FOCUS ON

MITIGATING RISKS

Andre Boreas of Intralinks talks to *HFMWeek* about identifying and mitigating risk in marketing and investor communication programmes

"THE COMPETITION FOR ASSETS HAS NEVER BEEN GREATER AND MARKETING, BUSINESS DEVELOPMENT AND IR TEAMS WILL NEED EVERY TOOL POSSIBLE TO BE ABLE TO COMPETE EFFECTIVELY"

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The term 'risk' in the investment management industry is almost universally associated with the investment process, with a plethora of definitions, opinions and interpretations. In its simplest form, risk really comes down to the probability of having some kind of negative outcome. What is less understood is the risk that exists not on the investment side, but which permeates across the organisation including the investor relations and marketing functions. By clearly identifying these risks, processes can then be implemented to avoid associated negative outcomes.

SECURITY RISK

Investor relations, marketing and business development by their very nature are centred around the dissemination of information to investors, both to clients and prospects. Therefore, the biggest risk faced by IR teams is having sensitive information fall into the wrong hands. Such information could encompass fund level information (portfolio positioning, holdings, strategy commentary) or client level information (capital account statements). As investors put more pressure on fund managers for transparency, the dissemination of investment and portfolio information becomes a slippery slope; how does an IR professional provide investors with the information they need while not compromising the investment process should strategy information get leaked out (or even worse, find its way to the press)? COOs, CFOs and CCOs need to have a solid understanding of their technology infrastructure, BYOD policies and compliance procedures for investor reporting. The advent of consumer-grade cloud sharing platforms has the potential to expose a firm to information leakage like never before, and should be closely scrutinised if being deployed within a firm.

"ONLY WHEN TECHNOLOGY, PROCESSES, AND PERSONNEL ARE FULLY UTILISED IN A COHESIVE FASHION CAN ASSET GROWTH EFFORTS BE MAXIMISED"

GOODWILL RISK

One way to mitigate security risk is to simply limit the amount of information provided to the investors and prospects. If information is not sent out, it can't fall into the wrong hands. However, this is certainly not where the industry is headed, with investors demanding more transparency and insight into their current (and potential) investments. The trust factor between manager and investor can be a fine line, with transparency providing a measure of equilibrium. By contrast, providing investors with limited investment insight, the consequences become obvious: lost mandates and dissatisfied investors.

EFFICIENCY RISK

In going back to our definition of risk as probability of having some kind of negative outcome, not having an efficient external communication process means you incur the risk of poor use of operating capital. It essentially boils down to not optimising technology and personnel. Managers need to identify and engage with prospects in a time-efficient manner so as to maximise their efforts. Having the correct insight into which processes work (and which do not) will be a critical measure of maximising efficiency and growing assets.

OPPORTUNITY RISK

Some risks are very apparent, others not so much. Opportunity risks across the corporate spectrum can be challenging to define and measure. Hedge fund managers should measure opportunity risk by missed allocation and mandate opportunities. This could result from a number of factors, including a lack of brand awareness, sub-par collateral, and inefficient processes. Managers should take a hard and candid look at where they are having success in raising assets and, more importantly, where they aren't, to identify the necessary steps to capture allocation opportunities when presented.

Managers would do well to review their current marketing programmes and assess their communications capabilities to identify and mitigate these risks. Only when technology, processes and personnel are fully utilised in a cohesive fashion can asset growth efforts be maximised. The competition for assets has never been greater and marketing, business development and IR teams will need every tool possible to be able to compete effectively for those assets. ■