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The HEDGE FUND BOOK

A Training Manual for Professionals
and Capital-Raising Executives

Richard C. Wilson



The Hedge Fund Book

*A Training Manual
for Professionals and
Capital-Raising Executives*

RICHARD



WILSON



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Additional Praise for *The Hedge Fund Book*

“Those new to the hedge fund industry will benefit immensely from the chapter devoted to answering frequently asked question about hedge funds as well as the easy-to-understand explanations of all major areas of hedge funds throughout the book. Experienced hedge fund professionals reading this book will also gain valuable insight from other managers and service providers on current issues facing hedge funds. Whether you are looking to raise more capital, improve your fund’s operations and due diligence, launch a new hedge fund, or just learn more about hedge funds, this book is a must-read.”

—Theo O’Brien, Associate, Private Equity Investment Group

“Richard’s new book is a terrific testament to the knowledge that he and his team have of the hedge fund industry. From novice to expert hedgers, I recommend this training manual. Its information makes for a sharp, timely evaluation of where hedge funds are and where they are likely to be heading.”

—Thomas J. Powell, CEO, ELP Capital Advisers, Inc; Author, *Standing in the Rain: Understanding, Surviving and Thriving in the Worst Financial Storm since the Great Depression*.

“Richard Wilson is the best single source for practical answers on the hedge fund industry. For people new to the industry or considering launching their own fund, look no further. You’ll find it all here.”

—Richard Zahm, Portfolio Manager, Second Angel Fund I

“This book caters to hedge fund aspirants as well as finance professionals. Richard does a wonderful job of demystifying any misconceptions that the hedge fund industry faces today. Through a combination of interviews with industry professionals, a top down approach to both the basic and more complex nuances of running a hedge fund and colorful examples of the industry, Richard has been able to achieve what so many other hedge fund books aspire to. To capture the reader in both an enjoyable and informative book that will soon become a standard in the finance education industry.”

—Curtis Birchall, Longbow Capital, Inc.

“*The Hedge Fund Book* provides an “inside baseball” look at the hedge fund industry and should be required reading for someone looking to get into the business.”

—Scott Freund, Senior Family Wealth Advisor, GCC Family Wealth Management

“I wish this book had been around when we got started. This piece accelerates the ramping up period for hedge fund management company founders and executives. Most people think that to have a hedge fund all you need is a good trader and a Bloomberg terminal. They are shocked when they learn what it really takes to be successful. This book does a phenomenal job of explaining and exploring these keys to success.”

—Pratik Sharma, Hedge Fund Manager

“*The Hedge Fund Book* is one of the few books that specifically address the “business” of hedge funds. Make no mistake, running a hedge fund is a business just like any brick and mortar store that requires attention to operations, sales and marketing, compliance, etc. as well as investment returns. Now more than ever, institutional investors are placing an emphasis on back/middle office functions. *The Hedge Fund Book* offers practical insight and advice from seasoned professionals on these overlooked aspects of a hedge fund business.”

—Nakul Nayyar, U.S. Long/Short Hedge Fund Trader

“*The Hedge Fund Book: A Training Manual for Professional and Capital Raising Executives* by Richard Wilson is an excellent guide for established and developing hedge fund managers, and can be used as a point of reference in the administration of best practices of hedge funds and investor relations.”

—Valerie Emanuel, President, Valerie Emanuel & Associates

*This book is dedicated to my wife, Adriana Wilson, for being
a wonderful person and a constant balancing force in my life.
Despite my passion for business and marketing, the Brazilian
in her makes sure that on some level I work
to live and not live to work.*

Preface

This book was created as a training manual for professionals who work in the hedge fund industry or who would like to work more closely with hedge funds as clients or business partners. Over the past seven years I have read most of the hedge fund books that are available. There are great books on hedge fund investment strategies, the history of hedge funds, financial modeling, and risk management. I never could find a book, though, that provided unfiltered advice, insights, and hard lessons learned from hedge fund managers. This gap in the marketplace and the growing needs of our Certified Hedge Fund Professional (CHP) Designation program is what led to this book being created.

Within this book, I hope that every reader will learn:

- How hedge fund managers of any hedge fund may increase their operational effectiveness immediately.
- Why most hedge fund managers struggle to raise capital, and how being proactive within the right areas can allow a small team to raise a large amount of capital.
- How to implement governance best practices that will improve investor confidence, enhance decision-making processes, and decrease the risk of some types of fraud.
- How to emulate the best practices of \$1 billion-plus giant hedge funds that have learned many lessons the hard way.
- Why what you read about hedge funds in the general media is off-base 80 percent of the time.
- How to double the effectiveness of your capital-raising efforts by focusing on your unique process and positioning more than on your numbers.
- How small to medium-size hedge funds in the real world are improving their business structure and processes without spending millions on infrastructure.

The intended audience for this book includes CHP Designation participants, hedge fund managers, professors, traders, third-party marketers, students, service providers, investors, and consultants. The book provides

a fundamental understanding of how hedge funds operate at a high level, while also taking the reader down to very granular, real-world steps that hedge fund managers can take to improve how they manage risk, operate, select service providers, govern their own organization, and raise capital. This text should help readers shortcut the process of interviewing 30 hedge fund managers and veterans, by providing their advice, tips, strategies, and painful lessons learned here within one concise book. If you add up all the time of the managers and consultants who were involved within these interviews, the book contains over \$80,500 worth of advice yet costs less than \$75.

In addition to the chapters of the book that focus on niche subjects such as institutionalization, capital raising, governance, or best practices of \$1 billion-plus hedge funds, this book contains multimedia resources that should help the reader comprehend and absorb the advice provided herein. We have created over 50 video and audio resources, which you will see referenced through this book. These may be used to supplement university course lectures or sent to team members who may also want to learn more about hedge funds and how they operate. To access these resources, please visit HedgeFundTraining.com.

MY STORY

To provide some background as to why this book was written, here's a short explanation of how I entered the hedge fund industry. My first experience in working with hedge funds was in 2001 when I completed an internship for a currency/commodity-based hedge fund in Europe. I helped them complete leading-indicator trading research on the currencies and commodities of Japan, New Zealand, and Australia and analyzed the relationships between them.

After completing this work, I started learning more about marketing and sales and found myself drawn more to finding out how to raise capital and connect with investors. This led me to independently negotiate and sign contracts to raise capital for a boutique investment bank in New York and one of the early fund of hedge funds groups based out of South Africa. I helped them raise capital by identifying potential institutional investors, completing market research, and reaching out to investors.

After working within this area while also consulting within the area of risk management for three years, I took a position with a third-party marketing firm. This firm raised capital for three to five fund clients at a time, and I was in charge of completing the hands-on marketing of three clients: an \$80 billion long-only portfolio optimization firm, a \$30 million U.S. hedge

fund manager, and an \$800 million global macro hedge fund manager. This unique set of clients and my responsibilities of researching new potential investors, building organic investor databases, e-mailing investors, completing educational marketing, calling investors, working conferences, and creating marketing materials taught me a lot about how things should and should not be done. In this role I raised a depressing \$0 the first 11 months, and then started raising \$100,000 a week. Eventually, after 18 months, raising a minimum of \$1 million to \$3 million a week.

While marketing these funds, I found that due to the fragmented structure of the industry, most fund marketers simply follow their competitors' strategies. In addition, most have few resources to leverage, focus little on positioning, complete no capital-raising training, and ignore the power of writing strong copy and using educational approaches to marketing to investors. At the same time, my online networking association, the Hedge Fund Group, grew to over 30,000 members and my blog, HedgeFundBlogger.com, was taking off and quickly became the number one most widely visited web site on hedge funds.

I decided to fly solo and start my own firm in 2008. We now run three main product and service lines:

1. Our training programs such as the CHP Designation, Hedge Fund Startup Kit, and Hedge Fund Marketing Mechanics hedge funds
2. Our blog network on hedge funds, private equity, mutual funds, alternative investments and capital raising where we provide over 5,000 original articles, videos, and interviews
3. Our capital-raising tools and investor databases, which have now been used by over 1,600 fund managers and include HedgeFundDirectoryPro.com, HedgeFundInvestorDirectory.com, PrivateEquityDirectory.com, Investor Databases.com, and CapitalRaiserPro.com

Our firm and team are small but growing. We have a total of 25 full- and part-time employees and contractors now who help us offer and constantly update the CHP Designation, blogs, and these capital-raising tools.

DISCLOSURE OF FINANCIAL INTERESTS

In the spirit of transparency and full disclosure which I recommend within this text, I think it is only appropriate to disclose my own interests. I was only able to write this book based on my current relationships, consulting projects, capital-raising experience, and services that my firm offers. Because of this, there are overlaps between examples in this book and my own

clients and products. For example, I have asked my closest circle of 30 or so clients to review my book for feedback or a quote. Also, three out of the 25 professionals I interviewed within this book have used my consulting services in the past, and my firm has financial interests and/or ownership in the following web sites and resources mentioned within the rest of this book: CHP Designation (HedgeFundCertification.com), InvestorDatabases.com, HedgeFundInvestorDirectory.com, PrimeBrokerageGuide.com, ThirdPartyMarketing.com, HedgeFundBlogger.com, HedgeFundStartupGuru.com, ThirdPartyMarketing.com, HedgeFundsBook.com, HedgeFundPremium.com, and FamilyOfficesDatabase.com. My hope is that the over 250 hours of consulting advice and over 50 video modules within this book are worth far more than any distraction by the handful of mentions of the web sites or services that we provide.

Acknowledgments

Thank you to my father, Thomas Wilson, for pushing me to write my first “real book” based on the consulting, marketing, and writing I have already done. Thank you to my wife, Adriana, for patiently supporting me in everything we have been aiming to accomplish. Thank you to Jonathan King, who woke me up and spurred me to stop floating through business, to take control of where I was headed, and to work toward something greater than average.

Also, a quick thank-you to someone who is probably too busy to ever read this sentence: Jeffrey Gitomer. If it were not for the inspiration obtained through his writing, I would have never learned to kick my own or started a blog, newsletter, or book. My constant push to give away more writing and free educational materials can be attributed directly to Gitomer.

Above all else, thank you to the more than 900,000 professionals who have e-mailed our team, downloaded our free hedge fund blog book, completed our CHP Designation hedge fund training program, and used our capital, raising resources. Your support, loyalty, and feedback are what drove me to publish this text, and have been the source of ideas for every product and service we offer. Thank you for sharing your time and thoughts with me.

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Introduction

What if you sat down with 30 hedge fund veterans and picked their brains? What if you spent over \$80,000 hiring professionals with seven to 30 or more years of experience to provide you their insights on what is developing in the hedge fund industry, and what is important now?

This is the premise on which I constructed *The Hedge Fund Book: A Training Manual for Professionals and Capital-Raising Executives*.

This book is a discussion, a captured forum, not a dissertation, letter to Congress, or formal legal document. You will find less formality here than in most books, because that is how I am used to writing and transferring knowledge through speeches, e-mails, and blog posts. Some may appreciate this approach and form of communication; others will surely not.

The Hedge Fund Book: A Training Manual for Professionals and Capital-Raising Executives will provide many benefits to those seeking to understand and work in this field. Our team at the Hedge Fund Group has raised millions of dollars of capital for hedge funds and personally worked with over 1,000 fund managers over the past several years. In the past we have freely shared our knowledge through our blogs, which you may still access today. They include:

- HedgeFundBlogger.com
- HedgeFundsCareer.com
- ThirdPartyMarketing.com
- FamilyOfficesGroup.com
- HedgeFundStartupGuru.com
- CommoditiesAndFuturesGuide.com
- PrimeBrokerageGuide.com
- PrivateEquityBlogger.com

In addition to the more than 10,000 articles provided in these blogs, our free e-book has also been downloaded more than 100,000 times. These articles and resources were given away freely to develop relationships with those who found value in the resources.

In an effort to now make this book worth more than the retail price, we include many diverse types of educational resources including case studies,

examples, interviews, best practices, review questions, and video resources to help readers learn more about hedge funds. These interviews and videos were produced by hedge fund principals and consultants who normally either do not provide such advice or typically charge \$200 to \$475 per hour for their time. My hope is that the value of these additional resources alone will be worth more than what you paid to obtain this book. If you add up the 250-plus hours that went into putting this book together with all of the experienced professionals we interviewed, there is more than \$80,500 worth of advice contained in this text. Here are some more details on the different resources included in this text and how they operate:

- *Interviews.* Over 20 interviews complete this training manual for the hedge fund industry, including many of the full transcripts in this text. The advice comes directly from numerous veterans in the industry, so individual readers do not need to interview all of them directly.
- *Video resources.* We have also created a series of over 40 video resources which act as a supplement to this training manual. Throughout this book there are references to specific video resources, and the complete list of videos available may be seen at <http://HedgeFundTraining.com/Videos>.
- *Frequently asked questions.* Our team at the Hedge Fund Group has received and sent over 800,000 e-mails since our firm was started in 2007. We have received thousands of e-mails on capital raising, starting a hedge fund, institutionalization, and hedge fund careers. I have used about 40 of the most frequent of these questions to create Chapter 9 of this book. Some professionals may find this resource more valuable than the rest of the chapter-by-chapter instruction and interview content.
- *Why important.* Each chapter begins with a short section on why the chapter is critical to the health and growth of the hedge fund as a business. This provision guides the reader as to which chapters will be most relevant to his particular career or business.
- *Chapter review questions.* Each chapter concludes with several review questions for those professors and trainers who have agreed to use this manual as part of their university course. These will also be helpful for those who are completing the hedge fund training and certification program referred to in this text as the Certified Hedge Fund Professional (CHP) Designation Program (www.HedgeFundCertification.com).

I recently participated in a training session with Eben Pagan in Los Angeles at a marketing conference on how business is typically conducted. He told an interesting story. Eben spoke about how the streets in Boston are actually old cow paths that the city decided to just pave over to create the roads of the city. The result is a very complicated maze of one-way

streets that really only make sense to the most veteran cab drivers. This is not the cows' fault. They simply walked typically in the direction of least resistance. Nobody stepped back and looked at where the cows had wandered and asked if there was a better way to get the project done—they simply followed where cows had walked in the past.

Eben's point in telling this story was that in every business, every form of marketing, and even in the hedge fund business, there are cow paths everywhere. The question is whether you and your business are wandering around on the cow paths of what others have done in the past, or building a super highway straight toward your goal.

Areas to examine for hedge fund managers could include hiring, capital raising, employee management, performance reporting, transparency, governance, and investor relations. It helps to step back and look at competitors, other industries, and steps needed to complete the work we are trying to complete, to see if there is a more direct or efficient way of fully accomplishing it.



BONUS VIDEO MODULE

To watch a video on hedge fund cow paths, please type this URL into your Web browser: <http://HedgeFundTraining.com/Cow>