



# reporter

MANAGED FUNDS ASSOCIATION

June/July 2007

## Third Party Marketing: Beyond the Basics

STEVEN RUBENSTEIN, PRESIDENT, ARROW PARTNERS, INC.

### Why Hire a Third Party Marketer?

A third party marketer (3PM) may provide the solutions for one or more of the following situations during the growth of your hedge fund management firm:

- After managing money for a few years, your asset growth has reached a plateau;
- You have exhausted the “friends and family” network for gathering additional assets to manage;
- You are tired of interviewing institutional salespeople that claim to have the “entrepreneurial bug,” but ask for a high six-figure guaranteed compensation package;
- Originally intrigued by the incubator model, you choked on the idea of giving up almost half of the firm’s equity; and
- You are frustrated with un-returned messages from prospects, populating industry databases on weekends and completing RFP’s at night.

But with more than 100 independent sales and marketing firms to select from, many of whom possess very impressive track records in raising capital for investment managers, how do you choose the right partner, and just as importantly, avoid the wrong one? Here are critical points to consider, and important questions to ask in decisions about a 3PM relationship.

### What are some of the Basic Requirements for Establishing a Successful Long-Term Partnership?

You can ensure success by designing the right marketing structure for your firm with:

- A commitment to a truly dedicated professional effort;
- A set of consistent principles with defined goals and expectations; and

- A realistic financial and resource commitment to support a comprehensive sales program.

Not too long ago, the third party marketing business was considered a “cottage industry” – small, fragmented, informal networks of salespeople with limited channels of distribution. Today, however, the use of independent distribution teams is widely accepted as a proven method for increasing a manager’s assets while controlling the sales expenses and investment professional’s time and focus away from investing. Since the Third Party Marketing Association ([www.3pm.org](http://www.3pm.org)) was organized in 1998, several of its members have become powerful industry players. They accomplished this by delivering measurable results and their success has led to several new entrants in the marketplace with undoubtedly many more to follow.

The standard model calls for the 3PM to serve as the sole sales agent for the firm, but in other situations the 3PM may supplement an existing internal sales force. In either scenario, ultimate success hinges on a well-organized plan with clear roles, responsibilities and accountability.

### How can Misconceptions about Sales and Marketing Prevent a Manager from Beginning an Effective Campaign with its 3PM?

While both parties in a 3PM arrangement will be undoubtedly dedicated to success, communication remains an essential ingredient to accomplishing their mutual goals. For 3PMs, a frustration that often occurs is identifying an investment manager that has the necessary components of a “great story,” to only later discover that the manager is not ready to fully implement or support a dedicated sales effort.

## Third Party Marketing

An experienced 3PM will avoid managers that are not ready to commit to a 3PM arrangement, which may be indicated by the following statements:

- “If I keep generating strong performance numbers, the institutions will find me;”
- “No one can tell our story as well as I can;”
- “We have never lost a finals presentation;”
- “We can’t afford a full-time sales effort;”
- “Why should I start marketing before I have a three-year track record?;”
- “I know most of the gatekeepers already from my last job, so what are you going to do that I can not do myself;” and
- “It’s earnings season, we won’t be do anything on the marketing front for several weeks.”

If you are an investment manager that has thought of or said any of these things, and are still frustrated by your deficient growth of assets under management, you may want to reconsider your sales and marketing strategy.

### What are Common Characteristics of Flawed or Failed 3PM Relationships?

Investment managers know the importance of learning from stocks that do not meet performance expectations. While it is more exciting to relive the great success stories, experienced 3PM’s must also be able to articulate the lessons learned from their relationships which have not worked out.

Manager-3PM relationships often end unnecessarily due to the frustration from a lack of new asset growth, but often the underlying reasons are attributed to a number of factors:

- Inability to clearly articulate or differentiate the “story;”
- Lack of “chemistry” between the 3PM and the manager;
- Inadequate support of the sales process;
- Trying to fit the manager’s style into the “wrong box;”
- Portfolio manager departure;
- Change of ownership;
- Broken investment process; and
- Long-term consistent under-performance vs. benchmarks and peer groups.

3PM Relationship Agreement Terms	
<b>Duration</b>	<ul style="list-style-type: none"> <li>• # of years</li> <li>• Renewal and termination</li> <li>• Option on future products</li> </ul>
<b>Scope</b>	<ul style="list-style-type: none"> <li>• Product coverage and exclusivity</li> <li>• Capacity levels</li> <li>• Protected lists</li> <li>• Time commitment from manager</li> </ul>
<b>Support Services</b>	<ul style="list-style-type: none"> <li>• Sales management and tracking</li> <li>• Marketing materials development</li> <li>• RFPs and database completion</li> <li>• Conference attendance</li> <li>• Attribution/peer group analysis</li> <li>• Ongoing client service</li> </ul>
<b>Financial Commitment</b>	<ul style="list-style-type: none"> <li>• Retainer and expenses</li> <li>• Commission percentage and duration</li> </ul>
<b>Communication</b>	<ul style="list-style-type: none"> <li>• Daily contact liaison</li> <li>• Reporting frequency</li> <li>• Prospect rating systems</li> <li>• Approval procedures</li> </ul>

### How have 3PM Businesses Evolved during the Past Several Years?

The most frequently cited change in the highly competitive distribution and placement business has been the increased specialization and renewed sense of focus needed for success. Today, most established 3PM firms will focus their sales efforts in three areas:

- Asset class specialization (alternative strategies including hedge funds and private equity vs. traditional long-only mandates);
- Investor segments (institutional including corporate and public pension funds, endowments and foundations vs. wealth management, high-net-worth investors, fund of funds);
- Geographic coverage (U.S., European, Far East, etc.).

## Third Party Marketing

While it is possible to find a marketing partner that has direct experience in each of these areas, it is rare to find a firm that has experienced success equally across all segments. Beware of the firm that says they “can do everything.” After many years of experience in the 3PM business, the more credible and successful firms are able to succinctly cite their competitive advantages over other firms.

### How do you Create a 3PM Agreement that will Fulfill your Expectations and Achieve your Marketing Goals?

The five most important decisions and critical issues that need to be resolved for an investment manager and a 3PM to form a mutually beneficial relationship are also terms which need to be included in the manager-3PM agreement. These are summarized in the table below.

### A New Phenomenon

Today, it is rare to attend an industry conference without a 3PM as one of the presenters or panelists. Also, many of our industry publications and newsletters contain regular columns and articles from a 3PM. Several influential industry associations have been formed to develop Industry Standards including Codes of Ethics and Best Practices, as well as compliance.

Another interesting and developing trend is the formation and transformation of both new and existing 3PM firms that are beginning to offer operations and compliance services, in addition to sales and marketing. Smaller, emerging managers are often in need of capital and/or assets to provide the stability and foundation for growth. Many of these managers want to focus exclusively on managing their portfolios and are increasingly looking to outsource non-investment functions such as centralized back office, trading, office space and strategic planning. In some cases they are accepting seed partners. This is an exciting phenomenon, providing further credibility and opportunities for the 3PM industry.

Which models will succeed? Time will tell, but the industry is vibrant and clearly in a new phase of growth. Certainly, if you are seeking assistance in growing your firm, with the proper preparation and consideration of key issues outlined here, you can find the right 3PM partner to accomplish significant goals. ©

---

*Steven Rubenstein is founder and president of Arrow Partners, Inc. He is also a founding member and past president of the Third Party Marketers Association ([www.3pm.org](http://www.3pm.org)). Founded in 1995, Arrow is one of the country's leading independent sales and marketing firms which focus its skills solely on helping investment managers increase their assets under management. Securities are distributed by Arrow Investments, Inc. Member NASD, SIPC. Steven can be reached by phone at 914.251.1084 or email at [steve@arrowpartners.com](mailto:steve@arrowpartners.com).*