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OPINION

Marketing The Emerging Manager In This Changed Environment

By Bruce Frumerman, President of Frumerman & Nemeth Inc.

In the best of times it is challenging for an emerging manager to attract investors. Through last year's volatile events, it was very challenging.

The domino effect from the collapse of the global credit bubble impacted portfolios and strategies of all types. The flight to safety/sell everything emotion of panicked investors has even forced managers who delivered positive returns for 2008 to gut their portfolios, selling off even their fundamentally sound holdings at fire sale prices in order to provide clamoring clients with cash to cover their losses from other investments. As if that weren't enough, the few but high profile scandals in the money management business, of which Madoff was far and away the most prominent, tainted managed accounts managers and hedge fund managers. And to top it off, funds of funds, previously a key distribution channel for emerging managers to sell to, appear to be a dying breed.

Now in 2009, as a result of this confluence of events, emerging managers are finding in their new business development efforts that the goal posts have been moved and the rules have changed.

Emerging managers have been hearing for some time a growing call for transparency and proof of operational risk management. Arms-length administration, recordkeeping and reporting oversight have gone from being "nice to have" to "need to have". And more regulation is on the way. Event-driven news reports have been covering the new challenges that money managers face, and will continue to do so.

Yet, while these operations-related issues present business management challenges, they are not going to be the key selling points of tomorrow that will differentiate one emerging manager from another. Instead, emerging manager firms are going to be fighting to stand out from one another by communicating about the other key due diligence factors that investment committees discuss behind closed doors: Performance, Pedigree and Process.

But 2008 has crucially changed both what emerging managers have to report and the marketplace's perceptions about what emerging managers have to say today regarding these three topics.

For the majority of emerging managers, performance for 2008 was negative. While we know, for instance, that the average relative returns for hedge funds were not as bad as that of the S&P 500 Index, money managers who delivered positive absolute returns — whether via managed accounts or hedge funds — turned out to be the exception rather than the rule. To make matters worse, many money managers who have been around for a while are sitting not only with bad 2008 numbers, but they now also have to live with the resulting effect of deteriorated three- and five-year performance track records as well.

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When they did not have a good performance story to tell many emerging managers would emphasize a good pedigree story in their bios. As a result of the Madoff scandal, however, the value of having a pedigree, from the investors' perspective, has also come into question. Certainly through 2009 at least, the value of the story of where a manager was before and what he has done in the world of investing is going to be overshadowed by prospective investors asking themselves, "But can we trust him?"

Process has also become more suspect, and not just because of Madoff and his "too good to be true" strategy that made investors increasingly suspicious of money managers. Having just suffered a year of big losses financial advisors and investment committees are under greater pressure to have the emerging managers and strategies they choose to allocate to next be highly defensible decisions. Since so many strategies that investors thought were sound performed poorly last year, managers who can get their firms to be under consideration this year have a tougher job of convincing to do.

This year, investors are going to be rethinking the weightings that they give to key factors in their decision-making for selecting which new money managers they will invest with.

For these reasons, educating and persuading people to understand and buy into the Process story of how a manager invests is going to be even more crucial, both for attracting assets to a hedge fund and for keeping them sticky.

And there is an important, new point of consideration that investors will be taking into account: their feelings about an emerging manager's potential to successfully navigate from market recession through to market recovery. This is already a key point of discussion among many financial planning firms that serve the high net worth market, for example.

So, what can an emerging manager do to see he is clearly differentiating his product from the competition? Reassess the marketing storyline and sales materials to make sure the firm is presenting an explanation about investment process that is both buyer-focused and appropriately detailed.

To help determine whether your firm is doing a good enough job in communicating its Process story in its marketing materials, try to put yourself in the shoes of your prospects and ask yourself these questions:

1. Am I being too vague?

As investment consultants and financial advisers have told emerging managers at industry conferences even before the credit crunch, they do not have the time to perform detailed due diligence on all of the money managers out there. So, the short cut they take is to look first for reasons to reject a manager. What, aside from obvious red flag issues, may qualify as reasons for an emerging manager's marketing materials to get moved from a prospect's In Box to the reject pile? Reasons to doubt the efficacy of a manager's claimed strategy and a commodity-like lack of differentiation from the pack are two leading culprits. Such impressions form when the prospective investor is given too little information to go on. The problem is frequently an emerging manager's vague sounding explanations about his investment process.

Vague sounding explanations about the investment processes behind firms' strategies are more often the result of poor communications skills rather than because managers are trying to keep confidential a truly proprietary element of their portfolio management. Unfortunately, forgiving and being willing to overlook a manager's lack of good communications skills is not the first thing that will come to mind for prospective investors when they are presented with unclear explanations about how a manager is running a portfolio.

Make a prospect have to do work to drag out a clear enough understanding from your firm about how you think and invest and you'll lose the sale.

2. Have I addressed this market environment?

The storylines and marketing materials of many emerging managers lack mention of how they plan to navigate their portfolios through market recession to market recovery. Those that do will help engender comfort factor among prospects and further differentiate themselves from their competition. The money managers who think they can wait until they are asked such questions in, say, a finals presentation, are unlikely to get that far.

3. Could my story get lost in translation?

Further complicating things for the emerging manager is that in almost every case a prospect who is pitched in a sales meeting is going to be retelling what he knows about the manager and the product to others involved in their decision making process. He will be speaking to an investment committee, a spouse, an accountant or to an attorney. And he will be retelling the emerging manager's story to that person or group. So, one of the important sales missions a fund has is to reduce the odds that a prospect will mess up retelling its story.

Your firm's marketing materials are what tell its story when the manager is not there and are what a pitched prospect will pass on to colleagues when your firm is under consideration. A clearly written explanation about the investment process and how you think can improve your firm's odds that it has differentiated itself from its competition and reduce the odds that your prospect will mess up retelling your story to others.

Beyond Performance: The Story You Must Sell

Today, more than ever, success in attracting investors is dependent upon an emerging manager's firm's ability to educate and persuade people to be aware of, and buy into, how it invests. Achieving this requires developing a cogent and compelling way to tell the investing story with consistency, applying it to sales marketing efforts and obtaining third-party endorsement for, and increased awareness of, the firm's investing process.

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Bruce Frummerman is president of Frummerman & Nemeth Inc., a communications and sales marketing consultancy that helps financial services firms create brand identities for their organizations and develop and implement effective new marketing strategies and programs. His firm's work has helped money management clients attract over \$7 billion in new assets, yet Frummerman & Nemeth is not a Third Party Marketing firm. He has over 28 years of experience in helping money managers to develop buyer-focused positioning strategies to differentiate them from their competitors; create more cogent and compelling sales presentations and marketing materials to better tell their story; and use media relations marketing to help establish a branded identity for their organization by generating third-party endorsement for the expertise of their people, the value of their services and the quality of their products. He has authored many articles on the topic of marketing money management services and is a frequent speaker on the subject at conferences for hedge fund managers, institutional, mutual fund and Separately Managed Accounts money managers and third-party marketers. He can be reached at info@frummerman.com, or by visiting www.frummerman.com.

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