Marketing To Sophisticated Investors column
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Family Office Investor Survey Reveals Money Manager Due Diligence Considerations

Tip 7: Preparing For Post-Pandemic Asset Raising

Welcome to the seventh of a series of articles offering insights and tips to prepare money management firms for improving their abilities to out-market competitors and attract assets from sophisticated investors in the coming post-pandemic, recessionary world.

Opal Group recently held its Emerging Manager Summit conference, at which they asked me to lead the session on *Post-Pandemic Investor Due Diligence Considerations & Asset Raising Tips* with family office investor panelists. This annual conference is where institutional investors — primarily family offices, but also some endowments, foundations and institutional plan sponsors — attend to learn of, meet with and talk about emerging managers and their strategies.

This year, out of necessity, the conference was converted to a virtual event. With all that is going on now to distract people I found it impressive to see the size of the investor turnout. In this work-at-home, pandemic environment there are investors who are continuing to keep their eyes out for money managers and strategies new to them.

Had it been a traditional in-person conference, the investors would have been chatting face-to-face with each other and asking, "*When it comes to money manager selection and vetting, what is your family office doing and taking into consideration in this new environment?*"

So that these investor attendees could still have the opportunity to learn what their peers were thinking, and to share their current views, they participated in a five-question survey my family office investor panelists and I put together for the conference. Survey results were reported at our panel session.

While emerging managers were the focus of the conference, the responses to the investor survey questions by these sophisticated investors have implications for money management firms of all sizes and types.

Let's look at the family office investor survey results and consider the implications for money management firms in their communications and sales marketing efforts to win new mandates from sophisticated investors in today's market environment.

Post-vaccine distribution, how long do you think it will take to get beyond the global recessionary environment?

Around 3 years	72%
Around 5 years	28%

Observations:
Note that this does *not* mean three or five years from today. Add a year or two to take into account the earliest time period by which worldwide distribution and inoculation with an approved vaccine will have taken place. So, for example, "around three years" means four to five years from now.

This gives you an idea of the minimum amount of time sophisticated investors expect that big, non-company specific risk factor exposures need to be identified and managed by the portfolio managers on which they may be conducting due diligence and considering allocating to over the next few years.

As the pandemic continues, would you be willing to make an allocation to a new manager without conducting an in-person onsite due diligence meeting?

Yes	84%
No	16%

Observations:
This is good news for many investment management firms that seek to develop new relationships with potential investors. But it doesn't make the education and mandate winning job easier. In fact, it will put even greater emphasis on the importance of the written word.

Marketing collateral submitted to meet the due diligence queries of family offices and other sophisticated investors is going to be under even more intense scrutiny. As one family office investor confided to me and some other family office investors when discussing these survey questions, the due diligence questioning about investing that his family office has begun to run new managers through now is, as he called it, "brutal".

Investor responses to the first survey question about a guesstimate on the length of the global recession, coupled with not being able to develop new in-person relationships with portfolio managers who did not receive a previous allocation, will magnify the importance of, and attention to analyzing, these written materials.

Would you find it acceptable to have money managers claim they have made no changes to their strategy implementation for managing their portfolios through this pandemic and recessionary time?

Yes	50%
No	50%

Observations:
The split cleanly down the middle response to this question started some debate among the conference investor attendees. There is a clear philosophical divide when it comes to risk management and investment process "must haves".

Should money management firms pitching for business now claim they have *not* considered making a single change to strategy implementation in this mid-pandemic, recessionary environment, half of the investors would think these portfolio managers do not have a grasp of changed risk/return exposures on positions held since pre-pandemic, and no insightful thinking for making valuation and risk/return decisions regarding new holdings under consideration to add to their portfolio. These very points are from where half of the investors may be expecting alpha opportunity. Where might your money management firm stand in regard to this?

How important in today's environment have the beyond-the-numbers factors such as the investment process, valuations, risk management protocols and strategy implementation detail become in your due diligence assessment of a new money manager?

No more important than before	16%
Even more important today	84%

Observations:
Among sophisticated investors, as they consider new managers to allocate to, performance has always ranked third in importance, risk management second and investment process first. The dramatic response here shows without question how much more importance investors are giving to the subjective-based views of the portfolio manager.

Note that, in print, this content that investors say is the focus of their evaluations is paragraph-based content and not bullet points. No flip chart pitchbook can contain the many sentences of needed explanation and elaboration about how a money management firm invests.

What percentage of emerging managers that contact you provide in print — without your prodding — all of the information beyond performance data that you need to determine whether you buy into their investment strategy?

0% of managers	28%
<10% of managers	16%
<25% of managers	34%
<50% of managers	22%

Observations:
The vast majority of investment management firms that try to win an allocation from family offices and other institutional investors fail. They do not make it all the way through the due diligence gauntlet. Most never learn why. As the responses to this survey question show, most money management firms are doing a dramatically poor job of delivering in writing information about how they run their strategies. Assuming performance is within the ballpark of acceptance, this is the content that will get a firm into semi-finals and finals consideration. Not all prospective investors are willing to prod a portfolio manager for such information. There are many more investment firms vying for their attention, and it takes less time to find a reason to reject than to seek out a reason to press on dedicating finite due diligence time to a money manager.

Also, once prodded, does the money management firm even have this required content to share? In my firm's thirty-plus years of experience around ninety five percent of the money management firms we have come across lack this content in written form. Again, this is pages worth of paragraph-based content about how a money management firm invests, and it cannot be shoehorned into a pitchbook.

Implications for your money management firm

The family office investors have made clear what, beyond acceptable performance, is the focus of their due diligence information gathering and analysis when evaluating whether they would award an investment mandate to a portfolio manager and the strategy he or she is running.

Here for each of the five survey findings are ramifications to consider that affect what money management firm owners should do now.

1) Family office investors expect global recessionary related macro-economic factors will significantly impact, and shift, the risk/return profiles on portfolio holdings. They want to know what a portfolio manager's thinking is about this, and want to have it spelled out in detail. How a portfolio manager addresses the valuations and risk management protocol elements of her or his strategy may be the differentiating factor that helps win a new investor mandate. Build this into your communications and have it in print.

2) While the majority of those polled said they would consider allocating to a new money manager without conducting an onsite visit that doesn't mean things got any easier. The number of contacts between a family office investor and money management firm may increase as it may take more virtual 'back and forths' to have the dialogue and content review than back in the days when the prospect was able to schedule to spend, say, a full day or more onsite to get a feel for team interaction as well as to get questions answered.

   Now, expect for them to have a series of separate video calls with an investment firm's team members to interview and quiz them. They will likely want a video walkthrough of the office. Also, they will still be looking to learn whether everyone seems to be informed and on the same page or if team members seem to be contradicting each other (a red flag).

Remembering that "brutal" comment about due diligence grilling, it is important to take the time now to reexamine the content of the story of how you invest, and how you and your team members communicate it verbally and in print. Your written marketing collateral is going to get a more skeptical-eyed going over than before. This is the 'physical' representation of what your money management firm has to offer. Also, without this you will be unable to teach the rest of your team members what you do, and when family office investors quiz them during due diligence efforts this lack of knowledge at the firm will show.

3) Half of the family office investors that a new (to the prospects) money management firm tries to pitch will expect the portfolio manager to spell out how he or she is taking the pandemic and global recession into account, and with what elements of their investment process they are doing so. Those money managers who claim they are not doing anything different at all in running their strategies should not be surprised when they find some suspects turn out not to be prospects.

4) Every money management firm needs to develop content that communicates in detail its investment beliefs and process, makes clear where the firm has innovative thinking and insights it applies in its investment process, and shows structure detail so that it is clear the organization is running a repeatable process. This paragraph-based content serves about eighty percent of what the money manager would look to cover in a round one meeting with a prospect. (Remember, they saw the data before the meeting or call and found it sufficient enough to be willing to take this next due diligence step.) However, this content about how a money management firm invests is not information that is only delivered orally. It also needs to be in its own stand-alone marketing collateral document.

This investment process storyline is, aside from having performance that is in the ballpark of acceptance, the most important content a money management firm has to use to educate and persuade people to understand and buy into how it invests. Again, this is an evergreen type document, devoid of performance data. The performance tear sheet and flipchart pitchbook are the correct receptacles for the numbers-based information.

5) An investment firm must make it easy for its prospective investors to receive and review the beyond-the-numbers content that it requires in vetting the portfolio manager and strategy. Do not wait to be asked. In its sales marketing workflow, an investment firm needs to create an action plan for relationship building that includes when and where to deliver this content in verbal communications and its physical delivery in print, be it a hard copy printed brochure or a PDF.

This content about how a firm invests is what defines and differentiates a money management firm from its competition. Also, as the survey results showed, the money management firm that delivers this due diligence vetting content without having to have its arm twisted to do so will stand out as remarkable when compared against its peers who never stopped to take a buyer-focused approach to how they handle their communications and sales marketing.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 33-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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