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When A Boutique Investment Firm Should Market Its Business Plan



Experienced investors appreciate that when they make an allocation to an investment firm's product offering, they gain exposure to two types of risk: strategy risk and business risk.

The smaller and newer the investment firm, the more relevant business risk is to investors when deciding whether to give the allocation to what is, more often than not, a boutique investment firm that would be classified as an emerging manager.

When considering you in that light, sophisticated investors will ask themselves whether they think you have a potentially survivable, growable business. That's because so many emerging manager investment boutiques go out of business each year; not due to tremendous underperformance but their lack of ability to make it through the asset raising due diligence gauntlet beyond a small number of actual friends and family who probably conducted little if any due diligence before investing.

Most money management firm owners understand that if prospective investors are conducting due diligence evaluations on them and competing portfolio managers they will be judged first on people, process and performance as relates to the investment strategy, and then on operations management, which have separate people and processes issues. Taken together, sophisticated investors are keeping an eye out for how effective, and thoughtful, company-level management is at the emerging manager boutique firm.

Yet, too often at their initial meeting with a prospective investor, the emerging manager makes no mention of his or her business plan and thought out actions for turning their start-up into an investment management business that is financially viable over the long term.

But how should an investment boutique recognize that it needs to intentionally explain its business plan in its communications and sales marketing?

Signs your firm should be marketing its business plan

1. You are currently running a one-person sole proprietor investment management firm.
2. You cannot yet afford all of the subscription service software that could enhance your portfolio management research and risk analytics, your investor relations reporting, or your prospecting for new investors.
3. You cannot yet afford to hire a president or COO to internally oversee everything beyond the investment strategy and portfolio management or an investment team staffer to train to become a co-portfolio manager.
4. You lack the cash resources needed to run all the front and back office operations of your money management firm at an institutional caliber level for at least five years.

If one or more of these sounds like your situation, make time in your initial in-person pitch meetings with prospects to tell them about your business plan. Particularly, how you are spending the war chest you have today, and how you intend to allocate future management fee revenues back into the business.

Explaining your business plan

Do this right and you'll show prospective investors that you, the portfolio manager and owner of the emerging manager investment boutique have a small business owner's head on your shoulders.

So, what should you be communicating?

Explain in some detail how you are spending your war chest today. Include communicating what actions you are taking now, within your current budget, to grow your assets under management and diversify your investor base. This is vital because the sooner money management firm owners can demonstrate success in this part of managing their young investment management firms the sooner prospective investors will feel there is reason to believe they are running emerging manager firms that have the potential to survive and grow.

Also, share information about what business operational functions you have outsourced and to whom.

Next, communicate what your plans are for reinvesting future generated management fee revenue back into your business to scale up your business. For this, you will want to be able to explain what a larger business operations budget will allow you to do as you reach different AUM growth stages with your investment firm; such as when you reach \$300m AUM, \$500m AUM and \$1b AUM.

Areas to address should include front, mid and back office operations.

Address plans for expanding the communications and sales marketing budgets, and activities, for both asset raising and investor relations communications.

Make clear your views and desired timetable for recruiting an executive to be president or COO to handle day-to-day oversight of the non-investment-related aspects of the business. Prospective investors recognize that this will allow the portfolio manager to focus on investment strategy and portfolio management, while the COO can ensure the operational and administrative sides of the firm are well-managed.

Also address growing the investment management part of the business. This should include the goal of hiring and training junior analysts, with the intent of one of them being able to advance to a co-portfolio manager role over time. This will show intent to strengthen the firm's capabilities and ensure succession planning for the firm's long-term growth.

Next, turn your business plan communications to your thoughts on upgrading from 'good enough for now' to more institutional caliber vendors and IT systems to support investment research, portfolio risk management and trade execution, and administrative processes including compliance, accounting, reporting, cybersecurity and systems redundancy. This will be needed in order to attract and retain the larger institutional investors.

Aim to spend around 80% of your initial meeting with a prospect addressing investment strategy and process and 20% of that time on operations management and your business plan. By the time you leave that pitch meeting you want your prospect to be intrigued enough about how you're investing to want to learn more and to feel they have an initial comfort factor that you grasp what it takes to run an investment business in addition to running an investment portfolio.

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About the author

Bruce Frummerman is CEO of Frummerman & 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. Frummerman & Nemeth's work has helped money management firm clients attract over \$7 billion in new assets, yet they are *not* third-party marketers.

Frummerman & 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.

Frummerman & 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 Frummerman & 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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