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All-Weather Communications: A More Robust Approach to Investor Relations

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A more robust approach to communicating with investors may become the new reality for hedge fund managers and funds of funds. Whether you manage an emerging or large established fund, are reporting strong performance or suffering a downturn, and whether you specialize in a narrow niche or allocate among multiple managers and strategies, you have probably been stressed on various levels by the recent market turmoil together with fear and anxiety expressed by your clients. The prospect of deepening or expanding your approach to investor communication may cause you to cringe. Nevertheless, a client-driven all-weather communications strategy, rather than a narrowly focused crisis approach, can help you to successfully navigate long-term relationships. This approach is outlined below as the "T's" of investor communications: tone, thoroughness and timing, followed by specific tactical recommendations regarding messages to clients and prospects. "In the middle of difficulty lies opportunity," as Albert Einstein noted many years ago.

Tone – Establish a Firm-wide Culture of Open Communication

Resistance to sharing your information is no longer acceptable. Move ahead and take the high road to establish an open line of honest transparent communication with investors, counterparties and the press. The alternative will lead to mis-statements, incorrect reporting by the press and more nervous investors flocking to the exits. Clients are paying for your alpha, not only in delivering returns but also in providing valuable education and insights. Whether your fund is gaining or losing capital, a stressful market environment is a time to reach out and let your clients know that you encourage an open dialogue. Be specific – tell them what to expect from you. Remind them that you are accessible, including the CEO and throughout the firm. Anticipate their concerns and address problematic issues as directly as possible. Replace fair weather marketing with all-weather communications. Do not wait for a frantic call or anxious redemption request that could be averted by proactive discussions with investors.

> **Investors rely on you to address related issues including valuations, leverage and couterparty risks; your level of understanding and open communication can be a source of calming reassurance to concerned investors.**

"The trend toward a friendlier tone is already evidenced among some of the largest established hedge fund managers that are known for being aloof and elusive but have changed dramatically, becoming far more transparent," noted Albert Hallac, founder and chairman of Weston Capital Management, fund of funds and hedge fund seeding organization. Mr. Hallac noted that some of these managers are now going out of their way to describe their strategies, the markets they trade and how they are well-positioned, often offering to organize conference calls with fund of funds investors in order to stem redemptions that may have nothing to do with performance. Furthermore, Mr. Hallac observed that the CEO has overtaken the investor relations contact and the portfolio manager as the spokesperson to calm investors. Mr. Hallac emphasized the importance of getting back to the roots of relationship building, discussing your clients' needs and fears, focusing on more personalized client service.

Thoroughness – Communicate Quantitative and Qualitative Messages via Multiple Forms of Delivery

Your investor reports and commentary should be insightful and include several quantitative levels of information for investors to evaluate fund performance such as statistical analysis, risk measures, portfolio attribution, and comparisons with benchmarks, among other message components. Take advantage of professional analytical tools such as PerTrac. Your thoroughness comes from providing the value added performance analysis and professional quality illustrations using clear charts, graphs and summary analysis, not dumping a sea of raw data in front of anyone. Investors need your datapoints presented in a clear and concise format together with additional hand-holding during stressful periods in order to defend maintaining and increasing their allocations. If you do not know the answer to specific questions, be sure to defer to the right source rather than provide inaccurate information.

On the qualitative side, your alpha includes an insightful explanation of the sources of returns or losses, major portfolio changes and market conditions affecting your results. You need to discuss the regulatory environment and its effects on your business. In addition, investors rely on you to address related issues including valuations, leverage and counterparty risks. Be as transparent as possible. Your level of understanding and open communication can be a source of calming reassurance to concerned investors. Your discussions should be organized and professional but avoid resorting to a personal defense or attack in either direction.

How should you deliver your message? Use multiple capabilities and platforms. Take advantage of various forms of technology via emails, Web-based reporting, teleconferencing, video conferencing and related capabilities, but do not ignore old fashioned traditional forms of relationship building. Be sure to pick up the phone and call clients regularly, particularly in down markets. Ask them to share their honest concerns and objectives. Schedule teleconference meetings and in-person opportunities. Investors need to gain comfort that you are carefully managing their assets. As hard as it may be to pro-actively communicate bad news, the effect of procrastinating is worse. The "ostrich" approach may jeopardize those relationships that took so long to build, particularly with clients that need additional attention.

Timing – Be Proactive Instead of Reactive

Investors want more frequent performance reporting even if the data is estimated. Be sure to communicate as frequently as practical on a regular basis. Don't forget to tell clients when they can expect a regular update and what information will be included rather than fielding inquiries that could be avoided from a more proactive approach. In addition to the regularly timed reports, consider special updates on an interim basis particularly if you have either heightened risks to report or perhaps good news to share with clients.

Tactical Recommendations – Seven Tips for Client/Prospect Updates

During PerTrac's October 15, 2008 Webinar: "Capital Raising and Investor Relations in Difficult Times," Meredith Jones, managing director of PerTrac Financial Solutions, outlined the below tips for client and prospect updates.

1. Select meaningful statistics – they should be easily explainable and value-added for investors to assess your fund;
2. Showcase your competitive advantages – include peer group analysis over various periods, using updates to tell a story graphically but avoid overwhelming investors with numbers;
3. Don't forget to include important investment facts about your fund as well as contact information;
4. Improve your monthly letter and be sure it includes commentary covering the manager's view of the markets, how the portfolio is positioned and the ways your view may differ from others. Explain what you learned during a period of stress and how you can avoid this situation in the future;
5. Make sure your update is clear, concise and appears attractive in terms of professional look and feel;
6. Establish a report format that provides for easy updates so that you can communicate promptly each month or more frequently; and
7. Use multiple delivery methods for your updates. Don't ignore traditional phone and in-person opportunities but do take advantage of technology including use of a password protected Web site as well as encrypted format for delivery.

"Your #1 goal is to regain investor confidence enough to prevent a redemption run; #2 is to calm investors enough to pave the way for additional allocations when cooler heads prevail; and #3 is to market strong performance vs. your peers," noted Ms. Jones.

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