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Is Your Firm Getting It Right In Writing?

by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

This is not just a Halloween-time scare. Bad writing can spook away new investors any time of year.

The first job of a hedge fund manager is to deliver performance that is considered to be within the ballpark of acceptance. The second is to educate and persuade prospective investors and those who influence them to understand and buy into how they invest. The first job is data based, but the second job requires the ability to effectively communicate subjective-based, beyond-the-numbers information. That requires clearly communicating the investment process and the thinking behind it, and having the ability to put that into print.

Is your firm getting it right?

Ever since the 2008 market crash, sophisticated investors — family offices, endowments, foundations, plan sponsors and some in the wealth management and independent advisor world — have been demanding longer, more detailed explanations about how a hedge fund (or any money manager for that matter) invests. This requires preparing and delivering paragraph-based content about how a fund seeks to identify and capture alpha, not bullet point copy.

Behind closed doors when investment committees consider a short list of managers with similar performance, they aren't quibbling over Sortino ratios and the like. Instead, the key questions they discuss, debate and vote on relate to the subjective: whose investment process seems most sensible and repeatable?

Such content cannot fit into a flipchart pitchbook.

No hands

I recently led an industry conference panel on Marketing to Family Offices and Institutional Investors: What They Want & Mistakes Managers Make. I asked the investors in the audience, by a show of hands, to indicate which marketing document they get that delivers the most content about how a money manager invests. The answer was the flipchart pitchbook. Next, I asked had a pitchbook ever contained enough explanation about investment process and strategy implementation for their investment committees to rely on that document to fully understand how a fund invested and what differentiated it from its competitors, and to make an allocation decision based on that. No hands went up. I told the portfolio managers in the audience to look around and make note.

Two strategy descriptions

There are actually two strategy descriptions any money management firm needs to craft to communicate with and market to sophisticated investors: the short version storyline strategy description and the long version storyline that also includes more extensive strategy implementation information. This is otherwise known as the investment process explanation.

This important content is beyond-the-numbers information, and this is what money management firms of all types find the hardest to effectively communicate, let alone tell the same way twice.

The short version storyline is the brief explanation about investing approach that a hedge fund puts in its frequently brief due diligence questionnaire response to the question of strategy. This same copy is typically the complete text that appears in a flipchart pitchbook about investment process. These are, for the most part, very truncated investment process descriptions.

The way this content is typically written delivers just generic overview type language used by most money management firms. It should instead provide differentiated content that delivers more detailed information about a firm's asset class-specific marketplace views and steps taken to seek out alpha. The generic type of process description is what comes across, at best, to sophisticated investors as being a commodity-like manager choice, easily replaceable once performance lags; the differentiated type, communicating some of the personality and character of the particular manager's approach, adds subjective-based investment process detail that helps shape a brand identity for the hedge fund — all based on how the manager thinks and runs the portfolio.

Is your firm using a good enough written investment process description? This is where the long version storyline about how the hedge fund invests comes to play. This content needs to address investment beliefs and the strategy implementation steps taken to assemble and manage the firm's basket of holdings.

You cannot write this important content in a muddled, opaque way. The in-print copy must also jibe with the verbal explanation delivered at sales meetings with sophisticated investors. In fact, the long version storyline copy about investment process should serve as the script for the verbal presentation of that information. Contradictions between written and verbal investment process explanations raise large red flags for the sophisticated investor.

Cogent and compelling writing that communicates how a money manager thinks and the process used to run the investment strategy is not just a significant differentiator that separates a portfolio manager from his or her peers; it also makes the due diligence analysis job of the sophisticated investor easier.

Clearly written and properly detailed communications requirements go beyond the explanation of process. Sophisticated investors are also judging a hedge fund on which they are conducting due diligence by reading and analyzing writings about its performance reporting analysis in letters to investors, as well as external stock research reports, asset class-related market commentaries, and white papers relating to seeking out investment opportunity or managing portfolio risk.

Sophisticated investors read so much content from so many firms pitching for their business that they do not have much tolerance for poor writing and missing content. Better written marketing collateral comes across like a breath of fresh air — wanted, but not always found.

Hedge fund managers who do a good job with their second key job — successfully educating and persuading prospective investors and those who influence them to understand and buy into *how* they invest. and being able to do so effectively in print — are much more likely to be perceived to be better hedge fund managers than their competition, and win the mandate.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 32-year-old financial 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. Frumerman & Nemeth's work has helped money management firm clients attract over $7 billion in new assets, yet they are not third-party marketers.

Frumerman & Nemeth is internationally recognized for its work in crafting for clients the beyond-the-numbers story of *how they invest* — content that investment committees actually discuss, debate and vote on behind closed doors when considering firms on a short list for potential investment. Importantly, this is required due diligence content that cannot be communicated in pitchbook format.

Frumerman & Nemeth's work also includes providing strategic consulting on product and strategy-specific branding, crafting the required strategy-specific content detail and designing and producing the marketing tools needed to make it through the two-month to two-year institutional selling cycle. Clients also employ Frumerman & Nemeth to help promote the intellectual acumen of management — helping them get speaking opportunities, write and give speeches as panelists or stand-alone speakers at industry conferences, and through media relations marketing services.

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