Marketing To Sophisticated Investors column

by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

December 2022

How To Out-market Your Fund's Competitors In The New Year

Tip 33: Preparing For Post-Pandemic Asset Raising

Welcome to the thirty third of a series of articles offering insights and tips to prepare money management firms for improving their abilities to out-market competitors and attract assets from sophisticated investors in the coming post-pandemic world.

Here are some New Year's resolution recommendations that, if acted upon, can help you improve your abilities to differentiate your firm from similarly performing competitors and attract more sticky assets from sophisticated investors.

1. Become more transparent about how you invest

What portfolio managers have *thought* was being transparent enough versus what sophisticated investors may think are often two different things.

Too many money managers do not recognize how easy it is to turn off sophisticated investors, convincing them to *stop* dedicating their due diligence time and effort looking into a firm and fund. These are the portfolio managers who put up barriers that make it too hard for prospective sticky asset investors to understand what the investment process is that has driven returns. They deny these prospects the detail they're looking for to support reasoning as to why they should believe good past returns were more likely due to skill than luck.

Let your competitors continue to make these mistakes while you, instead, put in the time and effort now to reexamine how you have been explaining the investment process for your fund and how transparent you have been.

Here's an easy-to-follow guideline for seeing yourself as a sophisticated, skeptical prospective investor might: Re-read your marketing collateral that explains how your strategy is run. Now imagine some money manager, whom you didn't previously know, handed you that same content and then asked if you would be comfortable, based on that degree of transparency, in allocating $10 million to their product. If your answer is No then you need to rework how you explain your investment process with more detail and transparency.

2. Address Covid, Russia, global inflation and you

Institutional investors recognize that the troika of concern regarding the impact of the Covid pandemic, Russia (from war to energy prices) and inflation both here and abroad is not going away any time soon. In fact, these non-company specific risk factors are going to continue to cause sophisticated investors to want the prospective portfolio managers, with whom they might invest, to share thoughts about how the managers reassess valuations and risk exposures for their individual holdings, and explanations of any changed risk/return characteristics on their portfolios as a whole.

So, be sure to include in investor relations communications and sales marketing content shared with prospects the portfolio manager's research and opinions about these factors, as well as examples of strategy implementation to manage these categories of portfolio risks.

3. Communicate your risk management thinking (beyond the troika)

While increasing effort to communicate about the Covid/Russia/Inflation non-company specific risk factors that could impact your portfolio, don't forget that such commentary alone does not obviate the need to clearly and completely explain what specific risk management protocol steps are built into which parts of your investment process that address everything else.

This is something that needs to be put in print and not just left for a verbal explanation. Further, it is not enough to simply communicate this in a single one-on-one meeting with a prospect. This is the type of content that should be reiterated in quarterly letters to investors and in research reports on holdings, communicating how prudent analysis was made, and in speaking engagements at industry conferences and meet the manager events at which the portfolio manager may be participating.

Repetition about risk management thinking and implementation is a key element that can differentiate a portfolio manager from her or his peer group.

4. Write better research reports

Building on the previous three tips, for money managers who share research reports on holdings, be they publicly traded companies or private, it is not enough to just write a company description, its publicly available data points and who its competitors are.

Sophisticated investors want to read something more than what they could see from a quick Internet search. Yet that is the way too many portfolio managers draft the write-ups they share with their current and prospective investors.

At a minimum, research report content detail should be rethought and built out, particularly regarding the thinking behind the manager's current valuation, and determining fair price and the arbitrage spread opportunity. Said another way, I've seen too many two-page research reports that seemed to have covered only around one-third of what institutional investors and their gatekeepers are looking for to decide whether they like how the money manager thinks.

Recognize that research reports are more than a defense to an investment decision already made.

5. Make beyond-the-numbers marketing your priority in outreach

If I were to hand a portfolio manager a tear sheet or pitchbook of a manager running a strategy in the same category as him it would take no more than 90 seconds for him to decide whether the other manager was a competitor. But this decision would be made only based on the numbers presented. What can't a portfolio manager glean by only reading a tear sheet or pitchbooks? [I'll give you a minute to think about this.]

The portfolio manager would be hard pressed to intuit exactly what the competitor did to produce his or her returns. This is the very problem that sophisticated investors face. Many are very well versed on general details of stock and bond investing, PE or VC company selection, and the like. But that doesn't make them mind readers.

The secret to what makes a portfolio manager's brand is how management thinks and how they do what they do. It is this intellectual acumen of management that is the most valuable asset a money management firm owns and is what needs the most attentive care in communicating.

So, put more effort towards telling and selling people on the story of how — how your money manager thinks and runs strategy implementation. This belongs in both your marketing collateral communications and sales marketing efforts. Importantly, create ways to reiterate this vital information, and find more than one way to tell it.

Secret: This is the very type of information that gets discussed behind closed doors at the investment committee level. Remember, by the time you make it onto a short list for consideration your fund's data is already within the ballpark of acceptance. Your beyond-the-numbers story is what can help you out-market competitors and win more mandates.

# # #

About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 35-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.

Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.