



BRIDGING THE GAP

INVESTORS AND EMERGING ALTERNATIVE ASSET MANAGERS



EXECUTIVE SUMMARY

GOAL OF RESEARCH: FUNDRAISING IS A HUGE PAIN POINT FOR EMERGING MANAGERS. THERE IS LITTLE TRANSPARENCY IN THE PROCESS WHICH LEADS TO CONFUSION AND FRUSTRATION. MANY FIRMS FAIL BECAUSE OF AN INABILITY TO RAISE ASSETS, NOT BECAUSE OF LACK OF STRONG PERFORMANCE. THE GOAL OF THIS RESEARCH IS TO PROVIDE MORE CLARITY INTO THE PROCESS REQUIRED OF MANAGERS LOOKING TO RAISE INSTITUTIONAL ASSETS.

SAMPLE: WE SURVEYED 100 EMERGING ALTERNATIVE ASSET MANAGERS ON THEIR EXPERIENCE WITH INSTITUTIONAL MARKETING AND FUNDRAISING. WE AGGREGATED RESEARCH AND INVESTOR PERSPECTIVES TO PROVIDE A CLEAR PROCESS FOR SUCCESS.

CRITERIA: FOR THE PURPOSE OF THIS RESEARCH WE DEFINED EMERGING MANAGERS AS FIRMS WITH:

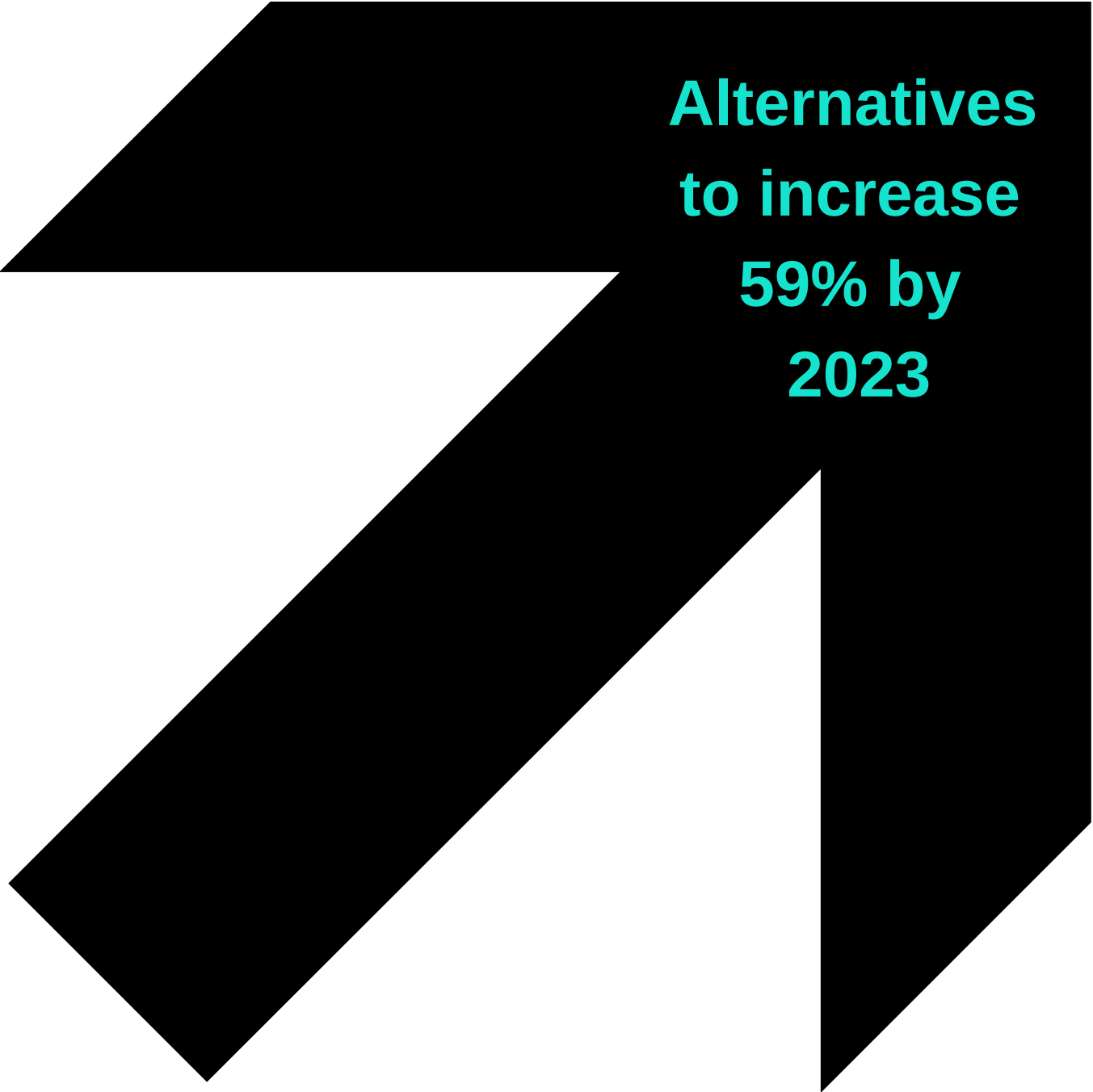
- 1) LESS THAN 3 YEARS TRACK RECORD
AND/OR
- 2) LESS THAN 1 BILLION AUM

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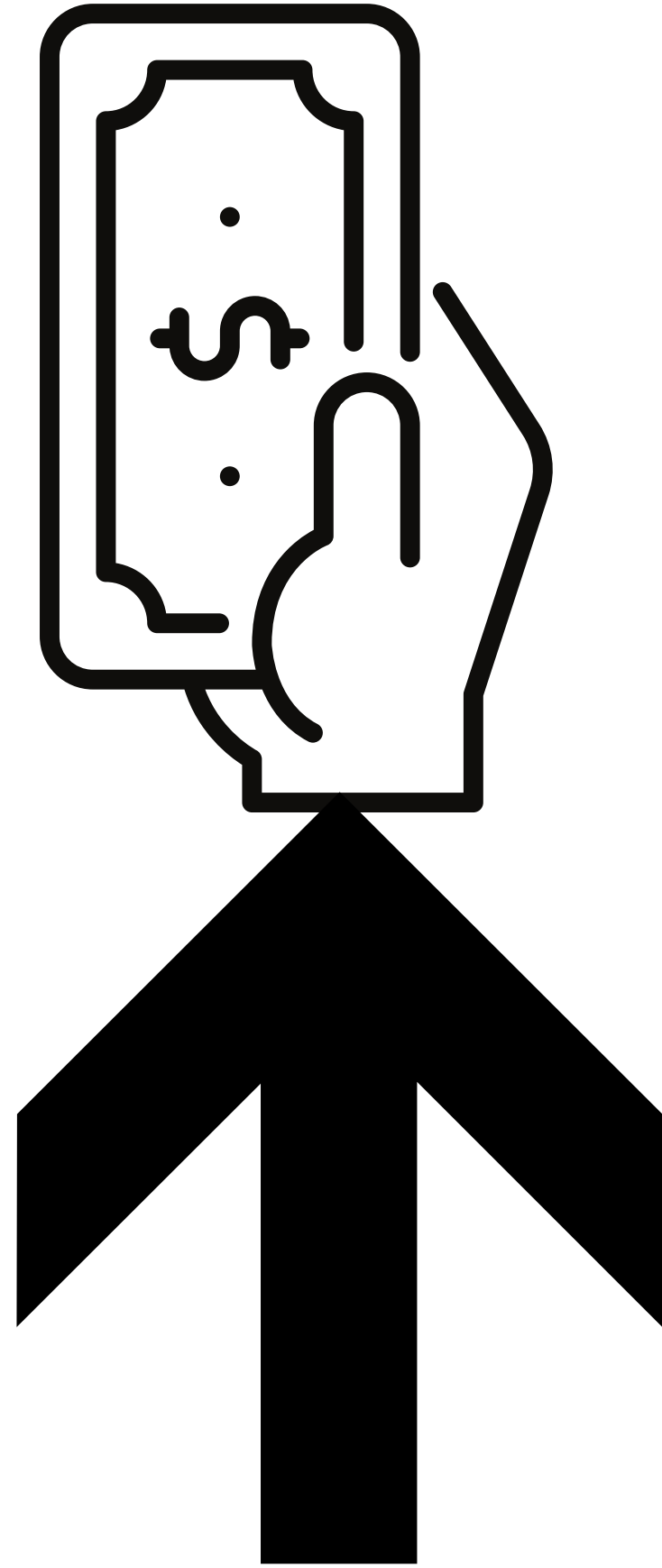


THE FUTURE IS ALTERNATIVE



Alternatives
to increase
59% by
2023

Alternatives are set to control a large portion of the investment pie. In a post 2008 world, the financial landscape is quickly evolving with technology and increasingly connected economies altering the standard. Preqin projects **global alternative assets under management will grow to \$14 trillion by 2023, a 59% increase from 2017.**



The rapid technological shift impacts asset management creating new methods to deliver alpha. Investors are evolving their approach and experimenting with new ways to diversify their portfolios. As reported by Preqin, the number of investors allocating to alternatives has grown from **3,500 in 2008 to 11,000 in 2018** with **84% of investors planning to increase alternatives allocation over the next five years.**

According to
research by
Towers Watson,
the top 20 asset
manager firms
control a record
43% of assets.

2008 DEFINES LANDSCAPE

Post 2008, investors flocked to larger managers. Tasked with new due diligence requirements to protect from future loss, larger funds were able to meet these new requirements. In the early 2010s we saw the big get bigger and the smaller managers struggle to compete.

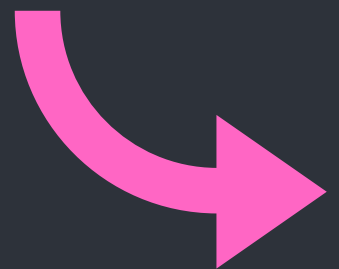
NEW MANAGER RENAISSANCE

OVER THE PAST FEW YEARS, LARGER MANAGERS AT CAPACITY HAVE FAILED TO PERFORM. AT THE TAIL END OF A BULL MARKET, INVESTORS ARE SEEKING DIVERSIFICATION TO PROTECT ASSETS. PREPARING FOR AN ECONOMIC DOWNTURN, WE'VE SEEN INCREASED INTEREST IN EMERGING ALTERNATIVE ASSET MANAGERS TO GENERATE ALPHA.



MOVEMENT INTO DIRECT INVESTMENTS

2 x 20



0 x 30

Fee expectations continue to evolve with innovation in fund administration allowing firms to reduce management fees. Investors are demanding fees be tied to performance to avoid the costs they experienced with struggling hedge funds post 2008.

With a keen eye to costs, Institutional Investors are moving away from high-fee offerings like fund of funds into direct investments in emerging investment opportunities.

THE RISE OF NICHE INVESTING



On the hunt for diversification, investors are seeking out niche strategies. As Preqin reports, investor appetite for niche strategies is growing with strong expected growth over the next five years. The move to grow niche exposure stems from a desire to generate alpha. Many niche strategies are not directly correlated with market fluctuations balancing portfolio performance.

The due diligence burden for niche investments is more strenuous for investors. To fundraise effectively from institutions, niche managers must fit into a bucket of interest and provide ample data to back their strategy.

LARGE INVESTORS LEAD THE CHARGE

Large Institutional Investors lead the charge when it comes to investing with emerging managers. In recent years, we've seen top tier investors like NYC Retirement System, Chicago Teachers and Mass PRIM create emerging manager platforms.

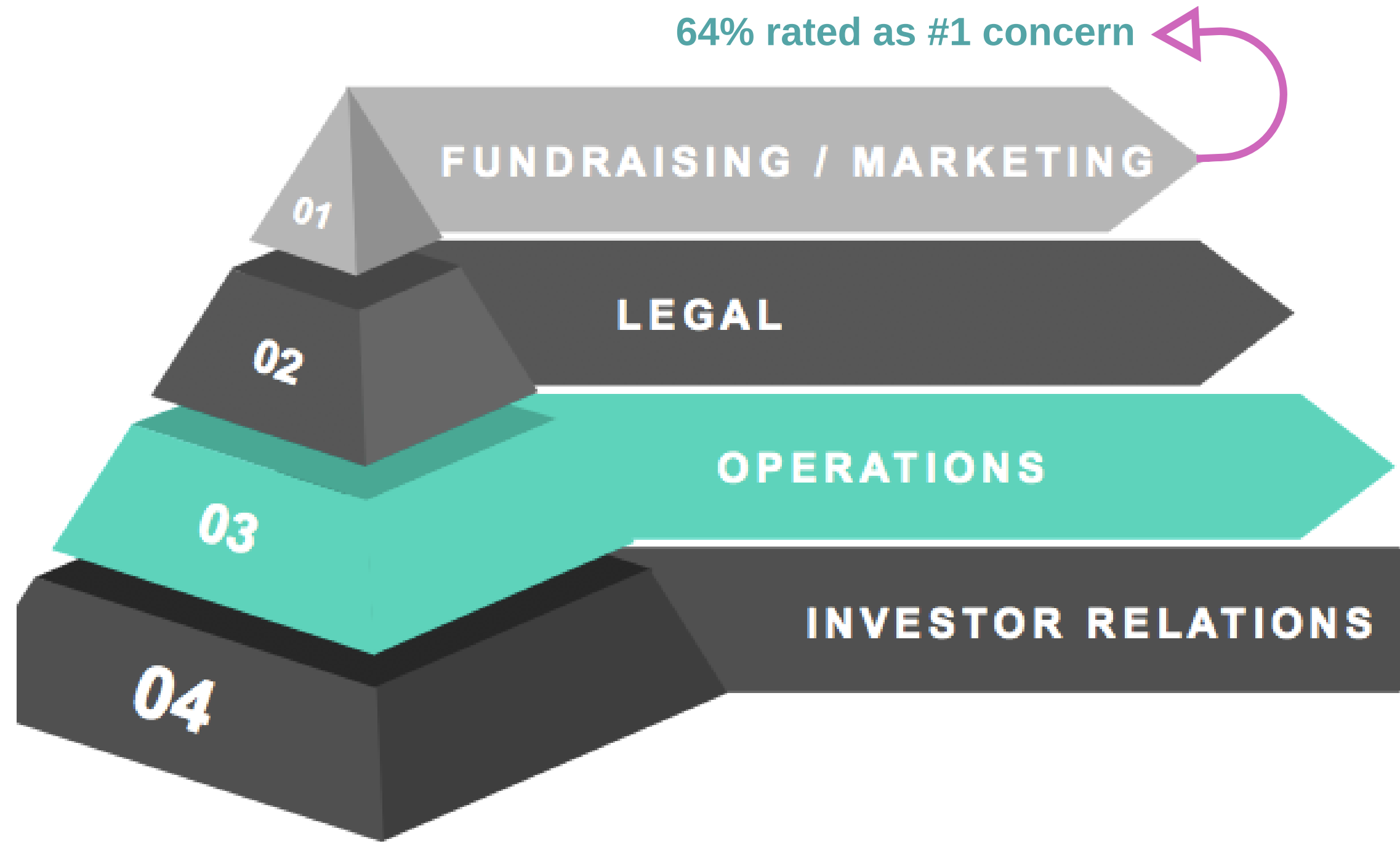
These Emerging Manager platforms allow larger investors to mitigate risk through diversification across several managers. These platforms also address the issues of capacity that larger investors experience with smaller managers.

Expect to see interest rise as large institutions lay the groundwork for investing into emerging managers.



OPPORTUNITY DISCONNECT

IN A TIME WHERE INVESTOR INTEREST IS HIGH, THE OPPORTUNITY FOR EMERGING MANAGERS SHOULD BE RISING. IN EARLY 2018, TIERNAN CONSULTING SPOKE TO 100 EMERGING ALTERNATIVE ASSET MANAGERS ON THEIR PAIN POINTS LAUNCHING AND GROWING A NEW FIRM. THE MAJORITY REPORTED OUTPERFORMING BENCHMARKS, YET THE #1 PAINPOINT CONTINUES TO BE FUNDRAISING.





INVESTOR PERSPECTIVES

**SENIOR CONSULTANT: LEADING
INSTITUTIONAL CONSULTING FIRM**

WHAT ARE YOU SEEING IN TERMS OF INVESTOR INTEREST IN EMERGING ALTERNATIVE ASSET MANAGERS?

“THOUGH AT THE BEGINNING OF OUR PROGRAM WE PRIMARILY SAW PUBLIC MARKETS MANAGERS, OVER TIME THE AMOUNT OF PRIVATE EQUITY, REAL ESTATE/ASSET, HEDGE FUND AND OTHER PRIVATE MARKETS MANAGERS INCREASED. WE BELIEVE THIS STEMS FROM THE INCREASE IN INTEREST FROM OUR PLAN SPONSOR CLIENTS. AS THEIR ALLOCATIONS MOVE AWAY FROM A HOME COUNTRY BIAS (U.S. EQUITIES) AND INTO ALTERNATIVE INVESTMENTS, SO HAVE THE STRATEGIES OFFERED BROADLY, AS WELL AS FROM THE DIVERSE AND EMERGING MANAGER COMMUNITY.”

SENIOR CONSULTANT: LEADING INSTITUTIONAL CONSULTING FIRM

ADVICE TO MANAGERS LOOKING TO RAISE FIRST
INSTITUTIONAL FUND?

1. DO YOUR HOMEWORK ON POTENTIAL INVESTORS
2. BUILD AN ASSET BASE
3. TRACK RECORD IS IDEAL
4. IT IS GETTING MORE AND MORE EXPENSIVE TO HAVE AN INSTITUTIONAL FIRM – TECHNOLOGY, COMPLIANCE, ETC. BUT THE TRUTH IS THIS IS WHAT INVESTORS ARE LOOKING FOR. IT MIGHT TAKE TIME TO BUILD THIS INFRASTRUCTURE, BUT IT'S USUALLY BETTER TO TRY TO HAVE THIS IN ADVANCE OF MARKETING.

CEO: FAMILY OFFICE ADVISORY

WHAT ARE YOU SEEING IN TERMS OF INVESTOR INTEREST IN EMERGING ALTERNATIVE ASSET MANAGERS?

“GIVEN THE PAST 9 YEARS OF THE LONGEST BULL MARKET, ESPECIALLY THE LAST FEW YEARS HAVE GIVEN A LOT OF HNW CLIENTS COMFORT AND EASE IN MORE OF A PASSIVE INVESTMENT ENVIRONMENT. THAT SAID, I HAVE SEEN MAINTAINED INTEREST FROM THE UHNW AND FAMILY OFFICE COMMUNITY IN ACTIVE MANAGEMENT THROUGH THE DURATION OF THIS MARKET CYCLE AND AFTER. I ALSO FEEL GIVEN THE UNCERTAINTY AND VOLATILITY IN SEPTEMBER AND OCTOBER, CLIENTS AND INVESTORS ARE COMING AROUND TO ACTIVE MANAGEMENT, ALTERNATIVES AND LIQUID ALTS.”

CEO: FAMILY OFFICE ADVISORY

WHAT IS YOUR ADVICE TO NEW MANAGERS LOOKING TO RAISE MONEY FROM FAMILY OFFICES?

“I SPEAK ABOUT THIS A LOT... FIRST AND FOREMOST IF YOU DON'T HAVE A FAMILY OFFICE NETWORK AND YOU PLAN ON RAISING MONEY FROM THIS COMMUNITY YOU NEED TO BUILD RELATIONSHIPS OR WORK WITH PEOPLE THAT HAVE THOSE RELATIONSHIPS BEFORE YOU LOB IN AN ASK OR COME IN WITH A HARD SELL. OBSERVE WHERE YOU CAN ADD VALUE, WHAT VOIDS THE TARGET CLIENT MAY HAVE AND SEE IF YOU CAN TRULY ADD VALUE. LAST BUT NOT LEAST WORK WITH THEIR FINANCIAL AND FAMILY ADVISORS, LAWYERS AND ACCOUNTANTS TO COLLABORATIVELY BE A SOLUTION OR ADDITIVE TO THE EXISTING RELATIONSHIPS.”

PARTNER: ULTRA HNW ADVISORY

WHAT ARE YOU SEEING IN TERMS OF INVESTOR INTEREST IN EMERGING ALTERNATIVE ASSET MANAGERS?

THERE WAS A TIME WHEN THERE WERE SOME OF THOSE 'UNDISCOVERED MANAGER' FUNDS OUT THERE THAT SOME CLIENTS WERE INTERESTED IN. BUT THESE DAYS THEY TEND TO ASK HOW LONG THEY'VE BEEN DOING IT AND TILT THAT DIRECTION. WE DO EXPLAIN THE THEORY THAT THE EMERGING MANAGERS MAY WORK OUT BETTER BECAUSE THEY'RE NOT MANAGING TOO MUCH MONEY, BUT THEY'RE STILL A LITTLE GUN SHY.

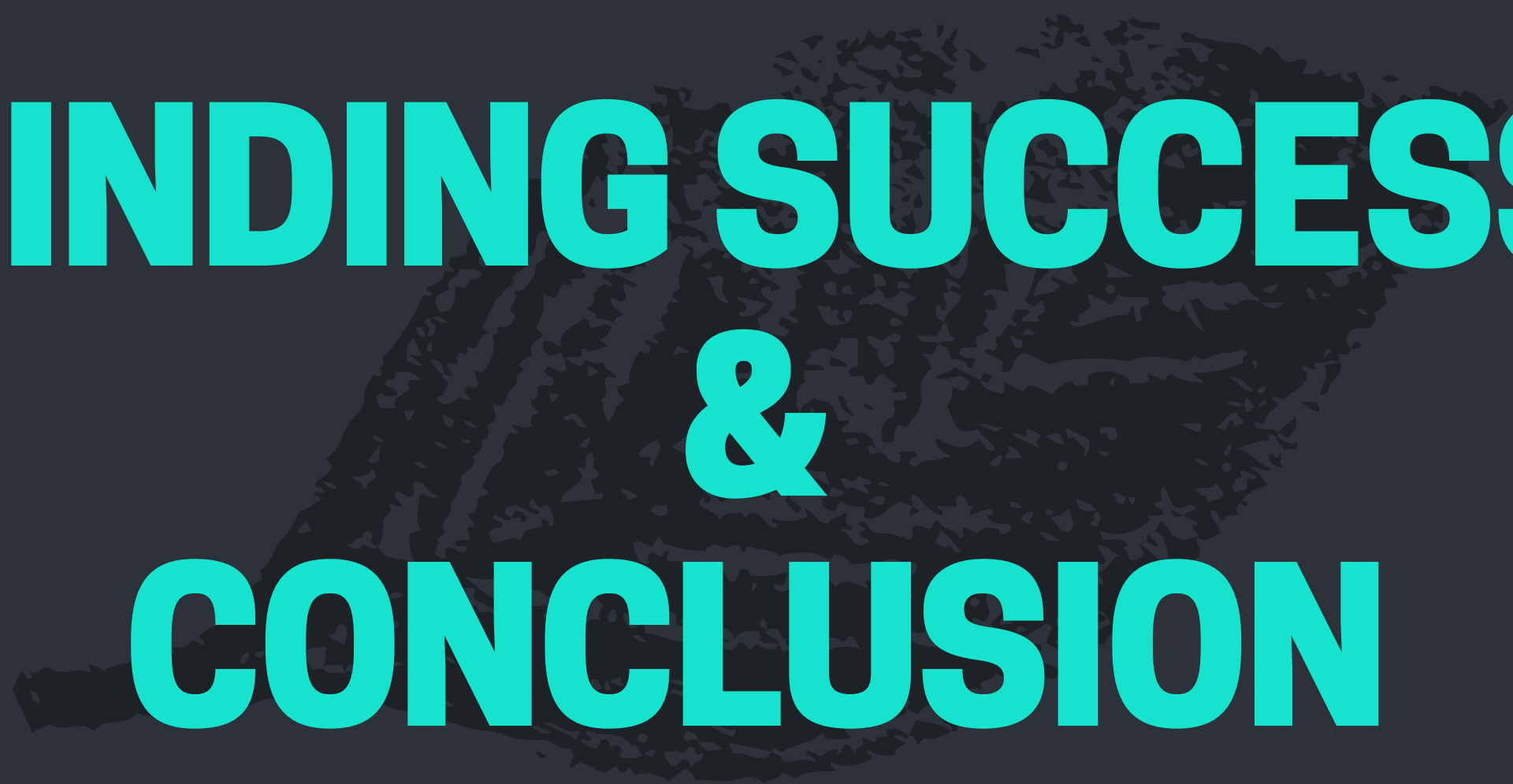
PARTNER: ULTRA HNW ADVISORY

WHAT IS YOUR ADVICE TO NEW MANAGERS LOOKING TO RAISE MONEY FROM HNW CLIENTS?

TELL THE STORY OF WHAT DIFFERENTIATES YOU FROM THE OTHERS, DON'T GET GREEDY WITH FEES, AND EXPLAIN THE PLAN TO GENERATE ENOUGH IRR/CASH FLOW TO JUSTIFY THE FEES AND ILLIQUIDITY, AND WHY THE PLAN HAS A BETTER CHANCE OF WORKING OUT THAN NOT WORKING OUT.

INVESTOR TAKEAWAYS

1. MAKE SURE YOUR OFFERING FITS INVESTOR
2. BUILD A TRACK RECORD
3. RAISE SEED ASSETS
4. BUILD INSTITUTIONAL INFRASTRUCTURE
5. BUILD RELATIONSHIPS
6. DIFFERENTIATE
7. MODERNIZE FEE STRUCTURE
8. LARGE INSTITUTIONS LEADING CHANGE



**FINDING SUCCESS
&
CONCLUSION**

FIND YOUR NICHE

Identify your niche to differentiate from other managers. When reaching out to prospects make sure your strategy fits the manager profile they are looking for.

WORK YOUR NETWORK

The largest proportion of investors are going to come through your network--especially in the early stages of a firm. Look to existing investors and members of your network to grow your prospect list.

OPEN COMMUNICATION

Create a client communication process. Be in touch monthly, quarterly and annually with updates for prospects.

Make sure you are responsive to prospect and client requests as this is essential to the due diligence process.

CONTENT IS KING

Create content that positions your firm as thought leaders in the space. This includes market commentary, research pieces, and quarterly firm updates.

FOCUS ON PERFORMANCE FEES

Fee expectations are evolving and new managers must adjust accordingly. Focusing on performance fees can lower the possible risk for investors that may be hesitant to invest.



CONCLUSION

The next five years hold an abundance of opportunity for emerging alternative asset managers. With a recession expected in 2020, investors are seeking active strategies.

Fundraising continues to be the biggest pain point for emerging asset managers. If managers focus on building the infrastructure required by institutions, they can reap the benefits of increased investor interest.

TIERNAN CONSULTING

Founded in 2013, Tiernan Consulting focuses on Institutional Marketing for Alternative Asset Management Firms. With clients globally, Tiernan Consulting specializes in niche emerging managers.

LORI TIERNAN

LORI TIERNAN HAS 10 YEARS EXPERIENCE IN THE FINANCIAL SERVICES SECTOR. PRIOR TO STARTING TIERNAN CONSULTING IN 2013, SHE WORKED IN INSTITUTIONAL DISTRIBUTION AT GUGGENHEIM PARTNERS AND LATER RAN EFFORTS FOR A SAN FRANCISCO BASED HEDGE FUND. AT TIERNAN CONSULTING, SHE HAS HELPED MANAGERS ACROSS ASSET CLASSES TO DEFINE THEIR STORY AND HOW TO SELL IT TO INVESTORS. LORI LEARNED TO COMPUTER PROGRAM IN 2014 AND HAS SINCE WORKED WITH SEVERAL NICHE INVESTMENT FIRMS INTEGRATING TECHNOLOGY INTO THEIR PLATFORM.

SOURCES

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Tiernan Consulting
tiernan-consulting.com