

# Reach Out, Touch Someone

HEDGE FUNDS FEEL THE TUG OF INTERNET MATCHMAKING. By Shane Kite



As the social networking craze continues to spider into homes and workplaces, it is reaching inevitably into the world of hedge funds, where a growing number of companies are touting the Internet as a matchmaker for investors and managers.

Members-only Web sites with names like CapIntro.com, HedgeACT.com and HedgeConnection.com promote their online offerings as an alternative to real-world meet and greets. They argue that capital introduction — the practice, traditionally performed by prime brokers and third-party marketers, of bringing together hedge funds and qualified investors so they can perform initial due diligence and dis-

cuss mutual goals — is faster and cheaper on the Internet.

Some of these efforts are gaining traction. Last spring Hedge Connection matched Cabezon Capital Management with a family office that later invested \$5 million with the San Francisco-based global macro hedge fund specializing in emerging markets, which now has \$30 million in assets under management. Alana Aldag, a Cabezon partner at the time, calls such Internet matchmaking a great complement to any in-house marketing strategy.

“It gave us access to a lot of family offices and unique individual investors where you can develop more personal relationships and investment cycles can be much shorter,” says Aldag, who adds that the most appealing aspects of

approaching potential investors online are speed and discretion. "It can be a great tool to quickly and unobtrusively allow you to identify new lines of capital," notes Aldag, who now serves on the board of Opportunity International, an Illinois-based provider of small loans to poor entrepreneurs in Africa, Asia, Eastern Europe and Latin America.

Rob Hounshell, head trader at \$30 million Lexington Asset Management in Raleigh, North Carolina, agrees. He says that Hedge Connection put his firm, a commodities trading adviser, "in front of the right people and the right situations."

Customers of Hedge Connection — investors and managers alike — use a "virtual business card" to send messages over the site, says Andrew Saunders, a managing director at the New York-based firm. The goal is to establish an initial rapport that can then be developed off line. Hedge Connection in 2007 dropped a chat room feature, which was available when the site launched in 2005, because it was rarely used. "Investors and hedge funds need to communicate more, but they don't need to be Twittered," explains Saunders, referring to the free social messaging utility used to stay connected in real time.

Hedge Connection provides its service free to investors, a model followed by most of its rivals. More than 1,000 investors are registered on the site, split roughly 80/20 between institutions and high-net-worth individuals or their advisers. The 900 or so hedge funds registered on Hedge Connection pay fees for full enrollment, but can join for free to post a minimalist listing: management bios, performance history, fee structures and service providers. Paying a fee gives funds access to investor profiles and strategies — \$5,000 per year for 50 profiles and \$9,500 annually for unlimited postings and 120 profiles.

The underlying mission of these new platforms is to get investors to invest, of course, but developers of the sites say they see broader potential — particularly as the growing demand for hedge fund transparency seems bound to lead to a better stream of information from managers.

Whereas Hedge Connection is focused mostly on introduction, CapIntro and HedgeACT also actively encourage fund administrators and other service providers to supply information on hedge funds to their sites, which serve primarily as data hubs. CapIntro is perhaps the most ambitious of the bunch, though its executives declined an interview request. The New York-based firm is said to be building an enterprise-level utility designed to provide full fund-disclosure data.

HedgeACT.com is owned and operated by Global Fund Technologies, a Chicago-based venture capital firm, and has partnered with another Chicago firm, Spectrum Global Fund Administration. The site, formerly MyFundFinder.com, relaunched in February with a database licensed from Morningstar, which provides it with information on more than 8,500 hedge funds. Plans include enabling investors to create watch lists to perform portfolio analyses on managers — both their own and others — says Franco Campione, director of development at HedgeACT.

The firm is working on an initial version, with more than 500 funds filing daily updates. HedgeACT has registered almost 1,500 accredited investors, who have contacted more than 200 funds through the site.

There are less formal sites as well, like Trisame.com, which tries to "bridge the gap" between hedge funds and investors via cocktail events, says Tristan Gitman, who founded the site and also lists events through LinkedIn.com. Reaction is generally mixed as to how big a role social networking sites can play in a world defined in part by its secrecy, even if an industry makeover is in progress. Skeptics of the trend say it lacks the due diligence required for appropriate capital introduction — they note that social networking of the off-line variety is how Bernard Madoff raised money.

"Have you gone into some of these sites and said, 'Yes, I'm an accredited investor,' and hung out and looked around?" asks Denise Valentine, a Stamford, Connecticut-based hedge fund analyst at research firm Aite Group, who is skeptical of the idea. "We're going in the direction of more due diligence, not less."

Fees and fact checking will keep charlatans at bay, supporters say. Investors allowed onto the sites are pre-qualified, which means funds are free to market to them. On Hedge Connection, for example, investors must fill out a qualification questionnaire. The firm follows up by phone. "If they can't talk intelligently about their hedge fund portfolio, we don't approve them," Saunders says.

CapIntro.com, Hedge Connection and HedgeACT.com do not allow investors to contact one another, a policy meant to protect privacy but one that may be keeping the

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sites from gaining critical mass. To talk to peers, investors can go to sites like memberlink.net, sponsored by the Institute for Private Investors, or foxexchange.com, operated by the Family Office Exchange. There are also invitation-only luxury-lifestyle networks like asmallworld.net.

"Hedge funds allowing their clients and prospects to interact on an open social network would be very progressive and innovative," says Milton Pedraza, CEO of the Luxury Institute, a New York-based product-research company that caters to the high-net-worth crowd. "It would create tremendous goodwill, because it would show investors that these managers have confidence in themselves and in what they're doing."



