



Tiernan
Consulting



BRIDGING THE GAP BETWEEN INSTITUTIONAL INVESTORS AND EMERGING MANAGERS

IN A MARKET WHERE EMERGING ALTERNATIVE ASSET MANAGERS ARE ON AVERAGE OUTPERFORMING THEIR MORE ESTABLISHED COUNTERPARTS, WE ARE SEEING INTEREST FROM INSTITUTIONAL INVESTORS RISE. LARGER INSTITUTIONAL INVESTORS LIKE TEXAS TEACHERS ARE LEADING THE CHARGE WITH DEDICATED EMERGING MANAGER PROGRAMS AND INVESTMENT CONSULTANTS LIKE CALLAN URGE THEIR CLIENTS TO DIVERSIFY WITH MORE NIMBLE MANAGERS.

ALTHOUGH THE OPPORTUNITY IS INCREASING, INSTITUTIONAL FUNDRAISING CONTINUES TO BE THE BLACK BOX FOR MANY MANAGERS. TO CAPITALIZE ON THE OPPORTUNITY, EMERGING MANAGERS NEED TO ESTABLISH THE INFRASTRUCTURE THAT THESE INVESTORS REQUIRE, A TALL TASK FOR A BOOTSTRAPPED FIRM.

THIS CASE STUDY ANALYZES DATA FROM MANAGERS AND INVESTORS TO CREATE ACTIONABLE STEPS FOR SUCCESS.

1. FIRM DATA

2. SEED CAPITAL

3. PERFORMANCE

4. TEAM

5. INSTITUTIONAL FUNDRAISING

6. FUNDRAISING HURDLES

7. INVESTMENT CONSULTANTS

8. FUNDRAISING HELP

9. SOFTWARE TOOLS

10. MARKETING TOOLS

11. CHALLENGES TO FIRM

12. CONCLUSION

EXECUTIVE SUMMARY

GOAL OF RESEARCH: IN OUR CONSULTING SERVICES, WE'VE FOUND THAT FUNDRAISING FROM INSTITUTIONAL INVESTORS 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. IN PART ONE WE DOCUMENT THE PAIN POINTS FOR EMERGING MANAGERS. PART TWO PROVIDES ANSWERS TO IMPROVE THE PROCESS FROM THE INVESTOR PERSPECTIVE.

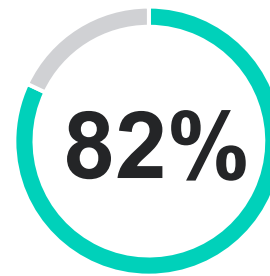
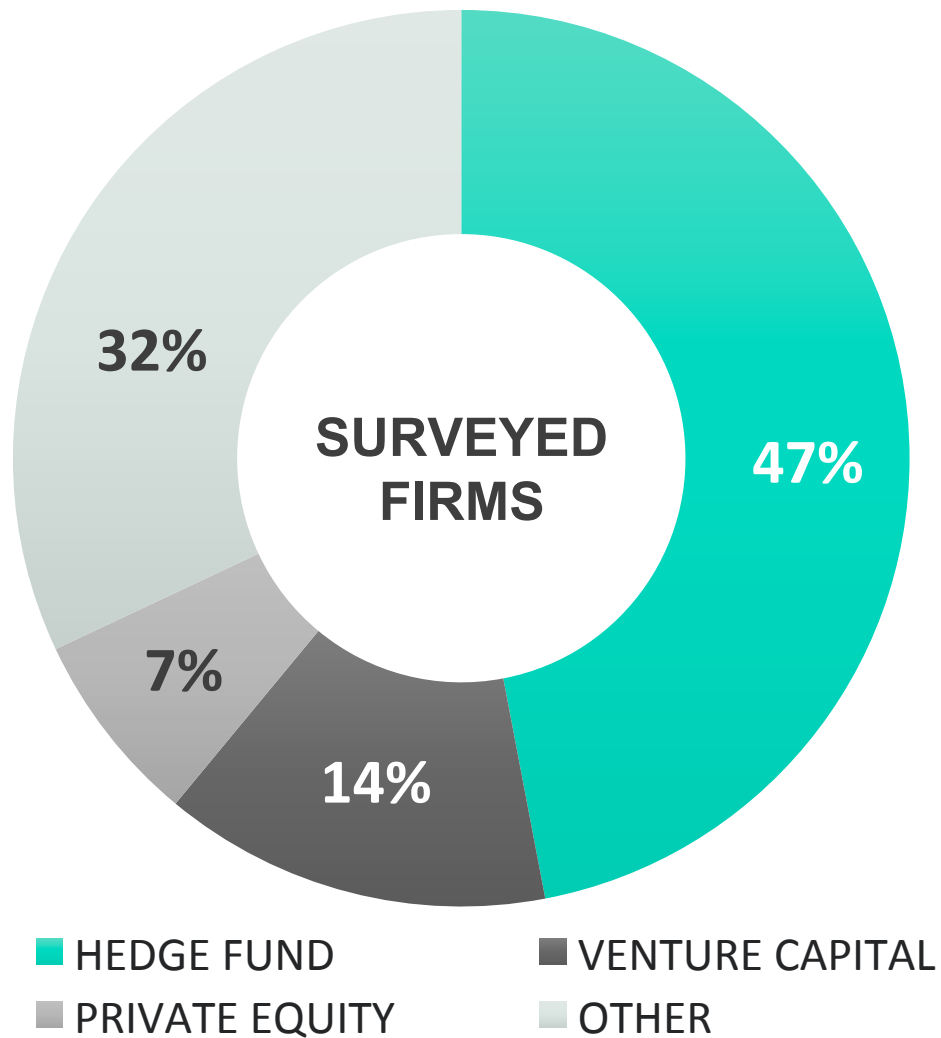
SAMPLE: WE SURVEYED 100 EMERGING ALTERNATIVE ASSET MANAGERS ON THEIR EXPERIENCE WITH INSTITUTIONAL MARKETING AND FUNDRAISING.

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

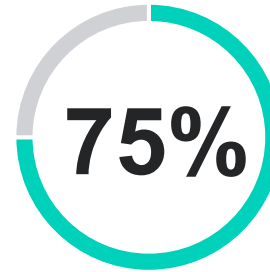
- 1) LESS THAN 3 YEARS TRACK RECORD
AND/OR
- 2) LESS THAN 1 BILLION AUM



1. FIRM DATA



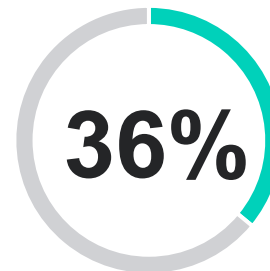
CONSIDER FIRM START UP



CONSIDER THEIR INVESTMENT STRATEGY NICHE



UTILIZE PROPRIETARY TECHNOLOGY



SPUN OUT OF OTHER SHOPS

*Inception date ranged from 2004-2017 with the majority launching post 2013.

*Assets under management (AUM) ranging between 0 and \$5 Billion with the majority ranging between 50-200 AUM.

2. SEED CAPITAL / ANCHOR INVESTOR

THE MAJORITY OF MANAGERS HAD AN ANCHOR INVESTOR WHEN THEY LAUNCHED THEIR FUND.

WE DEFINE ANCHOR INVESTOR AS AN INSTITUTIONAL INVESTOR THAT REPRESENTS A HIGH PERCENTAGE OF THE SEED FUND.

THESE INVESTORS USUALLY RECEIVE LARGE FEE DISCOUNTS IN EXCHANGE FOR TAKING A RISK ON A NEW MANAGER AND ALSO SERVING AS A PARTNER BY MAKING FUNDRAISING INTRODUCTIONS TO OTHER POTENTIAL INVESTORS.



64% OF MANAGERS

HAD AN ANCHOR INVESTOR
WHEN THEY LAUNCHED

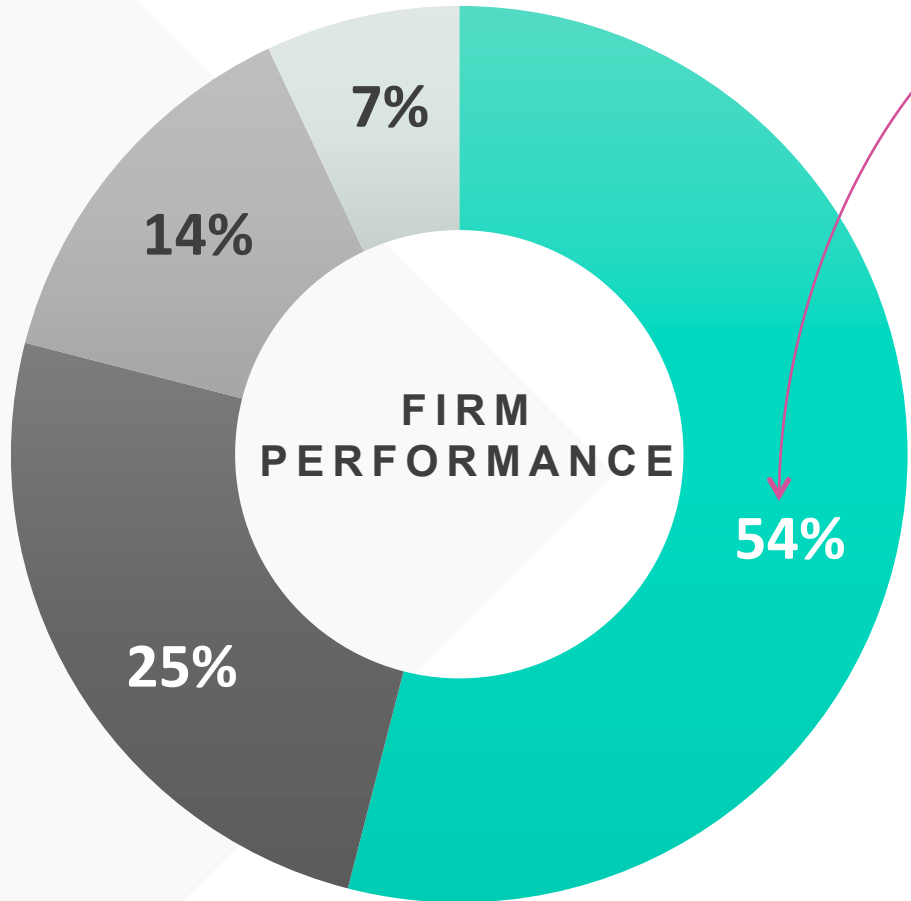
MAJORITY SOURCED

THEIR ANCHOR INVESTOR
THROUGH NETWORK, FAMILY
OR FORMER EMPLOYER

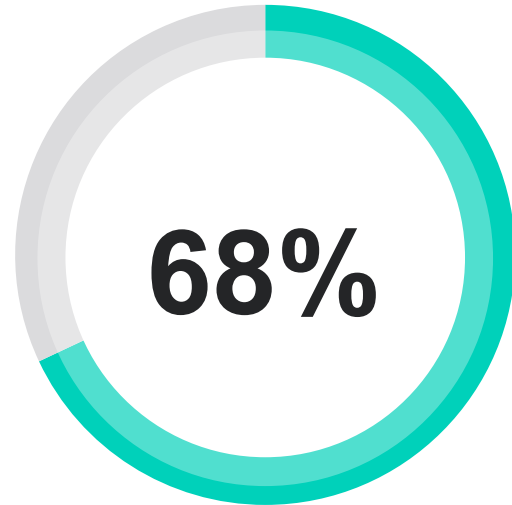
<10% SOURCED

ANCHOR INVESTOR
THROUGH COLD OUTREACH

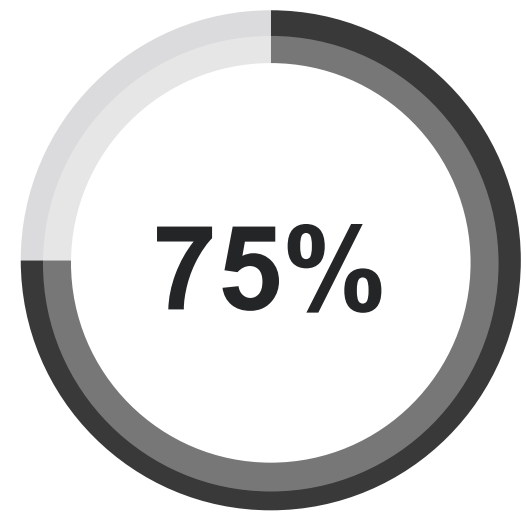
3. PERFORMANCE



Majority of firms outperformed traditional benchmarks



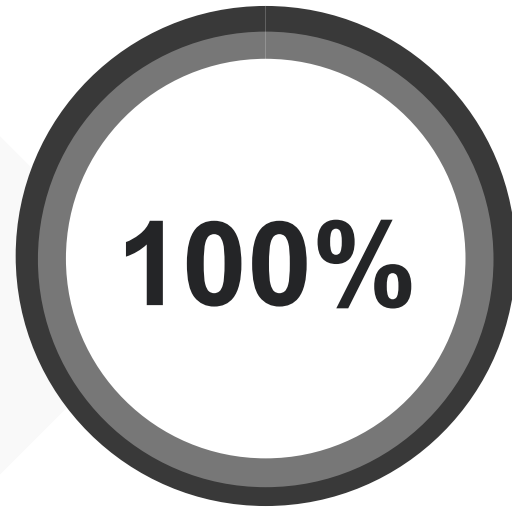
OFFERED FEE DISCOUNTS



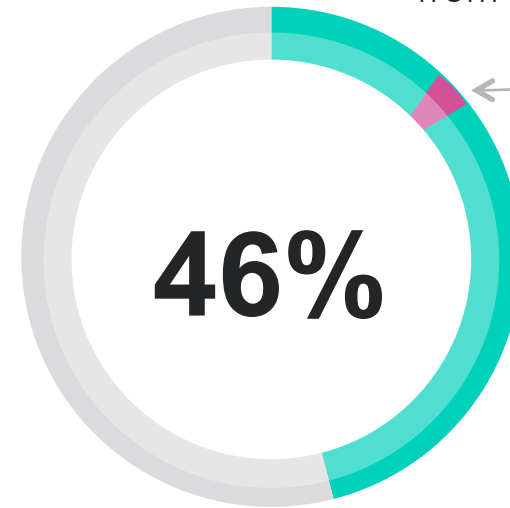
WAIVED MINIMUM INVESTMENT REQUIREMENTS

- OUTPERFORMED
- TOO EARLY
- UNDERPERFORMED
- SIMILAR

4. TEAM



**BACKGROUND IN TYPE
OF FIRM THEY MANAGE**



Only 5% with diverse management team utilized diversity allocations from Institutional Investors.

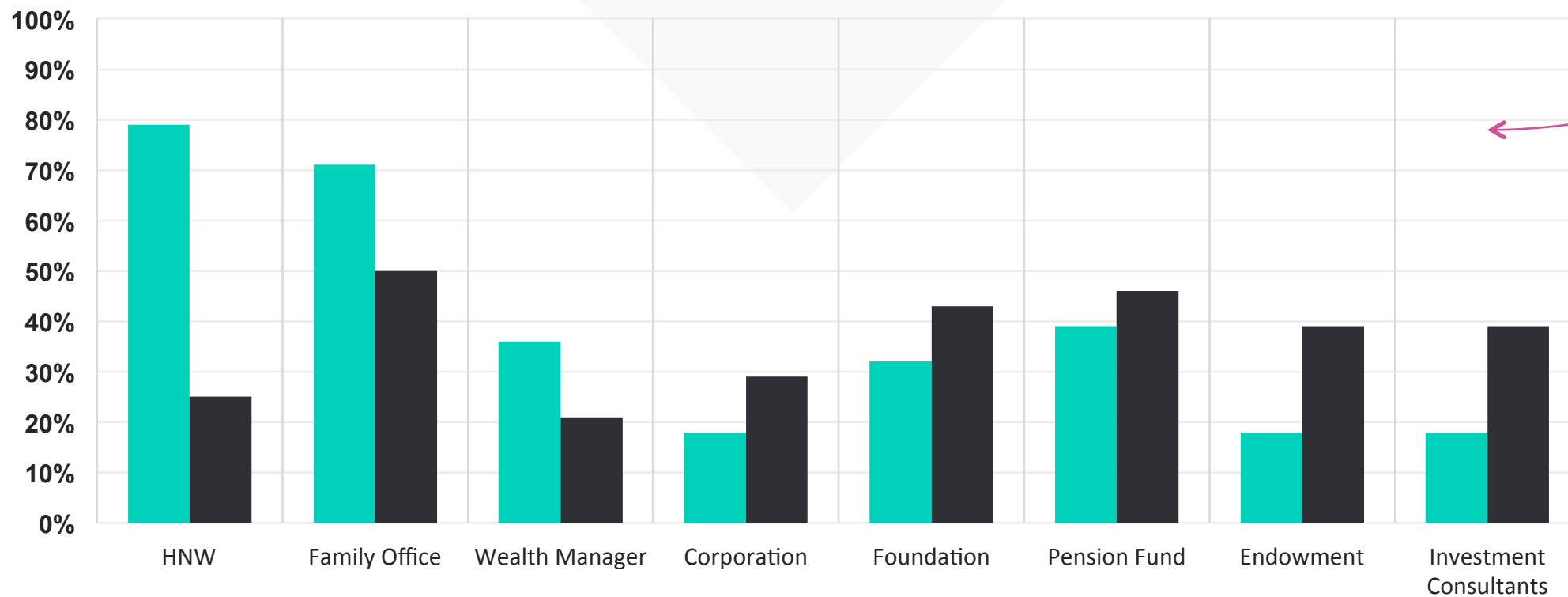
DIVERSE MANAGEMENT TEAM
I.E. MINORITY OR WOMEN ON THE MANAGEMENT TEAM

5. INSTITUTIONAL FUNDRAISING

HNW AND FAMILY OFFICES REPRESENTED THE HIGHEST PERCENTAGE OF INVESTORS IN THE FUNDS MANAGED.

FAMILY OFFICES RANKED THE MOST DIFFICULT TO REACH FOLLOWED CLOSELY BY PENSION FUNDS AND FOUNDATIONS.

Majority reached investors through network or client referrals.



6. FUNDRAISING HURDLES



TRACK
RECORD



FUND SIZE

LACK OF TRACK RECORD AND FUND SIZE
WERE BIGGEST BARRIERS TO INVESTMENT



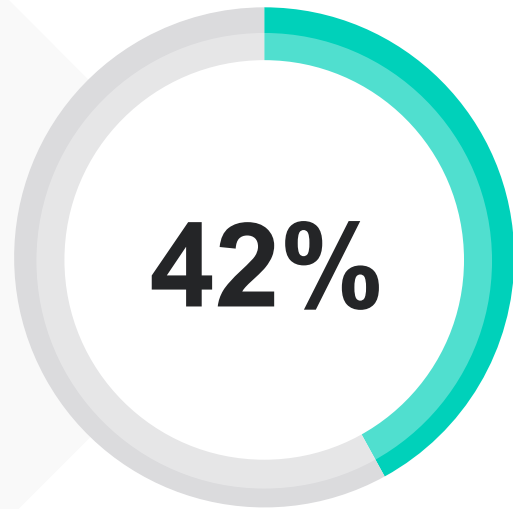
<5% SUCCESS

1 - 5% OF INVESTOR PITCHES
WERE SUCCESSFUL

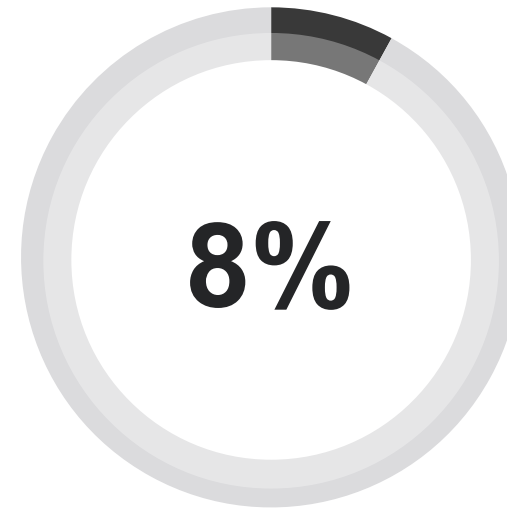
MAJORITY PITCHING >100
POTENTIAL INVESTORS

7. INVESTMENT CONSULTANTS

42% OF MANAGERS ENTERED THEIR DATA INTO CONSULTANT DATABASES. ONLY 8% PARTICIPATED IN EMERGING MANAGER PROGRAMS OFFERED BY INSTITUTIONS. ALTHOUGH THESE CAN BE HELPFUL RESOURCES, THEY WERE UNKNOWN TO THE MAJORITY OF MANAGERS.



**ENTERED DATA INTO
CONSULTANT DATABASES**

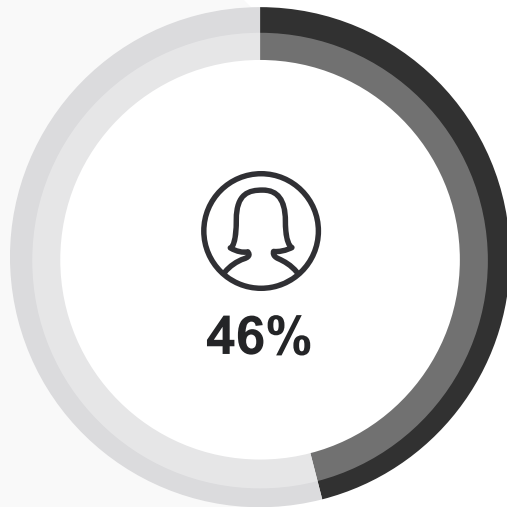


**PARTICIPATED IN
EMERGING MANAGERS
PROGRAM**

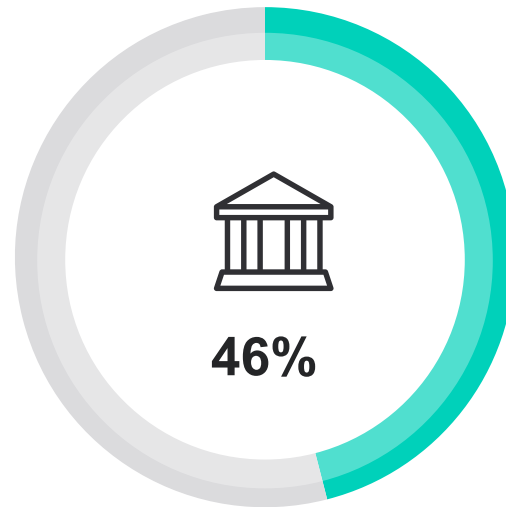
8. FUNDRAISING HELP

LESS THAN HALF OF FIRMS SURVEYED HAD IN HOUSE OR OUTSOURCED HELP FOR MARKETING AND FUNDRAISING.

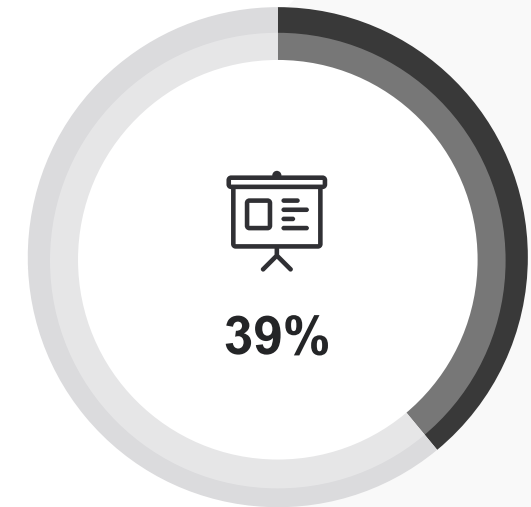
TYPICALLY ONE OF THE FOUNDING TEAM MEMBERS SPEARHEADS THIS COMPONENT ALTHOUGH OFTEN THEY HAVE NO BACKGROUND IN MARKETING OR FUNDRAISING.



**HIRED IN HOUSE
FUNDRAISING**



**UTILIZE PRIME
BROKERAGE SERVICES**



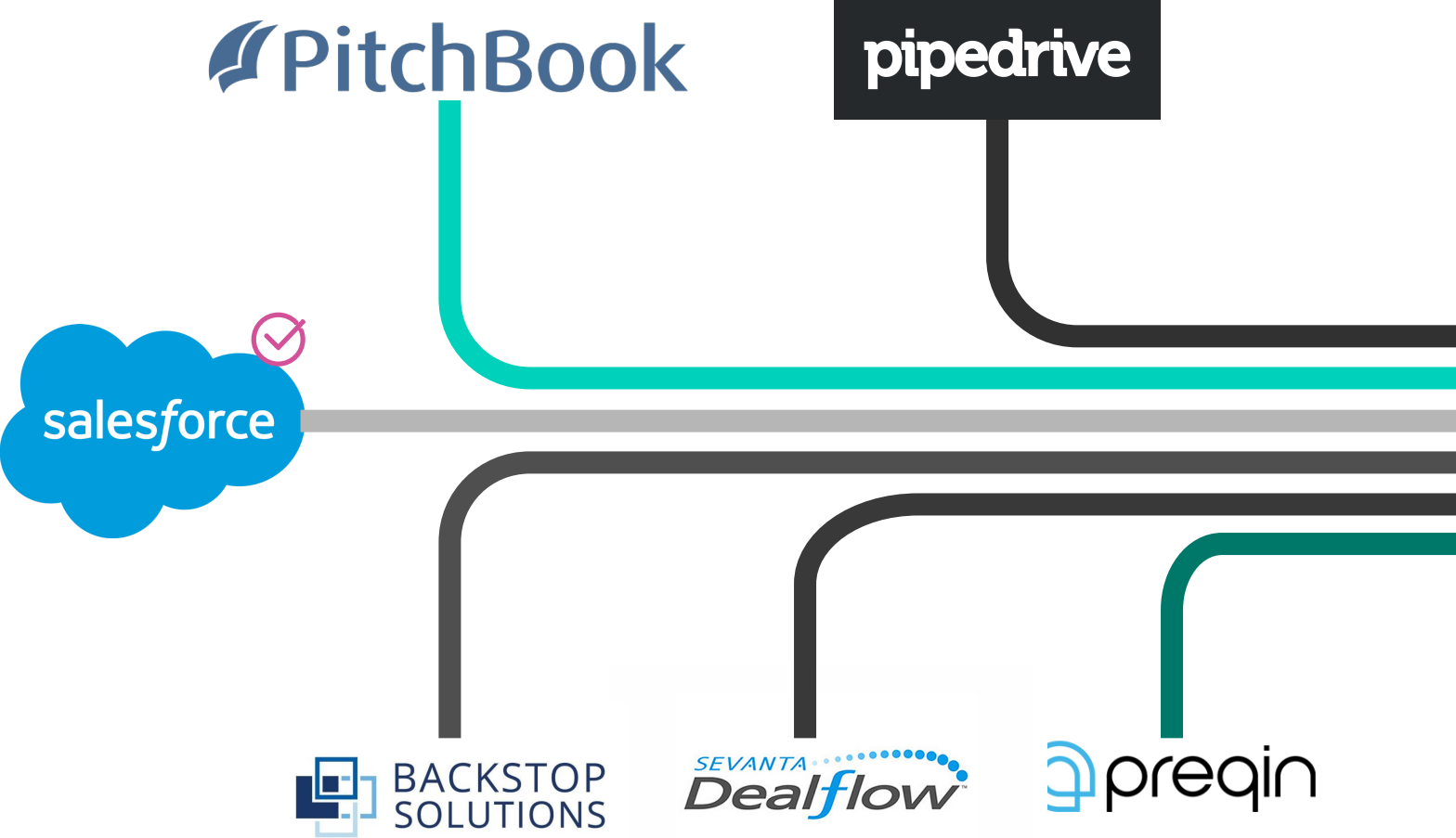
**THIRD PARTY
MARKETING FIRM**

9. SOFTWARE TOOLS

6/10 FIRMS

USE SOFTWARE TOOLS
FOR MARKETING &
FUNDRAISING EFFORTS

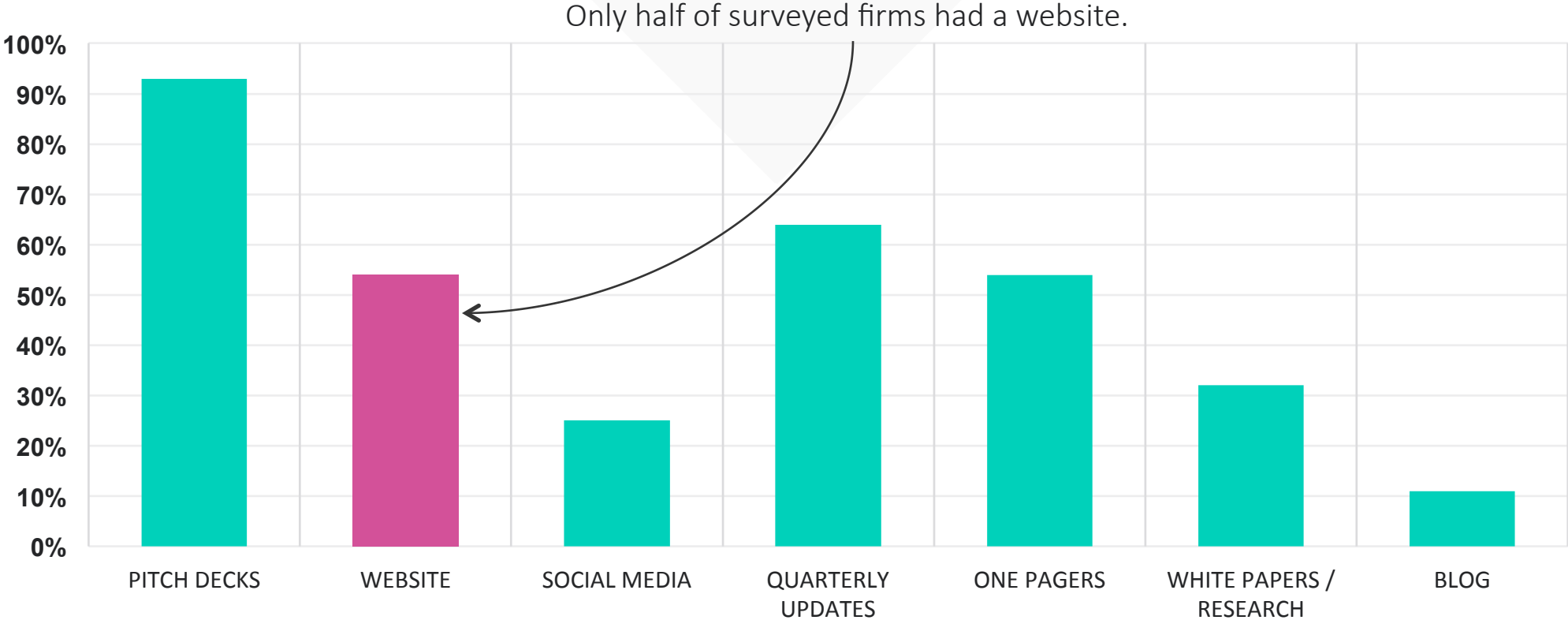
SALESFORCE IS MOST POPULAR



10. MARKETING TOOLS

DESPITE A LOOSENING OF RESTRICTIONS ON MARKETING POST REGULATION D, EMERGING MANAGERS ARE TIMID WHEN IT COMES TO ADOPTING NEW MARKETING TOOLS.

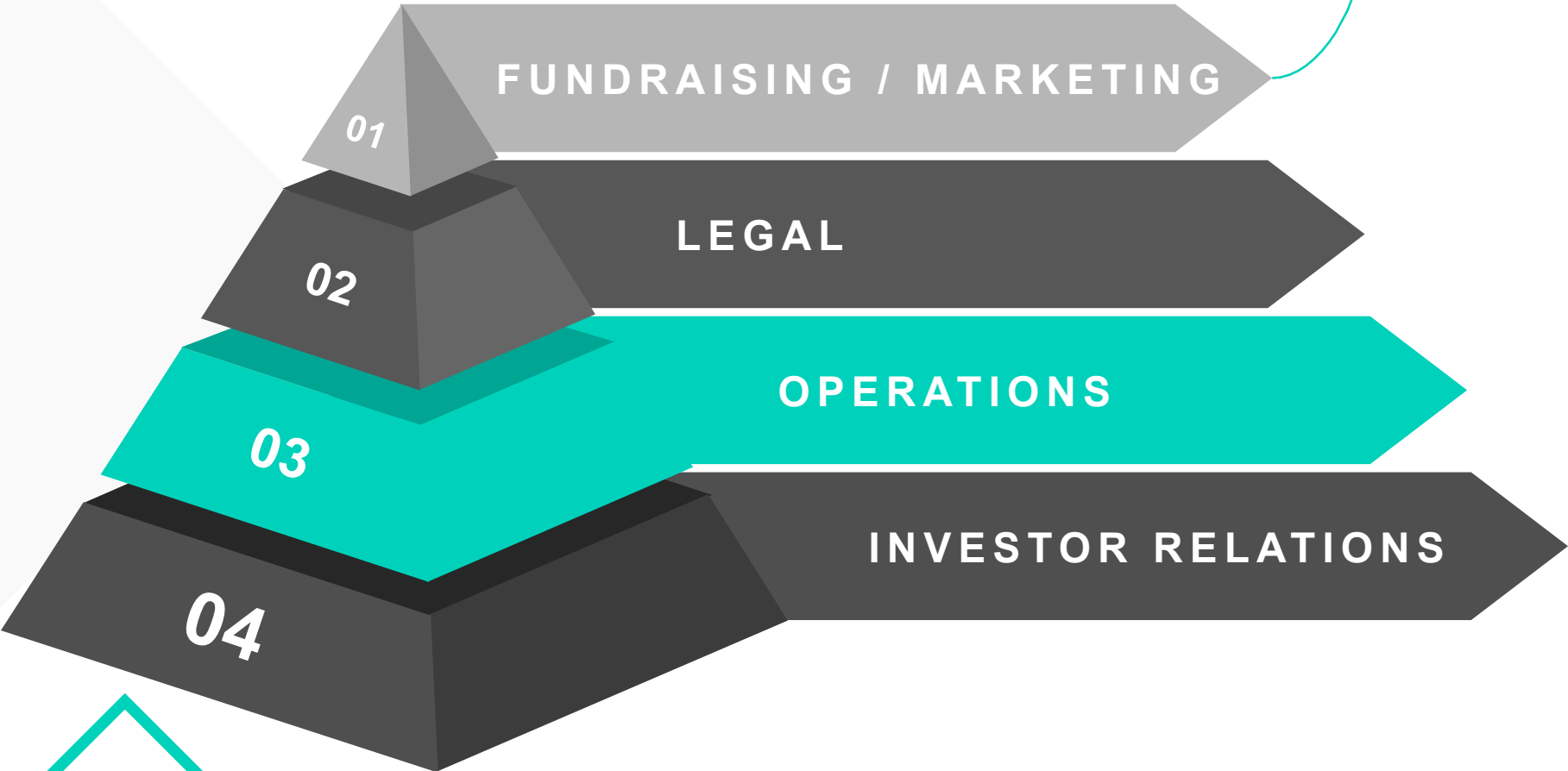
THE THREE MOST POPULAR MARKETING TOOLS USED WERE PITCH DECKS, QUARTERLY UPDATES AND ONE-PAGERS.



11. CHALLENGES TO FIRM

WITH FOUNDING TEAMS USUALLY HAVING BACKGROUNDS ON THE INVESTMENT SIDE—
THE OTHER COMPONENTS OF MANAGING A FIRM PROVE TO BE THE BIGGEST
CHALLENGES

64% rated as #1 concern



12. CONCLUSION

Our research with managers found a lack of information around fundraising processes led to failure. Although many of the funds present compelling performance, and backgrounds in their given strategy, the majority struggled to raise capital.

There is a huge desire for clarity and structure in the fundraising process. Managers were eager to learn how they can improve their process to align with what Institutional Investors are seeking.

Part Two of this research focuses on the Investor component and hopes to provide clarity for managers seeking to raise Institutional assets.

13. THE TEAM



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 BECAME A COMPUTER PROGRAMMER IN 2014 AND HAS SINCE WORKED WITH SEVERAL NICHE INVESTMENT FIRMS INTEGRATING TECHNOLOGY INTO THEIR PLATFORM.



DEAGLAN MCEACHERN HAS SIX YEARS EXPERIENCE LEADING FINANCIAL TECHNOLOGY SALES FORCES. HE SPECIALIZES IN ENTERPRISE SOFTWARE DISTRIBUTION IN THE INSTITUTIONAL AND RETAIL SPACE. PRIOR TO HIS TIME IN FINTECH, DEAGLAN WORKED IN CORPORATE DEVELOPMENT IN THE NATURAL GAS SECTOR WHILE ALSO SERVING AS A MEMBER OF THE UNITED STATES ROWING TEAM. DEAGLAN JOINED TIERNAN CONSULTING THIS YEAR TO UTILIZE HIS BACKGROUND IN SELLING TO FINANCIAL ADVISORS TO HELP MANAGERS DEVELOP RETAIL PRODUCTS.

