Family Office Club

An Intensive Training Workshop On:
Raising Capital, Generating Leads & Developing Relationships with Investors

Manhattan –Wednesday, July 10, 2019

Evan Katz, Managing Director, Crawford Ventures, Inc.

"Best Practices from 'A' to 'Z' 'RR' for Successful Hedge Fund Fundraising from Family Offices and Institutional Investors – ~~26~~ 44 Top Fundraiser Secrets and Tips of the Trade"

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- ~~26~~ 44 (From "A" to "~~Z~~" "RR") Tips and Best Practices for Raising Investment Funds from Family Offices and Institutional Investors

This presentation first addresses best practices and tips that are specific to raising fund capital from family offices, and then those tips that are applicable to all investors, including family offices. Some of the discussion is specific to hedge funds. But most of the presentation and practice points also are equally applicable to private equity funds as well.

(Copies of the slides are available to all attendees. Just e-mail me.)

II. Bio and Contact Info.

- Evan Katz, Managing Director, Crawford Ventures, Inc.

- Wharton, Bachelor in Science (Finance Major), *summa cum laude*

- Harvard Law School, J.D.

- Twice-Elected Director, Hedge Fund Association (HFA) Board of Directors (Director 2014-2019)

- 15+ Years of Fundraising for Funds and Companies: Mostly Hedge Funds and Private Equity Funds

- E-mail: EKatz@CrawfordVentures.com

III. Investor Base Summary

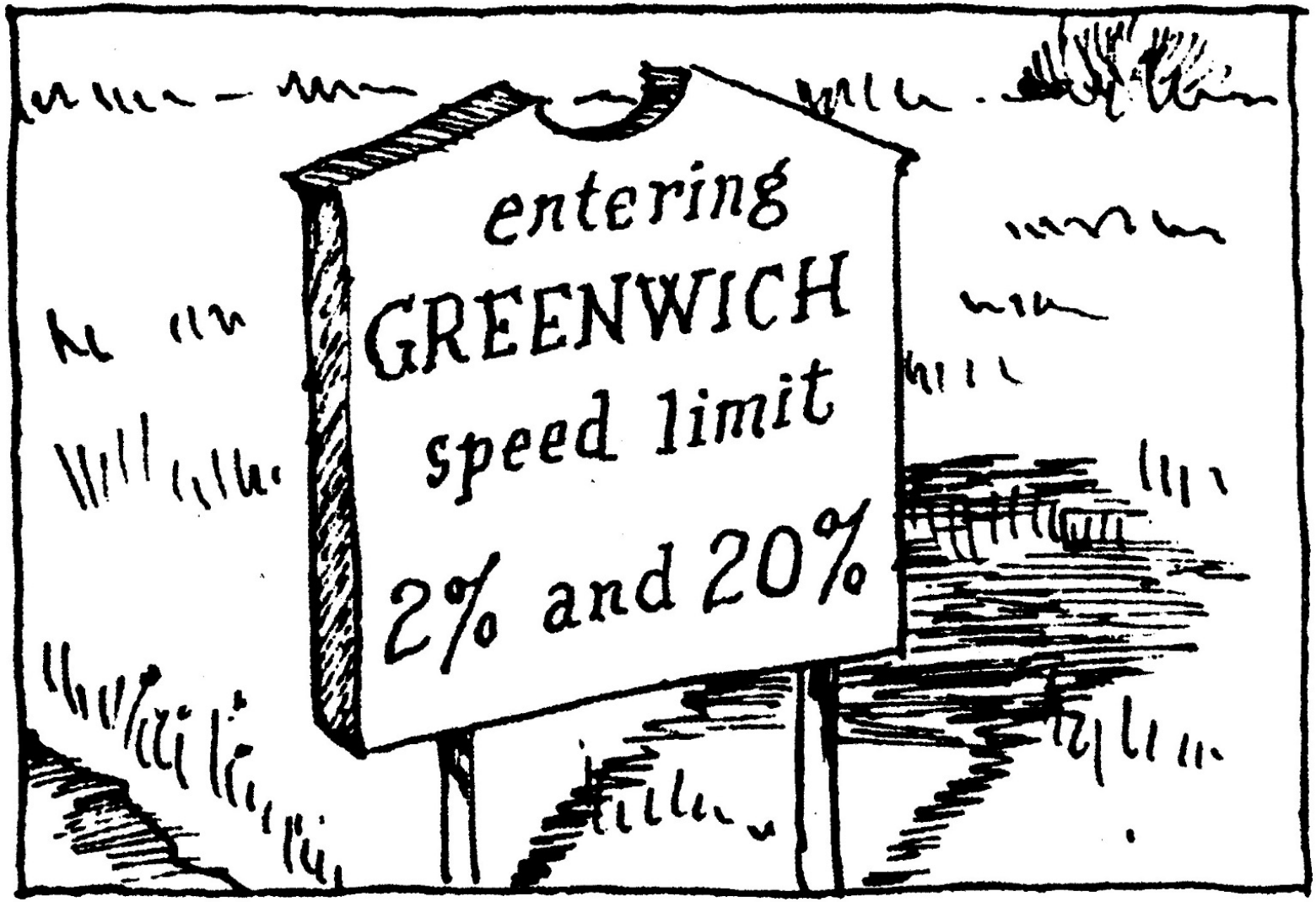
- ~1,000 Institutional and Family Office Investors

- Broker/Dealer Platforms, Endowments, Foundations, Funds of Funds, Insurance Companies, Multifamily Offices ("MFO"), Outsourced Chief Investment Officers ("OCIO"), Pensions (Private and Public), RIA's, Seeders/Accelerators, Single Family Offices ("SFO")

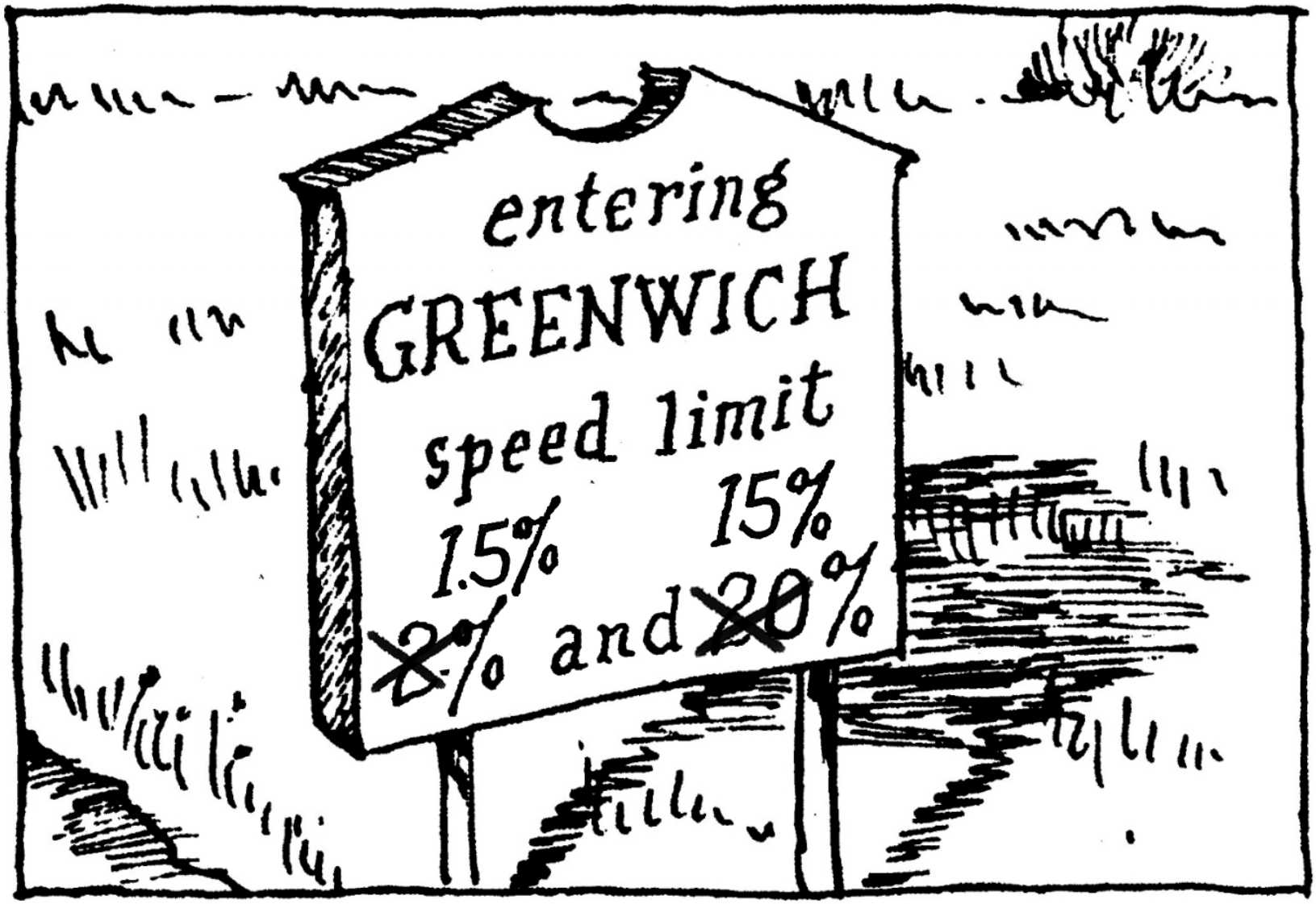
- Typical Investor Allocation: $10-$100+ Million (Per Investor, Per Fund)

- Typical Target Fundraise: At Least $500MM-$1B+ (Preferably $1-2B+) Per Fund

IV. Hedge Fund Cartoon



Hedge Fund Cartoon – Revised 2019



V. "Best Practices from 'A' to '~~Z~~' 'RR' for Successful Hedge Fund Fundraising from Family Offices and Institutional Investors – ~~26~~ 44 Top Fundraiser Secrets and Tips of the Trade"

- Some of you already may know some of the ~~26~~ 44 tips and best practices that I will be discussing.

- But the tips that you do not yet know can help get you many additional investors and substantial allocations.

- And those additional $10-$100+ million allocations can appreciably increase your fund AUM and resulting firm investor fee revenues.

VI. Family Offices are Different than Institutional Investors

- Most family offices are not listed in investor databases.
- Family offices are highly "relationship-based" investors.
- Indeed, many do not like to be cold called.

Tips and Best Practices:

A. *Accordingly,* ***if you yourself do not already know the family office community, hire someone who does!*** *If you hire a fundraiser who knows only big endowments and pensions, he/she will not be successful with FO's.*

B. *This especially applies where there are very large groups of family offices in other countries (e.g., Switzerland) that allocate substantially to hedge funds and private equity funds. Hire a great local fundraiser.*

Most Family Offices Prefer (or at least are open to)

Funds with a Higher Return and Risk/Volatility Profile

C. *Generally speaking, most family offices allocate more to higher return/vol alternative investment funds, whereas most endowments, foundations and pensions tend to allocate mostly to lower return/vol AI funds, as most E/F/P's have a 6-10%/year target return "bogey" and are more concerned with having more stable returns and lower drawdowns.*

D. *Accordingly, you likely will get a better response to your fund from FO's if your returns are greater, even if that means somewhat higher volatility and drawdowns. As one billion-dollar family office has said to me, "We can withstand volatility and market cycles, so long as we make substantial returns." So, if you have a low return/vol fund, consider using some leverage (or, alternatively, perhaps have a separate share class that employs some leverage).*

Family Offices Are in High Tax Brackets, Whereas Many Institutional Investors are Not Taxable at All

E. *Your fund likely will not get a great response from family offices if it "only" has mid-high single digit returns (because the after-tax return to the families are simply seen as too small).*

F. ***If your fund's returns are mostly tax-efficient (e.g., long-term capital gains, future contracts), emphasize that in your one-pager and PPT**. Because your effective after-tax returns will be substantially greater! I have been sent hundreds of fund docs, and the vast majority of tax-efficient funds never mention it!*

G. *If you are going to have many family office investors, consider setting up an **insurance-dedicated fund**, which enables FO's to invest in your fund tax deferred. This is one of the most underused FO fundraising best practices!*

Show the Family Offices How Your Fund Helps Them by <u>Enhancing Their Overall Portfolio and Expected Returns</u>

(But, Unlike Endowments and Foundations, Family Offices Do Not Publish Their Current Fund Investments)

H. *Emphasize and show to family offices how your fund (e.g., hedge fund) is less or negatively correlated to the S&P and/or hedge fund indexes.*

I. *Even better,* ***ask the family offices what hedge funds they already are invested in (or for the funds' historical performance), and then do and show them the correlation analysis****. (With endowments and pensions, you typically can look up their other investment funds.)*

Do Not Overlook the Multi-Family Offices

J. *There are dozens of multi-family offices ("MFO"), and your getting your fund approved by any one of them thereby can get you allocations from many family offices (sometimes simultaneously or in relatively close succession).*

Although most MFO's often can take longer to make decisions than do most SFO's, and MFO's sometimes can be more bureaucratic (somewhat similar to endowments, foundations, pensions, et al.), the ultimate payoff – multiple allocations from many families – often can be substantial and therefore well worth it.

Do Not Overlook the OCIO's

K. *There are an ever-increasing number of outsourced Chief Investment Officers (OCIO's), and they control trillions of dollars of investment assets. Accordingly, and as with MFO's, your getting approved by an OCIO can result in your fund getting multiple (and often very large) allocations from numerous investors.*

NB: Unlike consultants and advisors, **OCIO's have the discretion and authority to make investment decisions, "pull the trigger" and allocate to your fund!** So, they sometimes can yield fund investments that are quicker and/or larger than MFO's. There also are some very helpful databases/listings of OCIO's. And most OCIO's tend to be more open to cold calls (although one must follow proper legal and regulatory procedures for doing so) than are most family offices.

VII. Additional Best Practices That Apply to All Investors

Go to Market Only When Your Fund is "Investor Ready"

L. *Staff – Virtually no investors nowadays will allocate anymore to funds that essentially are the proverbial "one-man/woman band", nor to "two guys/gals, a dog and a Bloomberg." So, do not expect to ever raise much capital if you yourself have not invested enough money in your own fund so that you can hire a real team, with real offices, and industry respected service providers.*

If you do not have sufficient capital to build your fund and business, sell a piece of your fund's management company to your family and friends, so that you can get the necessary capital to build your fund! *It is vastly better to own, say, 75% of what becomes a $500MM fund than to own 100% of a very small fund stuck at $25MM! I get countless calls from funds that have wasted many years, and have lost millions of dollars in fee revenues, because they did not follow the above advice.*

M. *Service Providers* – *Investors get hundreds or thousands of funds pitching them every single year, and they understandably sometimes can be "box checkers". So, if your fund has third-tier or no-name service providers, especially for audit or admin, do not expect to get many investors.* ***It is shortsighted stupidity to not hire industry recognized service providers in order to save, say, $50,000 per year, when doing so will cost you millions of dollars in lost investor fee revenues!***

N. *Fee Structures* – *Similarly,* ***stick to industry standard fee structures, and do not get overly "creative."*** *I worked on two fundraises where the funds insisted on using allegedly superior and more investor-friendly fee structures that were very unusual and that confused investors, and we would have raised a lot more money without them!*

O. *Fund Entities* – *Ditto.* ***Stick with Delaware and Cayman, which all investors know very well****, regardless of where you and your fund are located!*

VIII. Hire the Appropriate Fundraiser

P. *Hire a Smart Fundraiser Who Knows Your Strategy* – *You will raise a lot more money and also a lot quicker. Indeed, it makes a very bad impression on investors if your fundraiser cannot answer detailed or sophisticated questions and always has to reply "I will ask our PM and get back to you."*

Q. *Hire a Fundraiser Who Has Experience with Funds of Your Size* – *For example, if you are, say, a $50MM fund, do not hire a fundraiser who only has been at $1B+ funds and only knows huge multibillion-dollar endowments, foundations and pensions. Because only very few of those huge investors (e.g., those with formal emerging manager programs) will allocate to a small sub $100-$250MM fund.*

IX. Contact the Appropriate Investors and Correct Person

R. *Number of Investors to Contact – All fundraising is somewhat a "numbers game". Your fundraiser is going to have to call and e-mail* ***hundreds*** *of prospective investors in order to get dozens of them to allocate to your fund.*

S. *Prequalifying Investors by Strategy – As soon as you can, determine how interested each of your prospective investors presently is in your strategy and type of fund, and allocate your time, resources and efforts accordingly.*

T. *Determine the Appropriate Investor Contact Person – Especially at larger institutional investors (as well as some of the larger FO's),* ***you need to accurately determine and confirm that you are speaking with the correct person for your strategy and type of fund*** *(e.g., Mary covers hedge funds and Steve covers private equity, or Bob covers long/short equity and Rachel covers quant).*

U. *<u>If You Are a So-Called "Emerging Manager"</u> – If your fund's AUM and track record are <$250MM and/or 2-3 years, only expend your time and resources to contact investors that specifically look for and allocate to E/M's (some have formal E/M programs) or that otherwise are open to allocating to them. And* ***be certain that you hire a fundraiser who knows these specific E/M investors*** *(e.g., Crawford has relationships with several hundred E/M allocators). It would be a huge waste of time to contact hundreds of large investors that do not allocate to E/M's.*

V. ***<u>Get to Know and be Very Nice to the Investors' Administrative Assistants</u>!*** *– They sometimes can be a big help to you in getting your documents read promptly and, assuming that you have a quality fund, getting calls and meetings with the investment team.*

X. Make a Fund Video

W. Consider Making a Short Fund Video – These can be extremely effective techniques for introducing your fund to investors, explaining why your fund is compelling, and giving your prospective investors a chance to hear how brilliant and articulate your PM is! That is, ***a great professionally made video gives investors a "free look" at your fund, without them having to commit to a lengthy conference call or meeting, and will help you get more investors!***

And in today's world, where videos have become ubiquitous (e.g., YouTube.com, Bloomberg, CNN.com, WSJ, etc.), and as investors frequently are on trains and airplanes, they have both the time, ability and inclination to watch and check out a compelling short (i.e., 2-3 minutes max!) fund video.

I can refer to you to some great companies that make fund videos that are both highly compelling and very attractive.

XI. How to Make Investor Contact and How Often

X. *Frequency of Contact* – ***Optimally about once a month***. *Any more frequently and you are an annoying pest. And if your fundraiser is showing your fund to several hundred investors, as he/she should be, he/she will not have time to contact them more often than monthly! But if you make contact only quarterly or less, investors may forget who you and your fund are, and you will lose valuable time.*

Y. *E-mail Contact – Most investors prefer e-mail, because it is efficient and their meeting and phone time is very limited (especially as they get pitched by hundreds, if not thousands, of funds ever year). Indeed, some investors will never answer unscheduled external calls at all. And some of their outgoing voicemail messages expressly state that they prefer e-mail, do not check voicemail, and will not respond to messages left by funds. For those investors, respect their wishes and, at least initially, stick to e-mail, until they express interest in speaking.*

Z. <u>Mobile Friendly E-mails and Docs</u> – Ensure that your IT systems are producing e-mails and fund docs that are mobile friendly. With everyone, including investors, spending more time on mobile phones and tablets, do not create and send to them e-mails nor PPT's, for example, that have a ton of content per page, all in very small font, and that therefore are difficult, if not virtually impossible, to read on an iPhone or Android smart phone!

AA. <u>When to E-mail Investors</u> – This should be totally obvious, but ***never e-mail investors on nights, weekends or holidays!*** *Because if you do, your e-mails often will get buried or otherwise overlooked. I am on countless funds' distribution lists and, amazingly, some funds just don't get it! And if you are working on nights, weekends or holidays, which I do a lot, you can tell your CRM or e-mail system to automatically send out your e-mails the next business day, preferably mid-morning.*

BB. <u>The First Introductory Fund E-mail</u> – Two critical points that the vast majority of hedge funds do not do: (1) ***Keep the e-mail short****, and (2)* ***include a summary using bullet points!*** *For example:*

- *Name of Fund: XYZ Capital, LLC*
- *Strategy: Long/Short Quant, U.S. Large-Cap Equities.*
- *Track Record: Five years (Feb. 2014-present).*
- *Since-Inception Returns: +18.29%/year (net of fees).*
- *Since-Inception Sharpe Ratio: +1.47*
- *PM/Founder: John/Jane Doe, (ex-____)* *(If applicable, insert the name of his/her immediately prior top/large firm and fund, especially if it is well known.)*
- *AUM: $150MM*
- *Fund Structure: Master Feeder (Delaware, Cayman)*
- *Service Providers:* *(All service providers should be industry recognized.)*
  - *Admin: _____* - *Legal: _____*
  - *Audit: _____* - *Prime Broker: _____*
- *Awards: ___* *(Insert any/all awards that the fund and/or the PM have won.)*

CC. <u>Do Not Send Your Fund Docs as Dropbox Links!</u> – Many allocators, especially large institutional investors, have Dropbox and other similar services blocked, for security reasons, so they cannot retrieve your fund docs if you send a Dropbox link! Accordingly, instead use a professional fund VDR (virtual data room) service, which also provides better document and investor tracking and auditing. And also ***attach your docs as PDF's, because many investors fly frequently*** *and, until in-air Internet broadband arrives, they cannot readily access VDR's and read your fund documents when they are flying. When I cannot access a fund's documents during a flight (because they did not attach them), I move on to the next fund!*

DD. <u>Phone Contact</u> – Notwithstanding the above, some investors are more "phone friendly" and are more open to schmoozing and discussing the markets, funds, strategies and investment opportunities. Keep good notes regarding which investors are open to the occasional update/catch-up call.

EE. <u>Caller ID</u> – Remember that virtually everyone today has Caller ID, including at their offices. And many investors almost never answer their phone, except for previously scheduled calls. So, if you reach an investor's voicemail on a given day, ***do not hang up and repeatedly keep calling the same investor throughout the day trying to reach them!*** *Hedge and other funds frequently pitch their funds to me and ask me to invest in and raise capital for them, and those that call repeatedly, instead of leaving a voicemail message, are put on our blacklist and never will get an allocation!*

FF. <u>Millennials</u> – If you also have junior people working on the fundraise, make sure that they are actually picking up the telephone and making investor calls. Because studies show that Millennials love to text and e-mail, but many tend to avoid and not make telephone calls!

GG. <u>"Tick-Tock" E-mail/Phone Contact</u> – I have found to be very effective and successful alternating between phone calls and e-mails (e.g., a call every 6-8 weeks, and an e-mail every month, with the investor thereby getting one contact every several weeks).

HH. <u>"Hold Back" Some Docs</u> – It typically is best to intentionally "hold back" some fund documents, so absolutely ***do not send all of your fund docs right away, with your first e-mail****. There are several reasons for this, including: (1) If you send all of your fund docs in the first e-mail (e.g., one-pager, PPT, DDQ, OM/PPM, LPA, video, etc.), that is <u>way too much</u>, and investors are more likely to skip your fund and read a different fund's docs instead! (2) If you save a few docs for later, it gives you a "reason" to send to investors a follow-up e-mail in another month or so.*

II. ***<u>Do Not Give Up – Keep Following Up</u>*** *– Unlike dating,* ***most investors will say a clear "No, thanks" if they are not interested in your fund*** *(because they do not want to keep getting your calls and e-mails regarding an investment that they are not going to do!). Accordingly,* ***a non-response most often means that an investor is just swamped with other work, and has not yet had an opportunity to focus on your fund****. Indeed, I have gotten many large allocations from investors who did not return the first two phone calls nor reply to the first two e-mails. They were just very busy, and only got to focus on my fund when I made or sent call/e-mail number three!*

NB: The trick, most effective and best practice is what I like to call "**Polite Persistence**". And when in doubt, err on the side of always being very polite and a little less persistent.

XII. Key Tips for Hedge Fund One-Pagers and PPT's

I have drafted, revised and/or reviewed hundreds of hedge fund one-pagers, PPT's, DDQ's, etc., of widely varying quality!

JJ. One-Pager: The most common important omission is a histogram (i.e., bell curve graph) of a fund's historic monthly returns. ***A monthly performance histogram is critical****, because it immediately shows, in a single and immediately comprehendible visual graph, how good your hedge fund's returns are.*

KK. PPT: The most common important omission is a slide that shows ***how well (hopefully!) your fund performed versus the S&P during the most recent 5-10 big S&P drawdowns****. A low downside correlation is very helpful!*

LL. PPT: And if you are an emerging manager, with few people, definitely include in your org chart future employee placeholders, including position titles, and at what AUM's the additional professionals will be added.

XIII. The Monthly Hedge Fund Performance Update E-mail

(***These tips are critical to getting your e-mails noticed, opened and read!***)

E-mail Update Subject Line:

MM.Put both the recipient's name and your name in the subject line (e.g., "To Mary and Dave, From Evan"). Studies show this will increase your e-mail open rate!

NN. Reference your prior meetings and conversations, in order to refresh the investor's recollection.

OO. Include some positive information about your fund.

Example "A+" Model E-mail Subject Line:

"To Mary, From Evan: Follow-Up to Our Conversations re the Top-Decile XYZ Capital Long/Short Fund (Sharpe +1.47)"

E-mail Update Body/Text:

PP. ***Do not, under any circumstances, simply state "Please see the attached update."!*** *Investors receive hundreds or thousands of fund pitches ever year, and the funds/e-mails that make them do more "work" (i.e., click, download, etc.), often will be deferred and end up on the bottom of the heap!*

Indeed, I get pitched by a ton of funds that want me to invest in them, and I never go any further with an e-mail that simply says, "Please see the attached update", as I am working 60+ hour weeks, and simply do not have the time. And many investors have confirmed to me the same thing.

QQ. Include in the body of the monthly update e-mail: (1) a short reminder about what your fund does, (2) a reference to your last conversation, and (3) a short summary of what the attached update says (e.g., how your top-quartile long/short TMT fund was up +2.86% last month, and now has a great five-year track record with a Sharpe Ratio of +1.47).

RR. Conversely, ***do not, under any circumstance, ever send to investors e-mails that are so long that they take up multiple screens!*** *(Unless you are answering that investor's long list of questions that they had sent to you.) Very long e-mails will just make investors' eyes "glaze over". Again, investors are buried in hundreds if not thousands of fund pitches, and, as human beings, they naturally will tend to skip over the fund e-mails that are the equivalent of "War and Peace"!*

Remember and keep in mind the increasingly popular acronym "TLDR" (which now has several million Google hits), which means "Too Long; Didn't Read"!

NB: **The goal of your e-mail <u>subject line</u> is to entice the recipient investor to open and read your e-mail. And the goal of your e-mail <u>content/summary</u> is to entice the recipient investor to take his/her very limited time and to "invest it" in opening and carefully reviewing your attached fund documents!**

XIV. <u>Q&A: Any Questions?</u>

XV. Contact Information

Please feel free to call or e-mail me if you have any questions, would like copies of the slides, or would like to further discuss any of the above topics:

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- Member, Hedge Funds Care / Help For Children (HFC) "Committee of Hearts" (2016-present)
- Honoree, "Young Leadership Award", Hedge Fund Summit (2011)

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