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WHAT MAKES A GOOD MARKETER AND WHY YOU NEED ONE

AN EXCLUSIVE INTERVIEW WITH HEDGE FUND EXECUTIVES

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DEAR COLLEAGUES,

My professional career has been dedicated to the success of marketing and investor relations functions within asset management. I spend a great deal of time and passion educating managers on the roles of marketing and investor relations, as well as creating a case for successful hires. During the course of my conversations with prospective clients, the most frequent question I receive is, **why should I invest in marketing hires?**

To get to the root of this question, I asked three industry leaders to provide commentary from their perspectives: a hedge fund manager, an allocator, and an asset management COO/marketer.

MICHAEL VRANOS, CEO and Founder of Ellington Management Group, a $6.5bln AUM hedge fund, spoke to me about how he thinks about his marketing team and their responsibilities. Having been in the game for over 20 years, and a widely regarded industry legend, he has seen the evolution and importance of marketing.

CHRIS CUTLER, Senior Hedge Fund Due Diligence Analyst, and Founder of Manager Analysis Services, spends a significant amount of his time speaking with marketers who solicit his allocation. His feedback on what resonates with him when he meets marketers is truly valuable.

ALEX DE CALICE, Founding Partner, COO, and Head of Marketing at Nara Capital, added his view on the challenges marketers face on the front lines. He is a top marketing professional and management executive who has built and managed marketing teams.

The major takeaways were clear; marketing is an essential part of an asset management organization, and the role is constantly evolving. All commentators agreed that it has become increasingly harder to attract assets, and therefore the bar for marketers has been raised.

I want to thank Michael, Chris, and Alex for their participation and for being incredibly generous with their time. I look forward to engaging in feedback!

MICHAEL VRANOS

CEO and Founder, Ellington Management Group

HOW DOES MARKETING IMPACT YOUR ORGANIZATION?

Marketing is a team effort that serves first and foremost as an engine for company growth. Importantly, marketing is an investigation of product demand which helps our managers develop and bundle customized strategies and provide solutions for clients who are seeking unique ways to access our core structured credit expertise. Lastly, marketing serves as the face of our company, showcasing the breadth and depth of our global talent and our culture.

HOW HAS MARKETING EVOLVED OVER THE PAST 20+ YEARS?

Twenty years ago marketing was a short-cycle endeavor that almost exclusively advertised a firm's ability to generate alpha, with very little consideration to portfolio risk and even less to infrastructure issues. Today, marketing begins a long-term partnership with a client, where the time leading to an initial investment can take at least a year or more. Alpha generation, risk management, research, and front-end systems and analytics, as well as back- and middle-office expertise are regarded with equal emphasis in the process of forming a long-term partnership.

WHAT DO YOU THINK MAKES A GOOD MARKETER?

A good marketer should deeply understand the product he or she is selling. Of equal importance, a good marketer should be relevant to his or her client by understanding the client's needs and responding to them in a way that provides solutions to their issues.

WHAT DO YOU LOOK FOR WHEN YOU HIRE MID- TO SENIOR-LEVEL SALESPEOPLE?

I look for dedicated buy-side salespeople who have experience selling the strategies we offer and the intellectual ability to properly convey the essence of our strategies. I care about what they have sold and the circumstances under which they've sold the product. A marketer who was able to raise a relatively modest amount of capital for a start-up or small fund may be interesting to our firm. Similarly inspiring is a marketer who has raised capital off-cycle or on the heels of poor performance.

WHEN YOU FIRST LAUNCHED YOUR FUND WITH HELP FROM THE ZIFF BROTHERS, DID THEY GIVE YOU ANY ADVICE ON HOW TO ATTRACT ASSETS, AND HOW DID YOU THINK ABOUT DOING SO ON AN ONGOING BASIS?

Ziff brothers were first and foremost astute investors who were not primarily in the business of raising money. When it came to marketing back then, I really didn't know what the hell I was doing. I jumped in the deep end and hoped for the best. As I mentioned earlier, marketing was a different process 20 years ago.

2

CHRIS CUTLER
Founder, Manager Analysis Services

HOW DID YOU GET INVOLVED WITH THE HEDGE FUND INDUSTRY?

My involvement in hedge funds started from a role I held at Deutsche Bank in assessing hedge fund managers. I was not happy with the diligence I saw in the markets at that time. So, I set out to found my own due diligence business in 2003. My clients appreciate my team's expertise and opinion, and my business is now expanding into selection of OCIO managers.

WHAT CHANGED IN THE EARLY 90'S THAT ENCOURAGED ALL OF THESE BIG HEDGE FUND LAUNCHES/EXPLOSION OF THE INDUSTRY?

It is hard to point to any one thing in the early 1990s that led to the explosion of hedge fund launches; although, Soros' $1 billion + profit on breaking the peg between the pound and the franc certainly demonstrated the capabilities of private pools of capital to make large profits in global macro. Pools of money dedicated to systematic trading were already around and showing excellent long-term returns with little correlation to markets. Wall Street's entrepreneurial spirit led to many talented analysts setting up their own businesses. Many of these shops produced excellent returns, and their marketing efforts certainly succeeded over time in spreading word of their successes.

At the same time, the early 1990s saw the rapid creation and expansion of prime brokerage businesses at large financial institutions. Moreover, evolution of margining rules away from simple Reg T requirements toward VAR-based margining systems, often using derivatives, allowed for less onerous practices around leverage. Better margining systems at banks also made hedge funds more acceptable as derivative counterparties. While it may sound awkward to us to think that banks would wholly avoid hedge funds as derivative counterparties, that was still happening at many institutions in the early 1990s.

HOW HAS MARKETING EVOLVED OVER THE PAST 20+ YEARS?

The characteristics of the hedge fund industry have changed radically over the last twenty years. In the 1990s, the growing availability of then-new trading platforms and computing power opened the door for hedge funds to trade against what we would now see as massive inefficiencies in markets. In the face of such opportunities, hedge funds faced a mostly skeptical set of institutional investors and family offices. This skepticism was often warranted. Industry-wide controls and transparency were poor; even the most talented managers were seen to have massive blowups. Fraud was also a problem.

Marketers actually had a big job twenty years ago, but the reality was that the quality marketing was often done either by the principals of hedge funds or not at all. Many hedge fund managers didn't understand marketing, because they believed the markets would find the best talent, which they presumed was themselves. That strategy worked with varying success.

Looking back at the marketing before the Great Recession requires a sense of humor. Some prominent managers had top-quality, intelligent, informed, insightful marketers. They reflected very on their organizations, demonstrating their culture, values, and diligence. Other hedge fund managers were not so thoughtful about their marketing approach and sent very junior marketers into the field to hunt for capital. While I judge myself quite strong at assessing hedge fund talent, the use of junior marketers for complex investment strategies always raised concerns in my eyes about the business culture of the manager.

WHAT IS THE CURRENT OPPORTUNITY SET FOR MARKETERS?

I would characterize the current opportunity set as being significantly more challenging post-2008. The hypervelocity of market information and the quantification of fundamental analysis have compressed the ability to create alpha in many strategies.

The investor universe has also become more sophisticated. Whereas alternative investor talent was scarce twenty years ago, now there are experts at assessing alternative investment strategies employed at most major allocators. Sending an inexperienced marketer to meet them would be like sending a high school football team to play against the New England Patriots. While I am sure the Patriots would be merciful, the outcome would be assured.

WHAT RESONATES WITH YOU WHEN YOU MEET A MARKETER, AND WHAT ADVICE DO YOU HAVE FOR HEDGE FUNDS AS THEY FORMULATE A MARKETING STRATEGY?

It is important to be thoughtful about your marketing strategy, as institutional investors are sophisticated. If you are not already a top manager by assets in your strategy, you will face an ongoing wave of compression and concentration of asset in the other top managers, alongside fee compression. That wave will make fundraising difficult for you and may leave you at the mercy of the smaller family office markets to grow your business.

Your marketers should be capable of many things. Marketers should understand all important aspects of the investment strategy and be able to discuss intricate details of your main investment ideas. I would encourage inviting marketers to join your investment meetings, so that they may gain a greater understanding of the investment process. Marketers should also understand your business, compensation practices, controls, transparency practices, risk management, and service providers. If they fall short on these topics, the institutional investor will have difficulty with the idea that your firm will be able to be forthcoming with questions in the future, particularly in a crisis environment, or that you have the proper risk and business infrastructure in place.

You should be realistic about what your marketers can accomplish. Hedge fund institutional investors offer complex challenges. It is best to understand those challenges first, align them with your business, include your ideal marketer in that framework, and look carefully for that marketer.

3

ALEX DE CALICE
Founding Partner, COO, and Head of Marketing at Nara Capital

HOW DO YOU PERCEIVE THE ROLE OF MARKETING/SALES?

I view the marketing/sales function as an extension of the investment and senior management teams. The goal is to represent the firm's vision and value proposition as the founders would, and to present a credible understanding of the strategy, risks and short- and long-term objectives. While traits like tenacity, hustle, resourcefulness and good judgment should still be rewarded, the role is less about turning over every rock to become "discovered." Today's institutional investors have ample resources to source, research, and compare fund offerings. This market demands that marketers and their firms present an institutional-quality product to this audience of known investors, consultants, and advisors. A good marketer should have existing relationships with "gate-keepers," as well as underlying decision makers (or the ability and desire to develop them), and be capable of managing a professional, diligent, and organized process of contact and follow-up.

HOW DO YOU APPROACH POSITIONING YOUR FIRM?

I strongly believe in positioning a firm by offering a first rate, institutional-quality investor experience from inception. It's been my experience that strong risk-adjusted returns alone are an essential, but incomplete, component of marketing a successful and scalable firm/brand. Investors should be easily convinced that the same level of skill, attention, and resources devoted to achieving the stated return targets have been applied throughout all other business functions as well, including technology, risk management, operations, compliance, accounting, etc. It should be an objective of the firm to pass all non-investment related diligence reviews with flying colors so that the only decision investors need to make is whether the investment strategy and risk profile is consistent with their portfolio allocation needs.

Regarding investment strategy, it's important to understand what alternatives are available and to be knowledgeable about what differentiates them. This is particularly important with respect to a niche strategy like Nara's because investors may attempt to bucket the firm with other, generic "structured credit" strategies. The marketer should be able to assist in educating investors on the differences and strengths of Nara Capital's strategy and objectives as compared to alternatives.

WHAT ARE THE BIGGEST CHALLENGES A MARKETER FACES?

Marketers face many challenges, both externally in the marketplace and internally within their organizations.

Externally
Investment allocation across the board has slowed considerably. Hedge funds as an asset class remain under immense pressure, as this historically long equity bull market continues to grind higher. Performance, on an absolute basis,

has been unattractive relative to the high fees charged, leading to negative press coverage and large, well-regarded institutional allocators simply exiting the class. That said, there have been bright spots and cause for optimism of late, particularly as it relates to non-equity, harder to replicate strategies. New launches continue to generate interest, and relative performance should improve as conditions for active managers stabilize.

One of a marketer's biggest challenges is remaining engaged with potential investors despite the extended sales cycle. Simply getting the attention of allocators has become more challenging, given increased competition and other factors. It's at this point that a marketer's ability to develop strong, personal relationships can become a big differentiator.

Other challenges include regulatory constraints, particularly in Europe, an increasing focus on customized solutions, tedious RFP & DDQ requirements from institutional consultants and more.

Internally
The availability of senior firm personnel for investment and operational diligence meetings is essential. Even the impression or perception of availability can go a long way with investors. The idea that a firm views its relationship with investors as true partnerships, and presents all resources available to them as needed, can be a huge differentiator. If senior leadership doesn't share this view and is reluctant to make personnel available to investors, it can be a significant challenge for the marketer.

Expectation management is also an internal challenge faced by marketers. In nearly all cases, it is impossible to forecast with confidence the certainty, timing, or amount of new inflows or mandates. There needs to be a clear understanding between senior management and the marketer with regard to the rigor and soundness of the marketing process itself, along with the expectation of certain outcomes. The sales cycle has extended, and firms should be committed to the "long game," with respect to developing relationships and securing capital.

HOW DOES A MARKETER DIFFERENTIATE THEIR FIRM?

I believe this starts at the very top of an organization and filters down to all employees. Investors can feel the organizational differences between firms that care about developing a partnership-type relationship with investors and firms who don't.

First and foremost, attention to detail is paramount – from investment strategy and execution to risk management, compliance, operations, accounting, tax-statement preparation, etc. The conversation should always be about why the investment strategy is compelling and how it can be a solution for an investor's portfolio, and never about anything else. The goal is to make it as easy as possible for an investor to say "YES" and to recommend the firm to their Investment Committee.

The next level is adding value on top of returns in the form of exceptional client service. This can mean many things, including: access to the investment team for general market or sector commentary, timely white papers to describe real-time opportunities or outlooks, hosting interesting and relevant events, attending and participating in industry conferences, charities and networking events, etc.

CAN YOU EXPLAIN THE RELEVANCE OF INVESTOR RELATIONS? WHAT IS THE DIFFERENCE BETWEEN MARKETING AND IR AND HOW DO THEY WORK TOGETHER?

In the spirit of it being easier to retain $1 than to raise $1, I view investor relations as hugely important and relevant. In terms of depth of knowledge and the ability to address an investor's questions or concerns, the roles are one and the same. Marketing should be focused on proactively developing new relationships, building an active pipeline, and traveling to industry events and/or to see investors in their offices. Whereas, investor relations is likely more focused on servicing existing investors and remaining at the office to handle day-to-day investor emergencies and on-site visits (should the marketer be traveling or unavailable, etc.). I also view administrative issues to be the responsibility of investor relations, such as overseeing the fund administrator and ensuring subscription documents, wires, and statements are accurate, delivered correctly and on time, etc.

ABOUT THE PARTICIPANTS

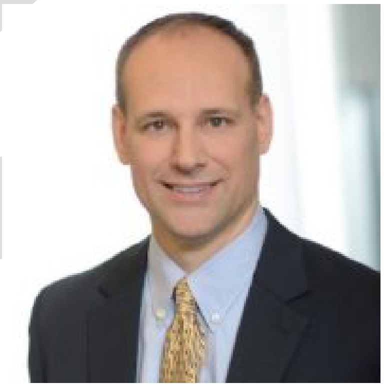
MICHAEL VRANOS
Founder, CEO at Ellington Management Group

Mr. Vranos is the founder and Chief Executive Officer of Ellington. Mr. Vranos founded Ellington in December of 1994 to capitalize on distressed conditions in the MBS derivatives market. Until December 1994, Mr. Vranos was the Senior Managing Director of Kidder Peabody in charge of RMBS trading. With Mr. Vranos as head trader and senior manager, Kidder Peabody's MBS department became a leader on Wall Street in CMO underwriting for each of the three years between 1991 and 1993. Mr. Vranos began his Wall Street career in 1983, after graduating magna cum laude and Phi Beta Kappa with a Bachelor of Arts in Mathematics from Harvard University.

ELLINGTON MANAGEMENT GROUP
More than twenty years since the firm's founding, Ellington's core competencies include deep expertise in diversified credit, mortgage, and related markets, as well as in quantitative macro and equities strategies. Our credit investment capabilities include non-agency RMBS, CMBS, CLOs, other asset-backed securities, mortgage- and credit-related derivatives, credit relative value consumer loans, non-performing and re-performing mortgage loans, corporate debt, and equity securities, while our prepayment capabilities include agency and non-agency mortgage derivatives, agency pools, and other prepayment-sensitive instruments. In addition, we have also developed diverse quantitative macro capabilities, including use of systematic strategies to invest in global equities, futures, interest rate, options, synthetic credit, and foreign exchange markets.

2

CHRISTOPHER CUTLER
Founder, CFA at Manager Analysis Services [MAS]



Chris Cutler founded Manager Analysis Services, LLC in March 2003 to provide outsourced due diligence services on investment managers that advises on about $5 billion in assets. Prior to founding MAS, Mr. Cutler worked at Deutsche Bank from 1994 for 2003. He managed risk for specialized fixed income derivatives products, marketed OTC interest rate derivatives, and developed structured financial products. Mr. Cutler was as an economist and bank regulator at the Federal Reserve Bank of New York from 1988 to 1994. Mr. Cutler has an MBA in Finance from NYU's Stern School of Business Executive Program, a BA in Economics from the University of Chicago, and is a CFA Charterholder.

MANAGER ANALYSIS SERVICES
Manager Analysis Services, LLC [MAS] is an investment consulting firm. We advise institutional clients on all aspects of their investment process, while keeping discretion in the hands of the client. Analyzing hedge funds—the most difficult aspect of investment consulting—is our original foundation. Additionally, we offer OCIO search and selection advice for institutional investors, and also advise on investing in private equity, real estate partnerships, institutional agriculture, emerging markets, and traditional equity and fixed income strategies, with total assets under advisement of about $5 billion. Our team consists of senior portfolio management and due diligence veterans.

3

ALEX DE CALICE
President, COO at Nara Capital

Mr. de Calice is the President, COO, and Head of Marketing for Nara Capital Management. Mr. de Calice was formerly a Principal and Managing Director at Structured Portfolio Management, responsible for business development across the firm's $4 billion assets under management. Prior to joining SPM, Mr. de Calice was the Chief Operating Officer of Drake International and Managing Director at Drake Management LLC, a global multi-sector fixed income hedge fund, and was a key strategist in growing the firm from $2.4 billion to $6 billion. Mr. de Calice has an MBA in International Business and Financial Engineering from the University of Bristol. He is fluent in five languages.

NARA CAPITAL
Nara Capital is a fixed income relative value investment manager. The firm has particular expertise and specialized infrastructure developed for the purposes of investing capital and managing risk in residential and commercial mortgage-backed securities. The Firm's investment focus encompasses both prepayment sensitive securities, as well as structured credit. The strategy is low-levered, largely-non directional, and has a defining characteristic of a particularly high current carry component relative to anticipated mark-to-market variation.

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Alexis DuFresne is a senior recruitment consultant for the asset management community with a focus on front office roles. Her work spans across single mandated searches of all levels, to multi-hire organizational consulting and team build outs on behalf of managers seeking to boost their sales and client retention capabilities. Ms. DuFresne's background as a former hedge fund marketer provides her with a thorough and technical understanding of the space, increases her ability to connect with both clients and candidates, and allows her to leverage her deep network of allocators, marketers, and managers. Additionally, Ms. DuFresne is a committee member for Hedge Funds Care.

SCOTT PAGE

Founder, Managing Director

Scott Page is a founding partner of Solomon Page and has led the Financial Services Practice as Managing Director since the firm's inception in 1990. With over twenty years of experience in the executive search industry, Mr. Page is widely respected as a market leader in the recruitment of senior financial services professionals on a global basis across both developed and emerging markets. He has worked extensively with the senior management teams of major buy-side and sell-side institutions to define business opportunities and to attract talented professionals. Mr. Page has personally spearheaded the acquisition of individuals and teams of professionals in trading, sales, research, capital markets, and investment banking across fixed income, equities, and commodities.

SOLOMON PAGE

Founded in 1990, Solomon Page is a specialty provider of retained executive search, contingent staffing, and project based solutions. With more than 250 employees globally, we act as a strategic partner to our clients, enabling us to build long-term strategic relationships based on trust, respect, and the consistent delivery of excellent results. Led by founder Scott Page, the Financial Services Practice concentrates on both buy- and sell-side clients for investment and marketing roles, and has a 26-year track record of success. With offices in the United States and London, our professional consultants have decades of experience in the executive search industry, along with in-depth expertise in financial markets around the globe.

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