Marketing

Selling customised products

Sasha Jensen, CEO of Context Jensen Partners, discusses the pros and cons of diversifying beyond a flagship, commingled offering for marketers

If there's one constant in the hedge fund industry, it's that investors tend to get what they want.

Large institutions, pension funds in particular, led the movement to drive down fees from 2/20 and recently, allocators have turned their attention to investment products, pushing for increased flexibility and transparency via an ever-larger menu of options.

In response to this demand, hedge fund managers are taking steps to sell more products that have been customised – including everything from fee or redemption terms to separately managed accounts or private-equity style structures. Each product is designed to align with each investor's specific goals and portfolio requirements.

While this is further evidence of the growth and maturity of the alternative investment management industry, the inherent complexity of having a growing product range to sell presents a few unique challenges for marketers.

Sasha Jensen, CEO of Context Jensen Partners

Commingled funds

Commingled funds are the industry's bread and butter. Investors have thousands of funds to choose from, each with an audited track record and a clearly defined strategy. Allocators, especially those new to alternatives, tend to favour commingled funds because they are the simplest way to allocate to a hedge fund manager.

For marketers, the advantages of selling commingled funds are obvious – each investor gets treated the same. Every LP gets the same quarterly and monthly fund updates, pays the same fees and agrees to the same lockup terms. Nobody gets special treatment and nobody gets jealous that another investor was offered better terms or given exclusive access to an investment opportunity. Allocators talk to each other and there are few things likely to upset an investor more than finding out they're getting the short end of the stick.

Offering just one or two investment options can also avoid creating confusion, particularly when reporting returns or new positions. The nuances of which fund did what are often misrepresented in news articles and research sites, creating an additional headache for marketing and communications professionals.

Customised products

Customised products such as SMAs are growing in popularity as the industry moves to a more customer-driven model. For investors, it's easy to see the appeal of having more options.

Customisation is also a good way for alternative investment firms to build relationships with allocators. One of the most common types of customisation is a sidecar, or a specialty investment vehicle that is typically only offered to existing investors. These products, which often feature lower or sometimes even zero fees, are a good way for firms to reward loyal investors, particularly those that maintained their allocations even through periods of poor performance.

Another advantage of customised products is that they allow fund managers to pursue unique investment opportunities that may not make sense within a traditional fund structure. For instance, many fund managers are now exploring private equity-style and ESG-focused investments, both of which could look out of place in a typical equity or fixed income strategy. There's also increased demand for co-investing opportunities, where the fund manager structures a one-off deal and the investor provides added capital. These types of investments are growing in popularity because they tend to offer investors more potential for a differentiated return stream.

There is a downside, however. Marketers trying to sell a custom product may run into a number of potential challenges, from the lack of an appropriate industry benchmark to questions about how a new product may affect other strategies. One commonly cited concern among investors is what resources will be dedicated to the new product. What if a star fund manager abandons the main fund to work on a new fund within the same firm? Investors in the main fund are unlikely to be pleased, no matter how qualified the replacement is. There's also the risk that all investors will begin demanding special treatment, a scenario that could easily lead to resentment and a surge in redemptions.

Whatever products a firm decides to sell (or not sell), there's no question that customisation is the way of the future. Marketers should take steps now to familiarise themselves with the different types of products in the market and proactively engage with senior management to discuss any plans. It's only a matter of time before an investor asks for something new. Marketers need to be ready. ▪