THE LONG VIEW

JOEL PRESS
on how to survive in today's market with the recurring question: to merge or not to merge?

"SOMETIMES IT COMES DOWN TO A CHOICE OF MERGE, GROW QUICKLY BUT GIVE UP PART OF YOUR BUSINESS, OR GO IT ALONE, TRUST IN YOURSELF AND HOPE YOUR HARD WORK PAYS OFF"

In many ways, much remains the same in the world of hedge fund management. It still requires personality, perseverance and an edge. But people are starting to recognise that the complexity of the regulatory environment and the volatility in the markets have made the ability to survive much more difficult. Regulation has made running a hedge fund business more expensive and, because the base cost of starting new funds has gone up dramatically, size, which helps spread the burden, has rarely mattered more.

Today, process is so important to investors. Even if you are small, you need strong controls and systems with regards to the portfolio, but also the back office, as small as it is, has to be as strong as any other.

Giving money to new, unknown managers, even with great reputations out of big firms, is not simple in today's world. The reason big firms are still getting bigger is because they meet the criteria of having the proper infrastructure, along with good performance for their strategy.

It is all about best practice. Meeting these expectations as a smaller manager, however, can be difficult, hence the appeal of mergers, partnerships and platforms.

This can be considered a Catch-22. You need to be able to have been up and running for three years or longer, yet it is difficult to survive that long without the capital injection. But smaller firms do survive. I know firms that have maintained modest assets for the best part of a decade and still gone on to become multi-billion dollar managers.

Besides, not everyone will be so keen to seek a partnership. The merger of small managers is very complex. If the style is similar, or too different, problems can arise. How do you go from making decisions on your own to sharing responsibilities? Who makes decision on asset allocation, risk and operations? Does a "no" vote by one partner trump the other?

Mergers are also about dealing with egos – in many ways the toughest aspect. Loyalty is more of a factor with smaller teams. There will always be redundancies. Who gets fired?

And then there is the investor base to consider. Once you merge, you have to allow your investors the opportunity to leave because you have changed the firm. The question is; will the investors buy into the new vision? Heavy marketing and intimate conversations will be required to make sure your investors are in agreement with what you are doing.

The keys to survival as I see it, then, are as follows: 1) you have to have a long-term outlook. Patience is key; 2) you have to make your investor base love you. There has got to be a lot of personal contact and great communication; 3) You need quality service providers. This is an area in which you cannot cut costs. Going outside the recognised names to save fees is going to hurt you; and 4) You have got to have a good infrastructure. Quality people are invaluable. Overall, it is about best practice – that is what it all boils down to.

Going it alone is possible, even in today's environment. Sometimes it comes down to a choice of merge, grow quickly but give up part of your business, or go it alone, trust in yourself and hope your hard work pays off. It is a very complicated decision process and it is centred on what you believe in, what you want, how you want it, and whether you feel able to share responsibilities.

At the end of the day, any decision a manager makes is the right decision for them. You have got to be comfortable with what you are doing and why you are doing it. No one should feel pressure to follow someone else's example just because it has worked for them. You think the grass is greener? It's probably not. And never do something out of fear.

If you operate with the aforementioned mind-set and keep advisors you trust – and who will give you honest advice – you will then make good decisions. But, more importantly, your organisation will do more than simply survive – it will grow. ■

JOEL PRESS is the founder of Press Management

THE WEEK IN QUOTES

"THE TALENT POOL OF PROFESSIONALS WITH EXPERIENCE AT SEEDER FUNDS AND EMERGING MANAGER FUNDS IS NOW ACCESSIBLE TO FAMILY OFFICES"

Recruits with experience at seeder funds and emerging managers are making family offices feel increasingly comfortable in these areas, says Joseph Reilly, president, Family Office Association

"WE EXPECT SMALLER FOHFS TO ATTRACT ASSETS IF THEY HAVE A NICHE STRATEGY, SUCH AS INVESTING IN EMERGING MANAGERS"

Smaller FoHF managers can survive on their own if they can offer something different, Ross Ellis of fund administrator SEI tells *HFMWeek*

"ESL INVESTMENTS NOTIFIED ITS PARTNERS IN APRIL THAT IT WAS RELOCATING TO MIAMI"

Eddie Lampert's ESL Investments, one of Greenwich, Connecticut's most famous hedge fund residents, has upped sticks, a company spokesperson revealed last week