Marketing To Sophisticated Investors column
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The Potential Investor's Question That The Portfolio Manager Couldn't Answer

I was recently approached at an alternative investing industry event by an emerging manager who I had been seeing at such occasions for a number of years. More than a year had passed since we had last bumped into each other and spoken.

I asked him what progress he'd made over the previous twelve months with growing his one-man investment business. His performance was doing well, he said, up over 60% during that time. However, his assets under management remained stalled at the same low level they had been over the previous handful of years. Allocations were all small SMA accounts for around two handfuls of accredited retail investors, none of whom were friends and family.

Why, with his good performance, he asked, did he continue to have no success in winning over any family office investors?

Well, I said, let's first give thought to the retail investors you do have. You can most likely classify them as performance chasers. They probably liked the returns compared to their core investment holdings. However, I'll bet they have little to no idea what the risk-return profile is of the portfolio of holdings you have them in — how risky it could be for them — or what you do to generate your strategy's returns.

Now consider the family office investors who you've had no luck with. I'll bet they asked far more questions than the retail investors you have. I reminded him that my financial communications and sales marketing consulting firm has found that financially savvy institutional investors don't need to spend more than 90 seconds skimming a monthly performance tear sheet or pitchbook to see the numbers and decide if the data is within the ballpark of acceptance for them. This goes for performance, track record length and fund size. For this audience, however, having good numbers is not good enough. They look to understand and buy into the investment process used that generated the returns. This is needed to decide whether returns of a manager under consideration were more likely due to skill or luck.

So, how are you explaining yourself? I asked him.

Hard of hearing, or trouble absorbing?

Explaining about what? he asked.

Talk me through how you run your investment process, I said.

And then he proceeded not to do so. Instead, he recited the range of asset classes he could allocate to. So, I asked the same question again. *It's mostly systematic*, he replied this time.

I told him to imagine I was a family office investor who was having to ask him yet again in the same conversation to explain his investment process.

With a straight face, he repeated his same responses as before, naming the list of asset classes he had the potential to allocate to and saying that his portfolio management was mostly systematic.

Imagine being the prospective investor spending frustrating due diligence vetting time with this emerging manager and time and again only getting responses that do not answer the question asked. It became very clear why this portfolio manager was not winning any allocations from family office investors.

I remained silent, waiting to see if he was going to continue speaking. Would he finally respond and answer the most important question sophisticated investors ask portfolio managers once they feel fund performance is within the ballpark of acceptance for them?

No elaboration was forthcoming. Instead, as someone else at the event stepped towards us to speak with me and end the catch-up conversation I was having, the emerging manager said *So what free advice will you give me?*

I didn't ask you WHAT

Think about this, I said: *I asked you HOW, not WHAT. Simply telling people what you do only lets them know how to classify your product offering*.

Two insights for your portfolio manager

When having a dialogue with prospective investors pay enough attention to them to hear, absorb and respond to what they actually ask you.

While all portfolio managers claim to have a methodology that they follow in running their fund, many never spent the time needed to think through what they are doing in enough detail to be able to talk a prospective investor through their thinking and investment process.

If a manager is unable to clearly, effectively tell the story of *how* he or she assembles and manages their basket of holdings, they have no business putting themselves in front of sophisticated family office investors. As their inability to communicate the investment process story will be seen as a red flag by sophisticated investors, they will lose the opportunity to convert those prospects into clients and burn the contact as well.

The most important thing a portfolio manager has to sell sophisticated, jaded and skeptical investors on is the intellectual acumen of management behind running the strategy. Performance success is but a demonstration of the veracity of the investment process the manager created and runs.

Make sure that your portfolio manager, and any supporting sales team, have the ability to answer that question about how.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 37-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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