketing" as: "The provision of information or communication (direct or indirect) on investment strategies or investment ideas by an EU AIFM (or on its behalf) to potential professional investors domiciled or with a registered office in the EU in order to test their interest in an AIF or a compartment that is not yet established – or that is established in the EU member state where the potential investors are domiciled or have their registered office – and which in each case does not amount to an offer or placement to the potential investor to invest in the units or shares of that AIF or compartment."

"Pre-marketing" in the EU may now trigger certain local requirements and could impact on the availability of reverse solicitation arguments in the future. While the definition of "pre-marketing" refers to EU AIFMs, EU member states have been instructed to ensure that the national regimes should not disadvantage EU AIFMs vis-à-vis non-EU AIFMs. As ever, different member states are taking different approaches.

Before attempting to rely on pre-marketing exemptions, funds should subject them to prior scrutiny beforehand in any jurisdiction. Essentially, pre-marketing cannot take the place of an official marketing strategy.

REVERSE SOLICITATION

Answering unsolicited enquiries from investors does not fall in the definition of 'marketing' and so 'reverse solicitation' (or 'passive marketing') (as it is termed) is not classed as such under the AIFMD. As a consequence, it means it is one of the few ways in which AIFMs can respond to EU and UK investors without seeking authorization/registration or securing a 'coveted' marketing passport.

This, however, is not a reliable way to circumnavigate AIFMD. Unsurprisingly, it is only under a narrow set of circumstances which AIFMD allows a manager to rely on reverse solicitation. For the exemption to be available there must be no 'direct or indirect' contact. This applies to not just everyone in the AIFM's organisation but also all third parties engaged by the AIFM (marketers etc.).

If a prospective investor has received a promotion from any of these third parties, it will invalidate any exemption relating to reverse solicitation that might have otherwise applied.

Unfortunately, the potential issues do not end there. The boundaries of reverse solicitation are not particularly clear. ESMA has not released any particularly clear statements on the matter, and EU regulators' guidance on it gives contradictory advice. In effect this means that there is no guarantee that what is deemed to qualify as reverse solicitation in one member state will qualify in any of the others. Compounding this with the fact that the AIFM carries the evidential burden and perceived 'non-compliance' resulting in fines or potentially criminal sanctions, it quickly becomes clear that reverse solicitation must be handled with real care. If an AIFM is going to rely on this exemption, it is vital that it keeps detailed records of all client correspondence.

Failing to keep sufficient supporting documentation on the issue increases the risk that investors will use the exemption as a free 'put option'. In other words, if the fund loses money, they could claim that the AIFM illegally approached them and then seek to claim the amount they originally invested before the loss occurred. The risks associated with reverse solicitation mean that it should only ever be considered on a case-by-case basis.

THE AIFMD IN THE UK AFTER BREXIT

The UK has onshored applicable EU law to ensure continuity of the UK legal order following its departure from the EU. So, while divergence between the UK and EU regimes is happening, securing marketing access to the UK through the UK's NPPR continues to follow a substantially similar process as for other Member States, albeit in a pragmatic way. There have not been any significant UK additions to the base set of AIFMD NPPR requirements and it is still very much possible for non-UK funds to secure marketing access to the UK. The only real additions are: a requirement to notify the FCA via its Connect system; the payment of a small initial and ongoing annual fee; and a requirement for Annex IV reports to be made via the FCA's RegData system. FCA approval can usually be obtained in a few days.

For completeness, in respect of retail investors (i.e. investors that are not "professional investors"), the UK's restrictions on financial promotion will still need to be complied with. Also, it should also be noted that the UK's restrictions on financial promotion will need to be complied with to the extent that there is no "marketing" which is governed by AIFMD (whether or not the relevant investors are "professional investors").

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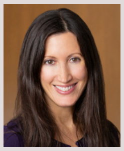

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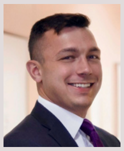

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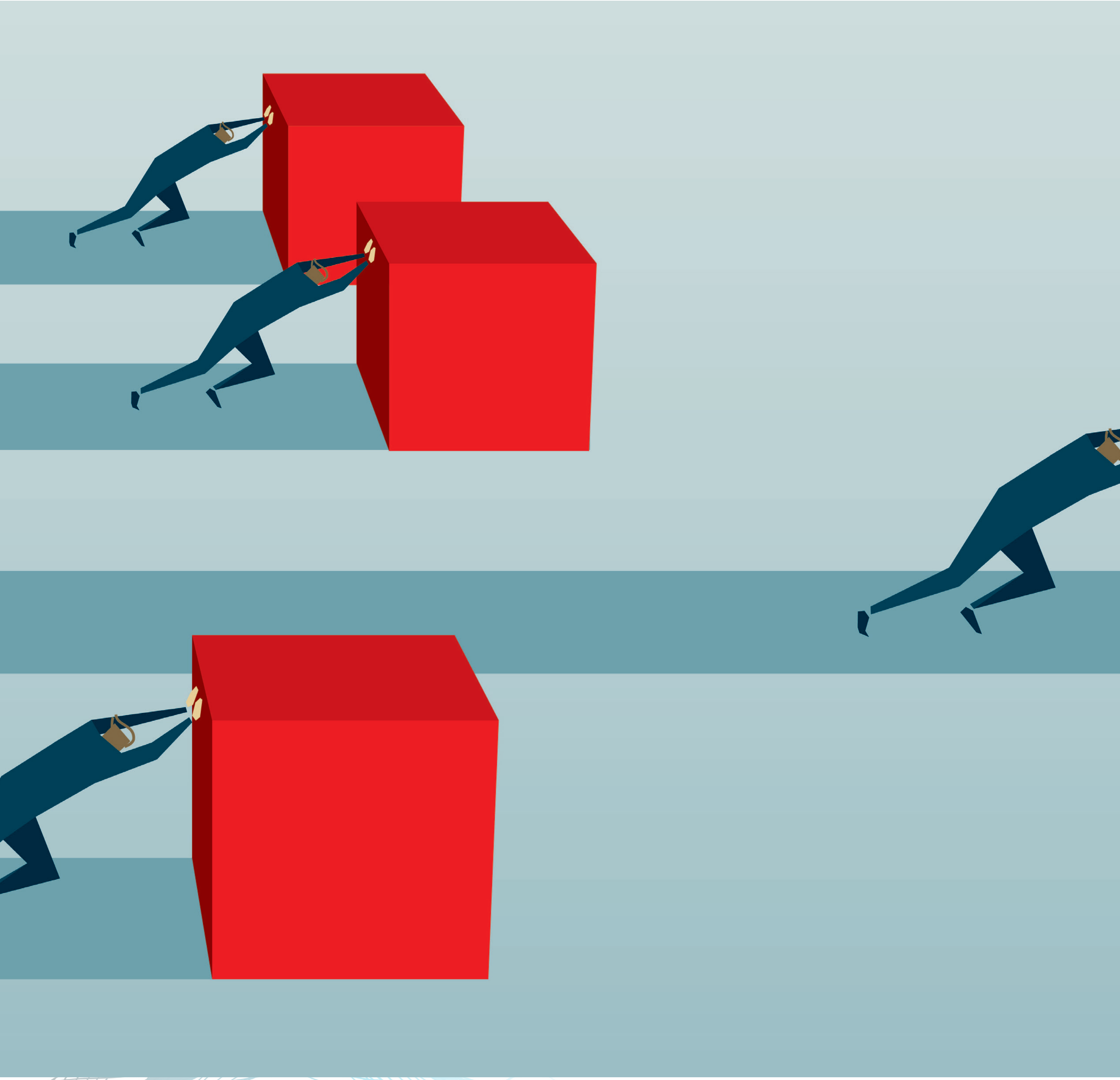
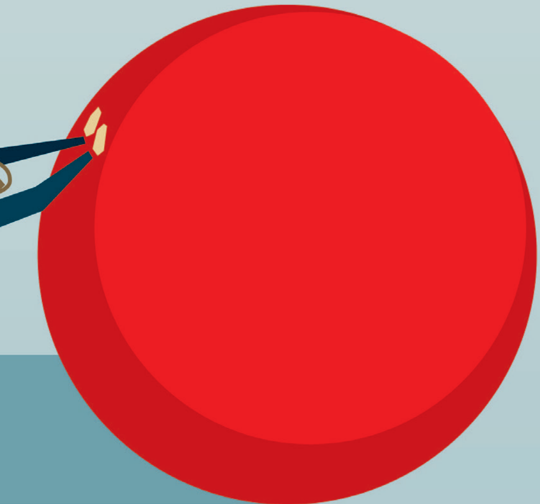




[3]In this section we use the term “US investors” or US persons” interchangeably and this term is defined in Rule 902(k) of Regulation S promulgated under the Securities Act of 1933, as amended.

[4]We note there is another exemption available that some private fund issuers rely on that is not discussed in this guide that can be found under Rule 506(c) under the Securities Act.

[5]Generally, a “qualified purchaser” is (i) a person with not less than $5 million in investments; (ii) a company with not less than $5 million in investments owned by close family members; (iii) a trust, not formed for the investment, with not less than $5 million in investments; (iv) an investment manager with not less than $25 million under management; (v) a company with not less than $25 million of investments; (vi) a company beneficially owned exclusively by qualified purchasers; and (vii) a “qualified institutional buyer”.

[6]A “commodity interest” means (1) Any contract for the purchase or sale of a commodity for future delivery; (2) Any contract, agreement or transaction subject to a Commission regulation under section 4c or 19 of the Act; (3) Any contract, agreement or transaction subject to Commission jurisdiction under section 2(c)(2) of the Act; and

(4) Any swap as defined in the Act, by the CFTC, or jointly by the CFTC and the SEC.

[7]Under Section 4.13(a)(3), “de minimis” trading means: (A) The aggregate initial margin, premiums, and required minimum security deposit for retail forex transactions required to establish such positions, determined at the time the most recent position was established, will not exceed 5 percent of the liquidation value of the pool’s portfolio, after taking into account unrealized profits and unrealized losses on any such positions it has entered into; Provided, That in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded in computing such 5 percent; or (B) The aggregate net notional value of such positions, determined at the time the most recent position was established, does not exceed 100 percent of the liquidation value of the pool’s portfolio, after taking into account unrealized profits and unrealized losses on any such positions it has entered into.

(1) The term “notional value” shall be calculated for each futures position by multiplying the number of contracts by the size of the contract, in contract units (taking into account any multiplier specified in the contract), by the current market price per unit, for each such option position by multiplying the number of contracts by the size of the contract, adjusted by its delta, in contract units (taking into account any multiplier specified in the contract), by the strike price per unit, for each such retail forex transaction, by calculating the value in U.S. Dollars of such transaction, at the time the transaction was established, excluding for this purpose the value in U.S. Dollars of offsetting long and short transactions, if any, and for any cleared swap by the value as determined consistent with the terms of the code; and (2) The person may net futures contracts with the same underlying commodity across designated contract markets and foreign boards of trade; and swaps cleared on the same derivatives clearing organization where appropriate.

[8]How regulatory assets under management are calculated can be found in the instructions to Form ADV, question 5.

[9]There are other federal exemptions available that are not discussed in this section that should be considered by an investment adviser, in particular, investment advisers who solely advise venture capital funds may be eligible for the venture capital fund adviser exemption if they have less than $150 million in assets under management and only manage private funds investing in venture capital investments, as well as other State exemptions and/or registrations that may be applicable.

02 Building a brand

As the latest wave of consolidations and manager-level investments has shown, there is value in a brand. When an investor makes the final decision on whether to invest in your fund, or not, you will rarely be in the room. But your brand can be. Your brand is your ambassador – it opens doors and represents you when you can't be there. It allows you to be in thousands of rooms, simultaneously, and make your case in absentia.

So, you're starting your own hedge fund. Congratulations, sort of. What's it called? [Street my office is on] Capital? Blue [topographical feature] Associates? [Type of vegetation] [type of mineral formation] Management? [Obscure mythical creature] Funds? [Pseudo-Latin word that could be a team name on The Apprentice] Investment Managers? It's funny 'cos it's true...In a sector where having an edge is so coveted that firms will spend millions of dollars to improve trading latency by milliseconds, why are y'all so lazy when it comes to the first thing any potential investor will see?

BRANDING YOUR FIRM

Let's get started.

"Brandstory"

Way before you start thinking about what to call your firm or what the logo should look like, you need to think about who you are and how that might be valuable to investors, and differentiated from what else is on offer in the market. This means taking the time to really think about why you decided to stop doing what you were doing and found your own firm (your backstory), what your ambitions are (your vision for the future), the values you hold most dear (what's more important to you than money – "nothing" is a ruthless but acceptable answer if it's the truth), and the types of investors you think will be most closely aligned with your answers to these questions (your key audiences). Many a fund has failed by trying to be inoffensive to as many investors as possible, when they should have concentrated on being something that a much smaller group of investors would have absolutely loved.

Once you understand what you are and what your potential investors want, you can start drawing connections between the two, which is a far more natural and approachable way to think about asking for money.

You can capture most of this in your value proposition. This is a statement that you refer back to – it's not something you necessarily trot out, verbatim, in conversation (but it can be, in a modified format). It explains:

- What you do
- Who you do it for (and what they get out of it)
- How the way you do it is distinctive from others
- How you are able to do this on a repeatable basis

Falling out of the value proposition and pulling focus towards three or four (please: not 6 or 11!) points of differentiation are your key messages. Think about what you want someone to repeat to their colleagues about you after you have finished a meeting. They need to be concise and memorable and respectful of the limits of your audience's capacity (low) and motivation (lower) to spend mental energy thinking about your firm. No investor will ever care as much as you about what you do; the sooner you come to terms with that, the better.

Once you have those key messages ready, you can start talking about your fund to people who might actually invest. Except...you do actually need to name your firm and come up with a logo, don't you?

Let's get 'er done:

Now that you understand what makes you different and useful to your investors, you have a much better chance of coming up with a name that actually conveys some of the personality and of your firm. I've seen some of the worst advice ever on this topic "the biggest funds have three-letter names, so if you want to be successful, follow suit". If you do this, you will fail. Or if you succeed, it will be despite your name, not because of it. Unless you are thinking of calling your firm something like Y.I.P. Capital Partners (I do NOT recommend this), how are you hoping to convey any kind of meaning? And, just as importantly, if you are doing this (or anything else, for that matter) to "look" like bigger and more successful firms – to "fit in" – just don't. Investors will notice that you are not running $50bn out of 11 offices, I promise. And, in any case – the whole point at this stage of your development is to stand out, not fit in... The world doesn't need another "ABC Capital Partners."

I've seen awful advice around visual identity, too – again, you simply MUST make sure that what you develop expresses something about who you are and what you do. If another "consultant" tells me that "financial services logos should be blue", I will not be responsible for my actions. My advice is to take some "marketing risk" – try something more expressive and actually invest in this process. Some people will hate it, but you shouldn't care. One of the key assets of a strong brand is that it can signal to investors what to expect. It's a beacon to the sorts of investors that actually might end up investing...but only if you let it express who you are.

BUILDING YOUR BRAND EQUITY

Another way of saying this is "increasing the value of your firm". All other things being equal, the value you have created in your brand will be the determining factor (OK, it's the only one left...but hear me out) in how successful you will be in attracting capital into your firm, whether as investors in your strategies or in the firm, itself.

Now that your brand is ready, it's time to invest in it. But where do you start?

First, you need to make sure that your major client-facing materials are on-brand. For most firms, this means your website, company and individual LinkedIn profiles, fund presentation and factsheets.

Think about what you write in these key areas, at least as much as how they look. Design is most useful when it supports a message – not when it "just looks nice". You already have your messaging pillars from the work you did before you came up with a name for your firm. This is where you can leverage that effort.

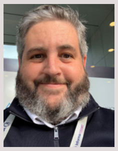
And once you have everything sounding and looking right, you can start thinking about investor engagement, thought leadership and public relations. In essence, each is about telling the world you exist and drawing relevant stakeholders (in our case, mostly investors, but also potential hires) towards you, by sharing your knowledge and also, importantly, your personality.

It's a good idea to be realistic about how much content you can really produce and to do this in chunks, well in advance of when it is needed.

As with everything I have mentioned, there are specialists, like me, who can help you do this to a very high standard, but if you follow the advice in this article, it should help you make a positive difference.

Author

WAGTAILS PRIVATE MARKETS



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03 Top Tips for raising capital

KNOW THE PEOPLE BEHIND THE STRATEGY

Before embarking upon the journey of helping to raise capital for a Hedge Fund strategy, or indeed for any product, the crucial first step is to spend considerable time getting to understand the backgrounds, motivations, personalities, and values of those who's strategy you are considering. One must ensure that both parties are fully aligned and on the same page and if there are significant mismatches at the outset, these might well become greatly magnified as the relationship develops.

Both parties need to ensure this is a good match and that both are happy and excited about representing each other long-term. Some of the key qualities that are important for a successful relationship are: transparency (both contractually and information wise), communication skills (poor communication will lead to problems), integrity, and alignment.

There is no such thing as an excellent deal with a bad actor.

KNOW THE OWNERSHIP STRUCTURE

This applies to single manager Hedge Funds as much as it does to large institutional Asset Managers. It is important to understand the incentive structures of the core investment team as well as those of any external equity investors (if applicable). The operation needs to be aligned, sustainable, and incentivising.

KNOW THE STRENGTHS AND WEAKNESSES OF THE INVESTMENT TEAM

Clearly, even the best Portfolio Managers in the world will have their strengths and their weaknesses both in terms of personality and in terms of portfolio management. The same, of course, goes for excellent capital raising professionals – everyone has their strengths and their weaknesses. The key, however, is to invest time understanding what those are and to consider carefully if these are surmountable or indeed if there are glaring red flags that will cause potential investors to be put off. It is far better to take one's time getting to know the portfolio management team and balancing all the various strengths and weaknesses at the outset, rather than rushing in and discovering them once you have started speaking to potential investors.

KNOW THE STRATEGY

One of the best pieces of advice I received early on in my career was during my final interview for a capital raising role at a leading Alternative Asset Management business. The advice was short and sweet, but it came from the founder of this very successful company who had taken the time to meet with me (itself a positive indication). He simply said, looking me in the eye, 'Know the strategy'.

I don't believe that, as a capital raiser, you need to know the strategy 'better than the portfolio manager' but I do fully agree that if you take the time to really understand the strategy and to keep fully up to date on developments then it makes for a much more powerful sell. In the case above, this was an Alternative Asset Manager with multiple strategies (each very different) and so I focused heavily at the outset on really studying them and noting down the qualities and differentiating points of each.

One of the core skills of a good sales professional should be to sell oneself into a position where you know that the product you are seeking to sell with will be highly attractive to potential investors. This, of course, comes hand in hand with liking and believing in the strategy you are selling which naturally makes the process far more enjoyable and impactful – for everyone.

STYLE DRIFT, REPEATABILITY, CONSISTENCY

It is crucial to ensure that the investment team do not suddenly deviate from their stated investment strategy and thus veer off course from what investors (potential or current) are expecting and paying for. This is a red flag at any stage of a capital raising process but if examples of this are visible before partnering with a strategy, caution should be heeded.

Two other areas of importance are repeatability of the process and thus returns as well as the consistency of those returns over market cycles. This clearly takes time to demonstrate, but it is crucial.

KNOW YOUR AUDIENCE

It is crucial, when introducing a strategy to a potential investor, to take the time at the outset to really listen to the investor and to understand if this strategy could perhaps make sense for that investor. The product pushing approach tends to not be productive and not very pleasant for any party involved so investing the time in listening to the investor early on can save a lot of time for all involved.

Certain strategies will simply not be of interest to certain investors and that is totally fine and normal. Do not be put off.

BE CONSISTENT

It is important to be consistent at all times in terms of messaging and updating potential investors. Consistency builds stability of process and this is a strong long-term foundation.

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BE HONEST

Integrity is of paramount importance. One must always be honest with investors or potential investors and not hide or cover up anything which may be considered to be a block on the process of raising capital or to avoid redemptions. This should be a natural quality for anyone, but sometimes external pressures may push one into a corner in this regard – do not deviate, always be honest, the relationship with the investor is the most important thing and both Hedge Fund and capital raiser should always put the investor’s interests before their own.

HAVE A LONG-TERM VIEW

Raising money for a Hedge Fund, by and large, takes time. Clearly there are exceptions to this but on the whole it will require a decent track record, certain AUM milestones and good performance. To that end, it is important to look at the process as a long-term undertaking and not be ruffled by the short-term challenges.

HAVE PATIENCE AND EMBRACE UNCERTAINTY

Finally, with this long-term view, it is important that one is patient and does not get disheartened by the constant variables of uncertainty that are always there (performance, capital investment, redemptions etc..). There are no certainties in life and there are even fewer in the Hedge Fund world, it is important to embrace that and to focus on the process. The outcome will be achieved, eventually, if the investment and capital raising functions do their jobs properly.