Alternative Investment Management Association

GUIDE TO SOUND PRACTICES FOR INVESTOR RELATIONS

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Executive summary

The role of Investor Relations ('IR') has evolved a great deal over the past decade, institutionalising along with the hedge fund industry itself. AIMA's Guide to Sound Practices for Investor Relations (the 'Guide') examines how investment managers are structuring their client servicing, marketing and fundraising efforts in a way that most efficiently and effectively meets the needs of their investors and adheres to the changing regulatory landscape.[1]

The Guide explores the following themes:

Business planning and department structure

Broadly defined, investor relations encompasses business development, marketing and client services.

Functionally, within most firms, business development incorporates the following roles and responsibilities:

- Identifying and designing new products;
- Prospecting for new investors;
- Conducting introductory calls, at both the investment manager- and strategy-level;
- Coordinating and hosting new prospective investor meetings;
- Managing consultant relationships; and
- Networking and attending industry conferences.

Marketing is primarily responsible for designing and maintaining all investor-facing collateral and coordinating external messaging activities. Typical responsibilities include the following tasks:

- Crafting a consistent message and brand;
- Designing and preparing standard documents such as pitch books, investor reports, and due diligence documentation;
- Drafting thought leadership materials;
- Coordinating conference participation;
- Planning events;
- Liaising with public relations ('PR') firms and issuing press releases; and
- Coordinating and conducting required training (press and/or presentation) for key investment manager personnel.

Client services focuses on all areas related to maintaining existing investor relationships, such as:

- On-boarding new clients;
- Coordinating and hosting operational due diligence ('ODD') meetings;
- Managing existing client relationships;
- Collating and circulating regular investor reporting;
- Conducting investor update calls/meetings;
- Coordinating *ad hoc* investor requests; and
- Liaising with fund service providers.

Investor relations is not a one-size-fits-all function. It varies substantially based upon an investment manager's size, strategy and structure. As a firm grows in assets and complexity, the 'all-in-one' generalist IR approach often gives way to specialisation by function, geography, investor channel or product.

When deciding how to structure the IR function, investment managers should consider the regulatory implications of these decisions as these choices might have significant consequences. Investment managers should also pay close attention to any regulatory requirements for specific qualifications, ongoing training and exams on behalf of their IR staff. Finally, investment managers should design performance assessments and compensation practices in a way that fosters teamwork, properly aligns incentives and meets relevant regulatory requirements.

Investor communications

Investors continue to demand increased transparency from investment managers. This is particularly true as investors and investment managers move towards a partnership model that may include customised solutions, knowledge sharing or other forms of pro-active client service.

The IR team should establish the frequency, mediums and types of communications investors will receive on a regular basis. Investment managers should be aware that once materials are used for marketing purposes, they are considered marketing materials for perpetuity and must adhere to relevant regulatory standards.

Investment managers should also have a process for recording and following up on clients complaint and give careful thought as to how to communicate negative or difficult news to their clients. Careful handling of such communications can reduce the chances that challenging situations will develop into full-blown crises.

Marketing

At a hedge fund, 'marketing' has nearly always meant the production of the standard set of fund documents including pitch books, tear sheets and due diligence documentation. While those pieces of collateral still play an important role in communicating key information to prospective investors, the hedge fund industry is beginning to place a greater focus on brand building and thought leadership.

As with other industries, marketing in the hedge fund industry is being transformed by technology. While each jurisdiction has regulatory restrictions that must be taken into account, new channels and media including

[1] The Guide has been written as jurisdictionally neutral as possible in order for it to be of the most use to manager members around the world. There may be specific regulatory requirements which are not discussed in this Guide that will apply to investment managers in various jurisdictions and which may conflict to a greater or lesser extent with what is described in this Guide. Investment managers should comply, first and foremost, with all applicable regulations.

websites, social media platforms and video are opening to investment managers. But regardless of the material or media, at the heart of their marketing strategy investment managers should have a compelling story that resonates with investors and distinguishes them from their peers.

Fundraising

Fundraising begins by first identifying the fund's target investor base. Consideration should be paid to AUM of the firm and fund, fund structure and liquidity, fund strategy, geography of the investment manager, operational infrastructure of the firm, and fund terms to determine which classes of investors might be the best fit.

Investment managers can then use various intermediaries, commercial databases, conferences and personal and professional networks to make contact with allocators, respecting applicable local regulations regarding solicitation. The sales-cycle takes an average of 12-18 months, but can take even longer particularly where an allocation is dependent on approval from a gate-keeper such as a consultant. During this time and before making an allocation, investors may expect several meetings with IR professionals, the portfolio manager and investment team before moving into the final stage of ODD.

IR professionals are expected to respond in a timely and professional manner to move the prospective client through the analysis period, while managing the expectations of the rest of the organisation. Following up to keep the process moving forward is a discipline that requires patience and persistence. Sound practice would be to ask the investor how they prefer to communicate and at what frequency.

Managing the ODD process

The ODD process vets an investment manager's internal controls and operational risk management and is a necessary and critical part of the investment process. Transparency can be one of the biggest reasons for failing an ODD review. If investors find an investment manager difficult to work with during the initial stages of the relationship, it can cause material concerns around how the investment manager will behave during the course of the investment and in a crisis.

It is in the interests of both the investment manager and the investor to make the ODD review as efficient and effective as possible. IR professionals should ensure that the team is well-prepared for ODD meetings and care should be taken to ensure a complete, timely and thorough follow-up on all outstanding items.

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About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,600 corporate members in over 50 countries. AIMA has an active influence in policy development and provides leadership in industry initiatives such as educational programmes and areas of sound practices. AIMA has developed long-term relationships with regulators worldwide and has built a close collaboration with many investors in alternative funds.

AIMA provides a vibrant global network for its members. Its primary membership is drawn from the alternative funds industry whose managers pursue a wide range of modern asset management strategies. AIMA's manager members collectively manage more than $1.5 trillion in assets.

AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists.

For further information, please visit AIMA's website, www.aima.org.

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