



**Steve
Rubenstein**



**Ken
Rogers**

Getting To Know Arrow

An Interview with

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Since its founding in 1995, Arrow Partners has been one of the industry's premier institutionally-focused third party marketing firms. Now celebrating its 25th anniversary, Steven Rubenstein and Ken Rogers reflect upon their journey:

- *What was their initial vision?*
- *How has that vision evolved over two decades?*
- *What lessons have they learned?*
- *What's the future for the third party marketing industry?*

Q: For the uninitiated, can you briefly explain Third Party Marketing (3PM)?

Steve: Third party marketing is a straightforward concept: it is the outsourcing of an investment manager's sales, marketing and distribution functions. We operate similar to a satellite sales office.

More specifically, we leverage our industry knowledge, contacts, and experience on behalf of a limited roster of investment management clients. Most third party marketing firms have their own area of specialization and emphasis, such as experience with a given asset class, geographic region, or a specific market segment. For the past several years, Arrow, for example, focused on institutionally-oriented, concentrated active equity managers.

Ken: It helps to think of the 3PMs as similar to a "manufacturer's representative;" someone with specialized industry or product experience, with deep roots in a given industry, hired by a manufacturer to sell its goods. In our case, the "manufacturer" is the investment manager.

Q: What was the background and genesis for the idea that eventually became Arrow Partners?

Steve: There were several threads that all came together in the early 1990's. First was our observation that outsourcing was becoming more accepted within many areas of the investment industry.

A commonly-held feeling by peers and friends in the business whose opinion I respected, was that while it was trendy to represent a global multi-product firm that offered the full range of strategies, it was clear that no one firm could possibly excel at everything. I think part of the reason for that difficulty, especially in the big firms, was due to employee turnover. It was so common that it was difficult to maintain long term consistency, especially in the sales and marketing effort.

Steve: Also, boutique firms that were investment-centric often did not have the skill and culture to hire, manage and retain a professional sales and marketing team.

And, simply enough, I was intrigued by the 3PM business. I met with several firms, many of which offered me a position, which was gratifying in that it confirmed my instincts about my suitability for the business.

Really, though, I wanted to work for myself. I wanted all the flexibility and quality of life advantages that entrepreneurship offers. An important part of that impulse was driven by a distaste for the idea of another person subjectively determining my compensation. I preferred an iron-clad formula that was directly related to my performance.

Q: What was your initial vision for Arrow Partners?

Ken: Early on, we knew we didn't want to sell every strategy across all asset classes, nor did we want to dabble in whatever flavor-of-the-month products were popular. We chose to focus our efforts on working with a limited number of managers within a few selected asset classes. For example, we have always gravitated towards capacity-constrained asset classes, such as small cap equity.

We also quickly became interested in boosting awareness about the 3PM industry. I've found that over the years, many of the same misconceptions and confusion about what 3PMs actually do remain commonplace. Few investment managers fully appreciate the benefits associated with a third party relationship.

Steve: Those misperceptions were one of the key factors in our decision to become founding members of the Third Party Marketer's Association in 1998. We felt it was vitally important for our industry to have an organization whose purpose was to elevate industry professionalism, bring our thought leaders together, and advocate for the industry with one voice. We have been actively involved in the Association since its inception - I even served as the Association's President from 2004 until 2006.

Q: Sales & marketing is such a core component of any business, I'd imagine the relationship between the manager & 3PM is quite intimate. Describe your ideal client.

Steve: Over 25 years in business, we've had many relationships, some better than others, obviously. It is critical for us and our managers to share realistic expectations upfront. In many cases, our manager-clients have strong people, a sound investment process and competitive track record but they are frustrated by the trajectory of their asset growth.

Since this growth typically does not "j-curve" overnight, the manager must buy into a longer-term methodical approach. We have access to investor decision-makers and know what their pre-purchasing considerations are, but that is simply the beginning. It is the manager's responsibility, whether we're talking about from performance, philosophy, or process to demonstrate conviction, repeatability and inspire confidence.

Ken: That's why we always make sure that prospective clients understand that the manager-3PM relationship is a true partnership. We cannot function if we are viewed as simply a "hired gun" or a distant vendor.

Q: When you meet with a manager-prospect that doesn't necessarily "check all of the boxes", how do you determine if there is a good "fit" for your way of doing things?

Ken: Interesting that you should say "check each of those boxes," because that's exactly what we do. We have developed a proprietary manager multi-factor scorecard that is posted on our website. We utilize it to help ourselves and managers determine if they are ready, willing, and able to make the necessary commitment, and have an institutional culture that could foster a good working relationship. Once this is determined, we vet the manager in a way similar to how a consultant or wealth manager would conduct their due diligence.

Steve: Our manager selection process is intensive and the scorecard (which has undergone multiple revisions over the years), is used to try to maintain some consistency in our screening process while highlighting the areas of a prospect's business that may need some additional scrutiny.

Q: Looking back on more than 25 years in business, what do think has been the most significant change in the 3PM industry?

Steve: First of all, the 3PM industry has grown significantly. When Arrow was founded, there were fewer than 20 3PMs. Today, we have more than 100 firms in our database. And with that growth comes stronger competition, greater regulation, and higher scrutiny.

Ken: The investment industry has matured greatly over this time frame. There has been the continuing trend away from defined benefit to defined contribution, the explosive growth of alternatives (be it hedge funds, private equity or real estate firms), globalization, increasing compliance and regulatory standards, the explosion of wealth management, fee pressure, new vehicles like ETFs - all of these changes are constantly presenting new challenges and opportunities.

Q: What changes do you see on the horizon? How well-equipped is Arrow to embrace these changes?

Steve: As Ken just said, I think that the continued growth within the investment management industry will offer new opportunities for us.

Ken: We have always remained nimble and opportunistic, willing and able to adapt to the quickly changing demands of our manager and investor clients. Beyond that, however, we need to be sure that we understand and stay on top of marketing tactics and trends. Certainly, among the most transformative for the marketing industry has been the rapid rise of digital marketing and technology. Many investment managers are still quite skeptical of the internet as a marketing tool. Their discomfort aside, the use of content marketing and social media marketing will only grow in importance in the future. We are helping them get comfortable and implementing creative solutions when they are ready.