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

October 2023

The Danger In Marketing Too Early To 'Friends & Family' Who Aren't

"I'm going to start by only marketing my new fund to friends and family," the emerging manager said to me. My response was a question that had him pause for thought: Will they all be actual family members and actual personal friends?

No, it turned out. Most of the people he was really planning to pitch to invest with him were people who work at the investment firm where he used to work, and people who he met over the years who were also in or affiliated with the money management industry. They were not, in fact, personal friends or family. And, importantly, few were even very close business colleagues. Most were just business acquaintances.

Unintended consequences

Misidentifying your audience has the potential to cause unintended consequences that could negatively impact asset raising in the near term as well as down the road.

I've heard what I call a tale of woe from quite a few emerging managers that relates to mistakenly marketing too early to 'friends and family' who aren't actually either.

Having a Rolodex-worth of contacts of business-related industry acquaintances built up over the years is worthwhile; but deciding when the portfolio manager should broach the subject and make the pitch for the new investment vehicle offering, or ask for referrals, is something that too many emerging managers get wrong when approaching this audience, doing themselves damage.

Those tempting 'friends & family' contacts who are neither

There are two asset raising goals portfolio managers should have when it comes time to approach their network of investment business related contacts. The first is to seek out prospective investors among them. The second is to seek out potential sources of referral.

People who are in the asset management business, or in affiliated businesses, make very appealing prospective investors for a money manager starting a new firm.

However, odds are that very few business-related industry contacts will end up investing in an emerging manager they knew from his or her previous role as a portfolio manager, trader or analyst employee elsewhere. Yet there is a glimmer of hope: such people have their own extended circle of contacts, some of whom just might have interest in allocating to emerging managers, and the strategy category and the strategy implementation thinking behind the portfolio manager's new product. It can be valuable when such contacts agree to refer someone they know to the portfolio manager.

When emerging managers have such people on their list of contacts, they often feel pressure on themselves to go galloping after these prospects right away. But hold your horses!

What would be 'too early'?

From the stories emerging managers have shared with me over the decades about how they started their asset raising efforts there was often a common pattern. They were too unprepared to present and explain themselves at the time they started asking people to invest with them.

Since they began by approaching actual friends and family in an informal manner, usually just by speaking with them, there was little preparation by the portfolio manager for having this conversation and making this 'invest with me' request. This kind of friendly meeting was not treated with, say, the expected gravity of scheduling to speak with strangers to ask them to allocate to the new fund. The unspoken attitude was these people knew the portfolio manager well and if they ended up investing it would be based on that and little else.

The way the portfolio managers went about approaching those 'friends and family' contacts who *aren't* was a bit different. They were still taking a near-informal approach to speaking with these business-related industry acquaintances. However, for this group of prospects, the money managers tended to have a first draft of a one-pager or flipchart pitchbook that they handed out. There was little time spent on creating these sales documents. The way I know this is that in the aforementioned tales of woe that many emerging managers were telling me, the managers get around to the part in their stories where they say about these already distributed documents to their already pitched business-related industry acquaintances: *It was just a first draft. I've begun to redo it now.* Horrifying as it seems, these money managers admitted that they knew that they did not spend the necessary time, thought and effort into building the explanation of what made their stories unique and creating good marketing documents before approaching more highly skeptical prospects, who were not at all 'friends and family'. They blew that all-important first impression.

Do not spook them

There is a particular danger when it comes to pitching business acquaintances who are in or affiliated with the investment management business. (It also holds true regarding pitching sophisticated investors, who have years of experience in vetting and allocating to money managers, whether or not they are affiliated with the investment management business.) These types of prospective investors and potential sources of referral will *not grant you a do-over* if they find you cannot answer in detail the questions they may pose about strategy implementation or business management. Also, this group is going to be the most wary of people you know and pitch. They have a heightened awareness for potentially exposing themselves to reputational risk in recommending you to someone they know. What if your strategy fails? What if your strategy performs but your business fails? Are you worth risking a business or personal relationship they have with someone who they might suggest speak with you?

There are two ways you can spook 'friends and family' who *aren't*: What you communicate about running your strategy and what you communicate about running your business.

When emerging managers haven't prepared enough before the outreach, they often end up giving too vague and too generic-sounding explanations about their new investment strategies and how they are going to be implemented. Also, they completely skip making mention of business management detail and plans.

These business acquaintances know you, but how sure are you that they like you enough and trust your ability to both successfully run your strategy as portfolio manager and the new firm as a small business owner?

Industry insiders often know enough about what it actually takes to run an investment strategy and run a money management business to recognize how competent (or not) you are coming across to them. And those that do not know enough detail of what it actually takes to succeed still have seen or heard of enough failures where start-ups did not last long and closed shop. They already know there are more investment boutique firms that fail than those that succeed.

How to make your approach a treat

First, build a detailed explanation about how you are going to run the strategy of your new fund at your new investment firm. Not just verbally. This must also be in print; and not just in the offering memorandum and flipchart.

Second, build a detailed explanation about your business plans. A concern that I have seen grow exponentially over the years among skeptical, sophisticated investors as well as people in or affiliated with the investment business is whether those new emerging managers pursuing them and their investment dollars have a small business owner's head on their shoulders.

Their wariness can be summed up like this: *He has been a successful trader as an employee but I get the impression he is deluding himself as to what it really takes to run his own investment boutique, and so I don't think he can.*

There is a lot to explain; from how you're spending your current war chest to fund the business and what you're outsourcing, to how you plan to allocate future management fee revenue to further build out the business and its operations.

Equally important to communicating about those back office related functions is detailing what steps you are taking to grow assets and diversify your investor base. The longer it takes an emerging manager to grow her or his investor base the longer those who allocate first are more highly exposed to the firm's business risk. That fear of a long, slow slog to attract other investors is enough to send wary prospects galloping away from those emerging managers who were unprepared to properly pitch them.

So, allow these 'friends and family'— who *aren't* — contacts to be pleasantly surprised when you can not only verbally communicate this information that is so important to due diligence vetting, but also provide much of it in writing. This can separate an emerging manager from her or his business start-up competitors. It can reduce the red flags that those people would be quick to spot and be scared off by. And that might help convert some of them to become prospective investors or potential sources of referral.

If you do not take these actions before initiating contact, your ongoing pursuit of these acquaintances will have them perceiving you as the headless horseman rather than the clever portfolio manager who both has an intriguing investment approach and has proven that you have a small business owner's head on your shoulders.

#   #   #

About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 36-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.