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Marketing To Sophisticated Investors column
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Why Some Funds' Asset Raising Efforts Fail

Part 1 of 2

Missing the obvious?

It is important that investment management firms make the most effective, informed and focused use of their asset raising time. Unfortunately, many do not. This is an issue for money management firms of all sizes but can be a particularly big problem for emerging manager-sized firms that burn their time and effort in pursuit of investors who they will not win over, at least in the near- to mid-term. Worse, some portfolio managers overly focus on such investors, to their detriment.

What are they getting wrong? Often, they are missing what should be obvious.

What types of rejections are your asset raising efforts getting?

A few times every year, I receive phone calls from investment management firm executives who share what I call a tale of woe. These most frequently come from owners of small to mid-sized money management firms.

Here are some grievances many share:

- We have no luck getting any investors beyond friends and family to invest with us.
- Family offices have no interest in us.
- Institutional investors and their gatekeeper consultants will not grant us a meeting.
- We have no traction with those who should be likely investors — there isn't anyone we can see as being a potential investor.

Can you intuit what the most common thread is that ties the vast majority of these tales of woe to each other?

Could you, too, be committing this marketing error?

This is a really important point:

Not every suspect is a prospect.

Just because your firm identified an individual or an organization that makes investments, it does not mean that your investment offering is currently a fit for their requirements or needs. In fact, the time at which they might find you to be appropriate and worth consideration may be so far off you should focus your marketing efforts elsewhere.

What is meant by requirements or needs? some of you may be thinking. I'm glad you asked.

A suspect's requirements

Consider the world of sophisticated investors. Here I'm referring to family offices, endowments, foundations, institutional plan sponsors and their investment consultant gatekeepers, and some in the financial planning/investment advisory wealth management firm world.

The more institutionalized the investor the greater the likelihood that it has drafted an investment policy statement that it then follows. One type of requirement often written into investment policy statements has to do with what constitutes an acceptable assets under management size for investment product offerings. The bigger the size of the investor the greater the likelihood it has a hard cutoff minimum requirement for investment product size.

There are two reasons for this. First, this type of investor needs to make an allocation that is big enough to 'move the needle' with returns generated. Making a one hundred percent return from a relatively tiny (for them) allocation is near useless. What is the allocation size that such investors look to make? Think $50 million, $100 million, $250 million, not $1 million, $10 million or $20 million.

Next, sophisticated investors — be they institutional sized or 'just' family offices — do not want to take on significant business risk exposure with a money management firm. The smaller the money management firm (in AUM) the greater the likelihood that a sizeable investor's allocation to such a firm would be the major allocation. This type of investor seeks to avoid such an exposure.

As a result of these two concerns, the investment policy statements at most institutional investor organizations stipulate a required minimum AUM size before they would consent to consider conducting due diligence on an investment firm.

Are there some institutional plan sponsors that allocate to emerging managers? Yes, but they too have AUM minimum size requirements because of both the move the needle and exposure to business risk issues.

I cannot count the number of times over the decades that I have heard from an emerging manager that had $100 million AUM or less tell me they can't understand why his or her firm has been unable to land large investors as clients. AUM size alone immediately disqualifies them from consideration by many institutional investors. But that never occurred to the manager.

A second key requirement is track record length. Sophisticated investors are on the lookout for money managers who are good performers; and where the investors, through their due diligence vetting and manager analysis, can make the subjective determination that the performance seen is more likely due to skill than luck. The shorter the track record, no matter how stellar, the greater the likelihood that luck may have outweighed skill. So, again, there are family offices, as well as institutional investors and their consultant gatekeepers, who may have an investment policy statement guideline requiring a track record be for a specific minimum number of years. Some might have a three-year track record requirement; some might require five. You cannot assume they are all the same.

The emerging manager will find it is beating its head against a wall if, in trying to sell to sophisticated investors, it does not look to get these questions about size and track record length answered right up front. Because — the suspect may not be a prospect.

In Part 2 of this article we will address understanding a suspect's needs, reveal a sweeping generalization some portfolio managers make that deters their asset raising, point out three important sales marketing action steps to keep in mind, and offer a bonus tip on selling your firm's strategy.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 36-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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