

Alternative Fund Marketing 2023

Capital Raising Intelligence For Sub-Institutional Alternative Asset Managers

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Close Encounters of the Third (Party Marketing) Kind!

**"Commission-Only" 3rd PARTY MARKETERS (3PM) & CAPITAL RAISERS:
THE MYSTERY PEOPLE FOR NEW AND SUB-INSTITUTIONAL MANAGERS**



ARE THEY REALLY OUT THERE?!

"Close Encounters of the Third Kind" is a 1977 film written and directed by Steven Spielberg. It tells the story of an everyday worker whose life changes after an encounter with a UFO (Unidentified Flying Object).

What is it about UFOs that hold such fascination? Surveys consistently show that about 33% of people think alien spaceships are real and 10% claim to have seen a spaceship despite flimsy physical evidence!

No entities have been more sought after than the elusively mysterious "commission-only" 3rd party marketer (3PM), placement agent or capital raiser for new, first-time, early-stage and smaller sub-institutional managers.

Have there been sightings of such persons/firms? Where are these people that spend months, if not years, incurring the expense engaging investors on behalf of a new, first-time, early-stage smaller manager or embryonic fund?

Let me put your minds at ease once and for all: I can confidently announce after a long, exhaustive and complete investigation as well as a comprehensive analysis of the research, such entities do not exist! However, new, first-time, early-stage and smaller sub-institutional managers relentlessly continue the search.

The Economics of 3rd Party Marketing For Sub-Institutional Managers and Funds:

Research shows the cost of raising assets from private wealth (ultra high net-worth individuals, families and single family offices – THE appropriate investor segment for sub-institutional managers - Don't waste time, money and effort "chasing institutional unicorns") is approximately 40 basis points (\$4,000) per \$1 million. For example: a new or smaller hedge fund with a traditional 2/20 compensation structure (if that still exists!?) wants the marketer/capital raiser to bring in \$50 million of new assets, with a "commission-only compensation arrangement" - 20% of the management fee and 20% of the performance fee.

What the numbers reveal:

3PM/Placement Agent/Marketeer raises \$50 Million (Investor Segment: Private Wealth)

Fund Mgmt Fee: (\$50 million x 2%):	\$1,000,000
3PM Compensation: (\$1 million x 20%):	\$200,000
3PM Expense: (40 Basis Pts/Million):	<u>-\$200,000</u>
3PM Net Compensation From Mgmt Fee:	\$0

The marketer/placement agent/capital raiser has basically made a \$200,000 interest-free loan to the manager with a bet on the fund's survival, profitability and sustainability. **Net compensation is dependent on manager performance! Any takers!?!?**

Until a fund firmly reaches the "institutional threshold (minimally \$150 million)", "commission-only" 3PMs, placement agents and capital raisers are not realistic or viable. According to AIMA (The Alternative Investment Management Association), 0% of managers with less than \$100 million AUM secured an allocation via 3PM. (**Yes, you read that correctly ZERO percent!**)

The cost and perpetual investment in the marketing process to raise assets is a hard reality for most sub-institutional managers. The price tag to build and nurture the "right" relationships to the point they are "allocation-ready" in order to keep AUM acquisition consistent is substantial. Furthermore, when the marketing process is properly executed, it maintains high AUM retention rates. Most new and smaller funds understand far too late that performance is not an AUM acquisition or retention strategy with longevity. The acquisition and retention of assets is greatly impacted by strength of relationship with an investor.

Marketing and raising assets, in the early stages of the manager/fund lifecycle, are "Do-It-Yourself/(D-I-Y)" processes solely the responsibility of the manager. However, most new, first-time, early-stage and smaller managers have little experience and expertise in marketing. Consequently, they often do not understand the true totality of the financial commitment and expenses involving marketing and raising assets. An under-resourced and poorly-capitalized marketing process leads to inadequate, inconsistent, ineffective and improvisational marketing process execution, which typically results in chronic failure raising assets.

The marketing process for sub-institutional alternative managers is more complex, difficult, time-consuming, resource intensive and expensive. Even managers that have had experience working in larger firms with significant assets under management struggle and fail to raise assets when starting their own firm. Marketing for a new or smaller alternative manager is completely different than marketing for a seasoned, institutional-level fund/firm. The commitment, requirements, complexities, demands, skills and nuances of marketing are numerous and unfortunately often under-estimated. Honestly, there is an enormous amount of hype, noise, wrong information, myth and fiction about marketing for new, first-time, early-stage and smaller managers. All of these issues lead to persistent frustration and failure raising assets by almost every new and sub-institutional manager.

Marketing and raising assets can be humbling: Knowing how to market a fund and raise assets along with understanding what's "right" to do marketing and with the inter-personal skills to raise assets efficiently, effectively, economically and consistently is a herculean challenge! At Johnson & Company, the core of what we do is optimally-position, prepare and equip new, first-time, early-stage, smaller and sub-\$300 million alternative managers with assisted marketing process development, implementation and execution by supplying the "manager-specific" strategic and tactical marketing process to optimize raising assets.

In closing, for new, early-stage and smaller managers raising assets, those envisioning "going institutional" and individuals or teams considering starting an alternative asset fund, getting beyond the hype, noise, wrong information, myths and fiction about marketing is essential and understanding the facts of marketing is vital. **Johnson & Company is here to help!**

To learn more visit www.johnsn.com or contact me directly, I welcome the opportunity for a brief conversation.

As always "continued success"!

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