LAUNCHING A HEDGE FUND: HOW EMERGING MANAGERS CAN THRIVE IN THEIR CAPITAL RAISING EFFORTS

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ALTERNATIVE FUNDS HAVE FACED A UNIQUE SET OF CHALLENGES SINCE THE ONSET OF THE COVID-19 PANDEMIC, BUT FEW HAVE BEEN MORE PREVALENT THAN CAPITAL RAISING - ESPECIALLY FOR EMERGING MANAGERS. IN THIS THOUGHT PIECE, WE EXPLORE THE FUNDAMENTAL CHANGES AND WAYS MANAGERS CAN THRIVE IN THEIR CAPITAL RAISING EFFORTS OVER THE NEXT 12 MONTHS.

Pandemic pushes allocators to stick with what they know

In 2020, the hedge fund community posted one of its best years for absolute and relative returns. This strong performance in combination with a drastic reduction of in-person meetings has led many capital allocators to adopt a "safe harbor" approach, maintaining steady or increased allocations to existing managers. The hesitancy to consider new funds for their portfolio - particularly emerging managers or unproven investment strategies- is driven in part by the heavy weight placed on traditional face-to-face meetings with prospective managers. The lack of conferences and limitations on travel, which strongly curtail opportunities for in-person due diligence meetings, have also made it problematic for emerging managers to simply access investors.

As a result, many allocators now have overweight exposure to existing managers and large platforms- imbalances which can potentially impact their diversification profiles and hinder the number of distinct alpha streams within their alternatives portfolios.

From the fund perspective, some established managers and platforms are benefiting from the disrupted capital-raising process. On the other hand, funds with a launch on the horizon are being challenged by longer raise cycles. Raising capital has always been an uphill climb and, unfortunately, doing so during a pandemic is the same climb at a higher altitude.

Here to stay: New digital platforms and communication mediums

The market has adopted new technologies and communication tools which will continue to be part of the capital introduction process as we emerge from the pandemic. As industry participants look to maintain efficiency gains and manage the uneven path toward a resumption of office work, expect these pandemic-inspired developments to endure:

- *Digital Platforms* – Several prime brokers and third-party marketing firms have set up digital platforms to connect funds and allocators, creating "digital clearinghouses."

- *Video Communications* – Virtual meetings are the norm, particularly for international funds and US-based allocators who cannot travel due to lengthy quarantine requirements. Virtual meeting fatigue is as real as in-person meeting fatigue, one must tread carefully.

Five ways managers can thrive over the next 12 months

To successfully navigate the transformed capital-raising process, managers would be well served by a renewed focus on the following five areas:

Scale or fail – Delaying launch shows a lack of confidence, launch with the capital you have, start building a track record, and then speak with allocators. First year costs for a typical long/short fund are $1MM, primarily earmarked for salaries to assemble a core team that balances investment, operational, and marketing expertise. The remainder used for outsourced partners and technology. Be ruthless in deciding what is needed, as opposed to desired, to build a great foundation through strategic planning, budgeting, capital raising, and legal considerations.

High-quality deck and pitch – Allocators are inundated with marketing decks. Help them cut through the noise with a succinct deck that clearly articulates the strategy through carefully considered design and written content. The pitch should be honed to suit the strategy and target allocator. To generate the greatest impact, dedicate more of the pitch to the story and less to the deck review.

Strategic networking – By working early and often to build strong relationships with the right allocators, managers can draw on a foundation of trust at appropriate times during the fundraising cycle.

Thoughtful social media efforts – Managers can make the most of the current communications landscape by using social media to connect with allocators via LinkedIn, Twitter, and other platforms. The positive effect of staying in front of key contacts when in-person meetings aren't an option is further boosted by sharing, commenting on, or otherwise engaging with the connection's relevant content.

Leveraging valuable advisors – By tapping into a select group of experts and advisors, such as third-party marketing firms, prime brokers, CIOs at friendly funds, and former buyside executives-funds can learn how to best position their offering under the current landscape.

How Meraki Global Advisors can help

As a value-added service to our outsourced trading clients, we help managers create a strategic marketing strategy and increase their firm's awareness among a unique set of investors and allocators. Our experienced team provides start-up advisory services, identifies actionable ways to improve decks and pitches, and creates prospective allocator lists for select introductions. Our services are suited for a diverse range of clients, extending from traditional long-short emerging managers in the very early stages to managers running a multi-strategy platform and existing multi-billion-dollar funds trading globally across asset classes.

As the premier global multi-asset outsourced trading firm, we take pride in putting our clients' interests first. Built on a foundation of confidentiality, our unique conflict-free model empowers funds to garner optimal access to liquidity.

To learn more about Meraki Global Advisors' outsourced trading capabilities and capital introduction services, visit our website www.merakiglobaladvisors.com or email info@merakiglobaladvisors.com.

About Meraki Global Advisors

Meraki Global Advisors LLC is an outsourced trading firm headquartered in Park City, Utah. FINRA member and SEC registered.