Marketing To Sophisticated Investors column
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The Asset Raising Rule Of Thumb You Never Thought Of

Before you head out the door to market to sophisticated investors there is a double-check question your money management firm should be asking itself: *Have we put in enough time and thought into what we will be communicating, and what written content we will be providing, to meet the due diligence needs of a prospective sophisticated institutional investor?*

Making due diligence deliver

You may have seen a recent article in *Institutional Investor* that retold the study results from 2015 by Fundify, an online platform for connecting startups, investors and advisors. It retold the point that money manager due diligence research matters and that it can positively impact the performance of an allocator's portfolio.

Fundify reported that it had taken data from hundreds of private equity investors in startups, examined the number of hours each had spent on conducting due diligence and then looked at the resulting investment returns. They claimed to have found that each increase in time spent on diligence directly correlated with a lower percentage of losses and a higher percentage of wins. As relates to their focus on private equity angel investing, they reported that "for every dollar invested after less than 5 hours of research, you would have received back just $0.80. For every dollar invested after more than 40 hours of research, you would have received $7.10 back." Their main point — more time spent on due diligence research, information gathering and analysis can help institutional investors make more profitable investment decisions.

You may not be fundraising for an angel startup, or even have a PE strategy for that matter, but it still remains true that the sophisticated investors your money management firm looks to educate and persuade to understand and buy into how you invest are the very ones who will be tending to dedicate more time to vetting your firm, your data and your investment process than would less sophisticated investors that you may already have among your firm's 'friends and family' investors.

Who are these sophisticated investors?

Now would be a good time to note what separates the sophisticated investor from the typically less informed retail investor, and from the performance chaser who will always be looking where the grass might be greener.

We classify sophisticated investors as the single and multi-family offices, endowments and foundations, institutional plan sponsors, and their investment consultant gatekeepers, who follow a money manager vetting process that they put in place. They have due diligence processes for conducting their research, and gathering the quantitative and qualitative data to review and compare against other investment options open to them. Importantly, the majority of these sophisticated investors have investment committees that discuss, debate and vote on which managers to allocate to.

Preparing to deliver for your due diligence vetting

Are you prepared for telling and selling your investment strategy, delivering the needed information to these sophisticated institutional investors so that they can understand and buy into how you invest?

This brings us to the Rule Of Thumb you probably haven't thought of:

> *You have to put in more time preparing the detail of what you need to communicate to pass the due diligence muster of sophisticated investors than the time they will spend in vetting you.*

What you say, how you say it and how you deliver it in written form to support your efforts in trying to win over sophisticated investors is what will differentiate you from similarly performing competitors. Much of this encompasses your beyond-the-numbers content, so, it goes beyond delivering your performance data and performance attribution information. It also includes the important subjective part of what you have on offer: the investment approach and the process you developed and employ to generate your desired returns.

If you haven't taken the time to build this out, in detail, there is a strong likelihood that you will find your firm under-prepared for meeting the due diligence needs of the most interested, but skeptical, sophisticated investors you seek to convert from prospect to client.

So, take a pause in your asset raising sales efforts. Reexamine how you have been explaining your investment offering(s) and try to do so from the imagined perspective of an investment firm trying to sell *you* on allocating to *them*. If the answer to all the questions you'd ask in doing research on them does not exist in print about your firm's investment offering, then you've probably not put in the amount of time needed to build a most cogent and compelling storyline for an investment committee to discuss, debate and vote on to select you over a competitor to win their next allocation.

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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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