

Marketing To Sophisticated Investors column

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October 2025

Is Your In-person Fund Pitch Coming Across Like The Spanish Inquisition?



Congratulations! You've got the attention of a sophisticated investor in search of new allocation opportunities. Before you do anything remember that skeptical, financially educated, sophisticated investors will not invest until they get a satisfactorily detailed and transparent explanation about the investment process the questing portfolio manager follows. If such experienced investors do not buy into your offering's strategy implementation, they will pass.

Expect to be called upon in your first meeting to give a verbal, detailed walk-through explanation of your investment process. This can take place in person or in a video discussion. This information will need to be delivered later in print, but that's a story for another day.

At your meeting, your sophisticated investor will probably listen to you with laser-like focus. Bear in mind that you're in the big time now. Your prospect or your prospect's gatekeeper will demand more detailed information than what the 'low hanging fruit' investors you may have previously pitched and won over asked of you. Marketing to sophisticated investors means being subjected to more extensive due diligence.

This is a significant contrast to the easier to convince investors you may have come across whose allocation decisions were either primarily based on overweighting the value of pedigree (they were impressed by where the manager used to work or went to college, and that ‘trust buy-in’ sufficed) or to performance chasing (where they were allocated to a top quintile performing manager running a similar strategy whose performance dropped and so they go hunting for today’s top quintile replacement).

Tell me how

Walk me through how you run your strategy. That is the straightforward and simple enough request to expect to get at a round one, in-person pitch meeting with a sophisticated investor. Upon learning and evaluating your detailed explanation about this, such prospects and their investment committees can judge whether they believe a manager’s past performance was more likely due to luck or skill.

Sounds easy but there is a catch. An exceedingly high percentage of portfolio managers — at any size firm — have trouble linearly going through their strategy at a pitch meeting with a family office or other institutional investor or gatekeeper. Worse, they have a hard time saying it the same way twice. For emerging managers who are likely to have little if any experience being in front of sophisticated investors, and have to explain themselves in a repeatable, structured, detailed way, this can be unnerving. These portfolio managers find themselves in a territory rife with chances for making mistakes in presentation and explanation; and then they end up coming across poorly.

Order, order!

For any investment process to work with consistency its steps need to be carried out in some linear, chronological fashion. Sophisticated investors know that without this, there can be strategy drift at the least and unintended risk exposures or loss of capital at the worst.

Sounds simple and obvious? Sure. But can most portfolio managers communicate all of this detail? Based on our decades of experience with what we’ve directly observed, the answer is No.

Too many portfolio managers believe they can just wing it. They simply improvise at the important first pitch meeting and say out loud whatever comes to mind at the time for explaining their investment process.

Therefore, portfolio managers need to have a detailed narrative explaining the investment process they created and the workflow order they follow for carrying it out. Next, they need to practice saying it audibly — many times.

Skeptical prospects won’t let you ‘come in again’

It’s having seen portfolio managers who demonstrated their lack of proper initial preparation, followed by a lack of sufficient rehearsal, that leads me to bring up The Spanish Inquisition. Not the period in Spain from 1478 – 1834. The classic *Monty Python & The Flying Circus* TV show comedy sketch. (You can find and watch it online.)

In it, three of the comedy troupe burst in to a room where a man and woman (from a different historical time period; this is an intended comic non sequitur) are having a conversation. The invading trio are dressed as cardinals at the time of the Spanish Inquisition. I'll quote just a segment of this early part of the sketch. This is analogous to what many sophisticated investors find themselves watching when pitched by portfolio managers who were clearly unprepared to talk them through the methodology steps of their investment process.

[In the scene a man and a woman are having a domestic discussion.] The man says to the woman: *I didn't expect a kind of Spanish Inquisition!*

[A JARRING CHORD IS HEARD]

The door flies open and Cardinal Ximinez of Spain (comic Michael Palin) enters, flanked by two junior cardinals.

Ximinez: *NOBODY expects the Spanish Inquisition! Our chief weapon is surprise...surprise and fear...fear and surprise....* [The look on his face shows he realizes that he initially left out the second point.]

Our two weapons are fear and surprise...and ruthless efficiency.... [The look on his face now shows he realizes he'd left out the third point.]

Our three weapons are fear, and surprise, and ruthless efficiency...and an almost fanatical devotion to the Pope.... [The look on his face now shows he realizes he'd left out the fourth point.]

Our four...no... Amongst our weapons.... Amongst our weaponry...are such elements as fear, surprise.... I'll come in again!

But the difference is, you, the portfolio manager, do not get to come in again. And unlike the comedian actor who is doing his job when he pretends to forget his lines and comes across looking foolish, if the first impression you leave at an initial pitch meeting shows that you were not prepared to properly explain your investment process it will cost you.

If at a meeting you have to backtrack and retell when trying to explain your methodology, prospective investors can be left thinking that you either lack an actual structured process or you cannot be trusted to carry out your own methodology with consistency. Both are dangerous perceptions to imprint on investors' minds and are red flag reasons to reject a portfolio manager from further consideration.

Sophisticated investors will not grant you a do-over should you later get around to repairing how you explain how you run your strategy.

How to properly prepare

There is a particular starting point for preparing to come across better than the majority of your competition at the important first pitch meeting. You need to be able to visualize the workflow for running your strategy and to have the words to talk your audience through it.

To achieve this, put in the time, thought and effort to build out first in print the step-by-step process used to assemble and manage your basket of holdings. By carrying this out first, you will more likely a) become more cognizant of all of the steps you actually carry out in running the portfolio, b) acquire the ability to better recall and state all key steps taken, and c) gain the ability to communicate workflow detail, the same way twice, and in the correct sequential way in which the steps are actually carried out.

Next, rehearse talking this through out loud. Do this a number of times over a number of days, and look less each time at reminder notes as you repeat giving your strategy implementation explanation verbally. The object is not to memorize so you can deliver a soliloquy while a prospective investor sits in rapt attention; they'll want to have a dialogue with you. Instead, this rehearsing will get you more comfortable with telling your story out loud. They don't teach this in business school or on a trading desk.

If you, the portfolio manager, find this is too challenging to carry out by yourself — building the storyline explanation and rehearsing being a verbal storyteller — seek out counsel from someone who understands portfolio management, who can speak to you as a peer, who knows how sophisticated investors think and what can make their investment strategy due diligence work easier.

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About the author

Bruce Frummerman is CEO of Frummerman & Nemeth Inc., a 38-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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