Marketing To Sophisticated Investors column
by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

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Are You Making This 'Missing The Mark' Investment Sales Marketing Error?

Which audiences is your firm targeting in its asset raising? Be reasonable in your expectations. Not every category of investor is right for every portfolio strategy at every stage of its growth, or for every type of investment strategy for that matter. This sounds straightforward, yet going after the wrong target is a common problem among money management firms. I see this quite frequently.

When money management firm owners contact my firm seeking financial communications and sales marketing help they explain to me what their asset raising efforts have been to seek out and win over investors. Over the past three decades I have seen a consistent pattern, no matter the firm size: Eight out of ten of them that tell me it's as if they hit a wall in their sales marketing. Upon further investigation it turns out they had been spending the bulk of their selling time pursuing the wrong type of investor. No wonder they struggle to grow their asset base.

Consider the case where a seeder asked me to meet with the co-managers of a year-old fund start-up where his firm had become its anchor investor. Why wasn't the money management firm making any headway in its sales marketing efforts?

As I sat across the table from them at their office, the two portfolio managers shared with me their backgrounds and what made them want to start their own investment management firm. Hearing what they did before, it was clear they had respectable pedigrees. Their performance numbers were acceptable. They talked to me about their strategy. Then, I skimmed through their marketing collateral, and the two managers walked me through how they were making their pitch. I noted that they were running an alternative strategy that did not neatly fit into an 'everyone makes an allocation to this' investment category. Could this be the issue? As I continued to listen, I noted what they had yet to mention, so I asked: *What is your AUM?* They responded with a number a little less than $25 million. Then I asked them to recount their sales marketing experiences.

The two portfolio managers started off by telling me how extensive a list of industry contacts they had. They had come from a big investment firm that had a lot of large-sized institutional investors as clients. They proudly noted that, combined, the two them had "a very big Rolodex." Next, they shared the story of approaching one large institutional plan sponsor that turned them down pretty quickly. This followed with three more identical stories of approaching the same type of investor and getting turned down at the first contact.

Like throwing darts blindfolded

They wanted to know, *Why are we missing the mark time and again in our sales marketing efforts?*

Can you glean from the presented facts what the first impediment was that stopped their sales effort in its tracks?

Here is what I said to the co-portfolio managers and their anchor investor: You told me you have a little less than $25 million in assets under management and yet you have been spending all of your marketing time pursuing large institutional investors. They are *not* the natural target market for you. AUM is one of the key data-based characteristics they screen for when a money manager first makes contact with them, and this is automatically resulting in a quick reject.

The bigger an institutional investor is — be it family office, endowment, foundation or plan sponsor — the more likely it is that they have an investment policy statement. One of the things that investment policy statements set are rules as to the required minimum size an investment offering must be before they consider allocating to it. Two points come to play here. The bigger the institutional investor the larger their allocation needs to be in order for the new investment to have the potential to 'move the needle' in their total portfolio. Additionally, for risk management purposes, investment policy statements often spell out what the largest percentage the institutional investor's allocation can be in a money management firm's total AUM in its strategy. This is to reduce their business risk exposure to a money management firm. That allowable allocation percentage portion is so small it requires the bigger institutional investors only to allocate to larger AUM-sized strategies than what many smaller sized emerging managers have on offer.

Next is a related point. Many large institutional investors do not have an emerging manager asset allocation 'bucket' at all; and for those that do, having an AUM size minimum threshold still applies.

So why, I asked the co-portfolio managers, had they been spending all of their sales marketing time knocking on the doors of these people who are among the most likely to have written policies prohibiting them from making an allocation to their emerging manager start-up fund? *Those are the only people we have on our Rolodex of contacts from our previous job!*

All of this money management firm's selling efforts had been off target, and this hadn't occurred to them.

The right natural target market for the product these co-portfolio managers had, I told them, was single family office investors. Among this category of sophisticated investor the emerging manager is far more likely to find some willing and interested in making investment allocations to smaller AUM sized firms with shorter track records. This should be the primary focus of your communications and sales marketing outreach efforts. Once your AUM grows enough, I added, then some larger institutional investors — endowments, foundations and also plan sponsors that that make allocations to emerging managers of size — will find you meet their AUM minimum threshold. Until that time, as you don't have a long list of direct, personal contacts with family office investors (and few do), you need to make efforts to seek them out.

They got the point. Continuing to pitch the wrong target audience and get rejected (rightfully so) is no better than throwing darts blindfolded.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 32-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.