COWEN

New Managers: Prepare to succeed

With more to consider than at any time in recent memory, how should a new manager prepare when launching their own product?

Andrew Rae-Moore Co-Head of Cowen Prime Brokerage Europe
provides guidance that will set emerging managers off on the right track

New managers: Prepare to succeed

Andrew Rae-Moore is Co-Head of Prime Brokerage Europe at Cowen Inc. Andrew has accumulated over 25 years of experience in financial services with a focus on the alternative asset management sector. Working for leading firms such as Fidelity, Morgan Stanley and now Cowen, Andrew has spent the last 20 years guiding and consulting with Hedge Fund Managers across Europe

New managers thinking of launching their own product have more to consider than at any time in recent memory. The alternative space is now highly complex, competitive, and increasingly expensive to enter. Raising start-up investment and launching a fund vehicle are just a few steps along the road.

Choosing a prime broker may not be top of a manager's priority list, but we can help with more than most managers realise. We have experience of launches from across a broad client base and can help prevent managers from making the mistakes we've seen before. As emerging managers start their journey, we can help them to ensure alignment with investors, compliance with the evolving regulatory landscape and advise on the things they must consider whilst running their own business.

The demands of different investors can vary significantly, and new managers can't cater to all of those needs. At the same time, they need a clear vision of where they are going.

So how should a new manager prepare?

> "Choosing a prime broker may not be top of a manager's priority list, but we can help with more than most managers realise"

Who is your target audience?

At the outset, managers must be able to articulate their strategy clearly and identify why they have the expertise, experience and team to implement it. They should investigate the investor bases, and regions, where their strategy is going to have the most appeal. Most hedge fund investors have restrictions on what they can invest in, such as the size of the fund, the percentage of the fund their investment can account for or the length of track record they need to see from the manager.

Managers must be aligned with their target investors from the beginning, including on fee structures. Certain investors will require more generous economic terms to invest at the earliest stages of a fund's development, with those terms changing as the fund raises assets and grows over time.

New funds must think about how much they are willing to yield to some of these demands, whether through fee discounts, guaranteed capacity or revenue shares. Managers should not simply opt for an arrangement that will get money through the door: it may end up being too expensive and disadvantageous for the business in the long term.

Do your homework

The reality for new managers who are raising money is that investors will always try to make comparisons with similar strategies.

They want to frame you in the context of the competition to establish what makes you unique. Managers can get ahead of the game by researching their competition, identifying the comparison points investors are likely to make and defining how their strategy is different.

Managers can access an abundance of data, commentary and insight from hedge fund journals, news sites and service providers, such as prime brokers, fund admins and lawyers. This will help them to understand what an investor is looking for in terms of the expected volatility of returns, the ticket sizes they will be able to sign off and the types of investors that are therefore suitable for their fund.

Managers must put the right structure in place from the start. Often a manager will be able to launch a fund because an individual institution has decided to support them with a cornerstone investment. Managers can't be all things to all people and so, defining your intended clients, often based on your first investors, is essential. This can tell managers whether they need, for example, a Ucits structure to house a liquid strategy aimed at European institutions, or a Cayman vehicle targeting US and global high-net-worth individuals.

Much of a manager's early success in raising money will depend on their track record. The ideal scenario is for a manager to present an audited track record from previous experience of running the same strategy. Investors will be sceptical of any new and unproven strategies. In these circumstances, managers could consider a business model where they first run a small amount of money to establish a documented track record. Running a pilot vehicle for family and friends would be a simple way to achieve this.

"Managers must be able to articulate their strategy clearly and identify why they have the expertise, experience and team to implement it."

"Managers should not simply opt for an arrangement that will get money through the door: it may end up being too expensive and disadvantageous for the business in the long term."

"Managers can get ahead of the game by researching their competition, identifying the comparison points investors are likely to make and defining how their strategy is different."

"Much of a manager's early success in raising money will depend on their track record."

Building for scale

As managers grow, they will obviously consider what changes they need to make to facilitate the development of their business. However, many of these arrangements need to be made at the start.

From an infrastructure perspective managers should try to tap into, at the early stages, service providers that give them a variable cost base. Managers should avoid large commitments that won't be economically viable until a certain asset level is achieved – outsourced solutions can circumvent fixed costs that burn through start-up capital. Fund platforms and regulatory hosting services, for example, are tried and tested routes into market with the benefit of small capital outlay at the start.

Over time this model is usually inverted to insource more services, for example paying for a portfolio management system licence, bringing legal work in house to a general counsel, or replacing an external compliance consultant with your own compliance team. Once a manager reaches a certain scale, fixed costs become a worthwhile one-time investment that will reap substantial benefits as asset grow.

Managers must get things right at the start and pave the way for success by ensuring their systems and service providers are scalable. Choosing an OMS or a fund administrator that cannot grow with a business and needs to be changed is unsettling for investors, who will question your judgement.

There are some elements where you can afford to be more flexible, such as using a serviced office until you have the headcount to require your own facilities. If you make changes in some areas, investors will be less forgiving.

> "From an infrastructure perspective managers should try to tap into, at the early stages, service providers that give them a variable cost base."

> "Managers must get things right at the start and pave the way for success by ensuring their systems and service providers are scalable."

How we can help

While new prime brokers can be engaged at any stage of your growth, the best will be there for the whole journey.

They will grow with you and advise you on how to evolve your business at each stage of your success. New managers choose to partner with Cowen Prime Brokerage as we offer a full service, multi-product solution spanning prime brokerage, execution, custody, clearing and settlement, from one central team that can resolve issues without delay.

Cowen's outsourced trading team can offer a partnership execution service covering global markets, acting as your eyes and ears over a fast moving 24-hour trading environment. Their expertise across equities, fixed income, derivatives and FX can become invaluable to a small portfolio management team implementing a new strategy. We also know the service providers that managers will need to help them develop their business models from launch through to managing many hundreds of millions.

> "While new prime brokers can be engaged at any stage of your growth, the best will be there for the whole journey."

At the earliest stages we can advise managers on the viability of their book, including stock lending and financing rates, and help them to help them to optimise margin. We can tell them which parts of their strategy will be harder to trade and provide an experienced view on the costs they will face and where they are most likely to be successful.

Preparation is key to the journey. We can provide managers with the advice and support that they need to set up and grow a business that can adapt for and embrace success in the long-term.

"Preparation is key to the journey. We can provide managers with the advice and support that they need to set up and grow a business that can adapt for and embrace success in the long-term."

9 KEYS TO A SUCCESSFUL HEDGE FUND LAUNCH:

1. Strategic alignment with investors
2. Prepare for fee structure discussions
3. Know your market position
4. Know how you can win over your audience
5. Put the right structure in place
6. Demonstrate a strong track record
7. Build the business to scale
8. Know when it's time to change the model
9. Get the right support early on

COWEN

PRIME BROKERAGE

9 KEYS TO A SUCCESSFUL HEDGE FUND LAUNCH

New Managers: Prepare to succeed

New managers have a lot to think about when launching a hedge fund. With more to consider than at any time in recent memory, how should a new manager prepare when launching their own product?

Know your audience
Managers must be aligned with target investors from the very beginning and understand where their strategy is going to have the most appeal

Do your homework
Investors will always try to make comparisons with similar strategies, managers can get ahead of the game by researching and preparing

Building for scale
Managers need to consider what infrastructure they need to facilitate the development and growth of their business from the outset

Choosing a prime broker
The right prime broker can guide you through the entire journey, advise you on how to evolve your business at each stage of your success

Setting you off on the right course

1 THE IMPORTANCE OF STRATEGIC ALIGNMENT
- New managers can't cater to the demands of every investor, most investors have requirements and restrictions on what they can invest in
- Managers need to articulate a clear strategy and identify the investor bases where the strategy is going to have most appeal

2 PREPARE FOR FEE STRUCTURE DISCUSSIONS
- New funds must think about how much they are willing to yield in terms of fee structures
- Investors may require more generous economic terms early on, changing as the fund grows
- Be wary of simply getting money through the door that could be too expensive in the long term

3 KNOW YOUR MARKET POSITION
- Investors will make comparisons with similar strategies to frame managers in the context of the competition
- Managers should research their competition, identify the comparison points investors are likely to make and define how they are different

4 KNOW HOW YOU CAN WIN OVER YOUR AUDIENCE
- Understand what an investor is looking for and the types that may be suitable for your fund
- Leverage the abundance of data, commentary and insight from hedge fund journals, news sites and service providers, such as prime brokers, fund admins and lawyers

5 PUT THE RIGHT STRUCTURE IN PLACE
- Managers must put the right structure in place from the start
- Defining your intended clients, often based on your first investors, is essential
- This can tell managers what structure makes sense for the business

6 DEMONSTRATE A STRONG TRACK RECORD
- Much of a manager's early success in raising money will depend on track record
- Present an audited track record from previous experience of running the same strategy
- Otherwise consider first running a small amount of money to establish a documented track record

7 BUILD THE BUSINESS TO SCALE
- Prepare for growth right form the start, changing providers can be unsettling for investors
- At the early stages, tap into systems and service providers with variable cost and scalable offerings
- Outsourced solutions can circumvent fixed costs that burn through start-up capital

8 KNOW WHEN IT'S TIME TO CHANGE THE MODEL
- Over time the model should be inverted to insource more services and bring capabilities into the business
- Once a manager reaches a certain scale, fixed costs become a worthwhile one-time investment that can reap substantial benefits as asset grow

9 GETTING THE RIGHT SUPPORT EARLY ON
- Engage the right prime broker as soon as possible
- Leverage the services and expertise available to develop your business model from launch through to managing many hundreds of millions
- Get experienced guidance on every aspect of your strategy and at every decision point

Preparing for long term success

New managers choose to partner with Cowen Prime Brokerage as we offer a full service, multi-product solution spanning prime brokerage, execution, custody, clearing and settlement, from one central team that can resolve issues without delay. We also know the service providers that managers will need to help them to set up and grow a business that can adapt for and embrace success in the long-term.

COWEN

E: COWENPRIMEBROKERAGE@COWEN.COM

COWEN.COM COWEN COWENRESEARCH in COWEN

COWEN INTERNATIONAL LIMITED