Marketing To Sophisticated Investors column
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# Communicate Risk Management Protocol To Improve Your Asset Raising Success


Stock market drops and gyrations in markets around the world kicked into particularly high gear in the fourth quarter of 2018. The year closed with the S&P 500 posting its biggest one-year decline since 2008. This has certainly gotten the attention of all investors.

There is not much disagreement among sophisticated investors as to what some of the factors are that have led the international markets to this condition. An aging domestic bull market. Being in the late stages of the economic cycle. The potential for the Fed to make monetary policy mistakes. U.S.-China trade talks. Brexit uncertainty and resulting fallout. The potential of a global economic slowdown. Algorithmic, high frequency trading contributing to volatility.

These conditions are unlikely to go away any time soon. And investors can't just take their money off the table and go home. They need to stay invested.

A key question that family offices, endowments, foundations, institutional plan sponsors and their gatekeepers face in their due diligence research and analysis of money managers in 2019 is this: *What type of strategy implementation for allocation to an asset class of interest makes most sense to us?* A large part of this due diligence discussion at the investment committee level, particularly this year, comes down to a money management firm's risk management protocol for its strategy, both at the securities selection level and for managing a portfolio's basket of holdings.

Delivering this elaborated risk management protocol part of a money management firm's 'how we invest' story will be the biggest challenge this year for hedge fund marketing as well as for asset raising for PE, VC, private debt and more traditional SMA structured equity and fixed income investment strategies.

In today's tumultuous market environment money management firms seeking to raise assets will be well served by rethinking how they communicate about how they view, and take action regarding, risk management.

**You have probably not been explaining enough.**

When money management firms come to my financial communications and sales marketing consulting firm for assistance in improving how they out-market competitors and meet the due diligence needs of sophisticated investors, we find they have not been explaining enough about how they think about investing in their asset class of choice, and their process. One way we see this is in what we call the truncated communications problem. Here, portfolio managers condense together or else skip over actual steps in their thinking for carrying out analysis and then deciding what to do based on that information. This can leave prospective investors either confused, or worse, skeptical, about the investment process as the money manager explained it to them.

On many occasions my firm was initially told by a new portfolio manager client that their firm ran, say, a four or six step investment process. Our work to get out of their heads how they actually think and what they actually do workflow-wise often unsurprisingly finds these portfolio managers are actually running 10 or 12 step methodologies, and many of the previously undetailed steps turn out to be specific to risk management analysis, considerations or action steps taken.

**You probably never wrote it down.**

This is what often creates the risk management protocol communications problem in the first place. We frequently find that even the portfolio manager's number two staffer does not know what all of the steps are in carrying out the firm's investment process. So, how is a prospective investor, and investment committee, to learn and then buy into this?

As sophisticated investors often discover, there are many investment management firms that never wrote out their investment processes. Pieces of it may have made it into print, but many steps exist only in the head of the portfolio manager. Significant parts of the methodology process that we find often gets skipped over end up relating to risk management related thinking and actions. And it is more important than ever to be able to cogently communicate this critical thinking.

**Explain risk management protocol at both the security selection and portfolio management related levels.**

What makes a prospective investment have an acceptable or unacceptable risk level? What considerations, or even rules, guide how the portfolio manager assembles and manages the basket of holdings? Even in the case of quant strategy money managers the answers to these questions are all subjective-based. (After all, who initially selected which factors to use and how to weight them?) The money management firm needs to tell and sell people on its opinions. This requires a conceptual sell.

Reexamine these elements of how your money management firm is communicating about its risk management protocol. Seek out and fill in where there are holes in your story and build that information into all of your communications with your investors, prospects and those who may influence them. This will improve your potential for asset raising success this year.

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## About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 31-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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