Marketing To Sophisticated Investors column
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September 2019

Does Good Writing Indicate A Better Money Manager?

A money manager's two main jobs

Money management is a business. The portfolio manager is the lynchpin in that operation and he or she has two main jobs. The first is to deliver performance that is considered to be within the ballpark of acceptance. The second is to be able to educate and persuade prospective investors and those who influence them to understand and buy into how they invest. The first job is data based, but the second job requires the ability to effectively communicate subjective-based, beyond-the-numbers information. That requires a lot of clear thinking, and then being able to put those thoughts, clearly, into print. Is your firm getting it right in writing?

More than an academic exercise

Last month, academic researchers from the Universities of Maryland, Oulu, Singapore Management and Buffalo released a paper on their study *Text Sophistication and Sophisticated Investors*, which focused on textual analysis of the investment strategy descriptions that hedge funds posted at online hedge fund performance and information databases used by institutional investors.

The study finds that, after accounting for past fund performance, sophisticated investors tend to invest more with hedge funds whose descriptive copy about their investment strategy employs a wider vocabulary, than with those containing complicated sentences and repeated word usage. However, the academics also believe those writing with "syntactic complexity" may be found less trustworthy. From content in the hedge fund databases surveyed, the study calculated that "hedge funds with high lexical diversity outperform those with low lexical diversity by an economically and statistically significant 3.63% per year". Let's consider their phrase "syntactic complexity." What they meant — or should have meant — is long, convoluted, poorly written sentences do no good for the reader or writer. This is *not* the same point as a money management firm having to communicate complex points, and using longer but correctly structured sentences to do so. There is nothing wrong with addressing complexity as long as it is written about in a cogent and compelling way.

This intrigued *Institutional Investor* enough to write this study up under the headline Good Writers Make Better Hedge Fund Managers. Missing from that article, however, and buried in the study, were even more important, mentioned-in-passing observations the researchers made, which relate to increasing transparency requirements by sophisticated investors: "…strategy descriptions have been increasing slightly in length over time. Investors' demand for longer and presumably more detailed strategy descriptions imply that strategy descriptions contain even more incremental information for newly launched hedge funds."

Ever since the 2008 market crash sophisticated investors have been demanding longer, more detailed explanations about how a hedge fund (or any money manager for that matter) invests. For emerging managers, who may have little or no track record, this content is crucial to survive and grow assets enough to stop having to personally bankroll the running of their businesses.

So, what are the academics calling "strategy descriptions"? And what (beyond beware redundant words and poorly structured sentences) is the bigger lesson for money management firm owners to apply to their communications marketing?

How descriptive is your firm's strategy description?

As my 32-year-old financial communications and sales marketing consulting firm notes to its clients, there are actually *two* strategy descriptions any money management firm needs to craft to communicate with and market to sophisticated investors: the short version storyline strategy description and the long version storyline that also includes more extensive strategy implementation information. This is otherwise known as the investment process explanation.

This important content is beyond-the-numbers information, and this is what money management firms of all types find the hardest to effectively communicate.

The short version storyline strategy description is the brief explanation about investing that a money management firm puts in its frequently brief DDQ response to the question of Strategy. This same copy is typically the complete text that appears in a flipchart pitchbook about investment process. Yet, it is nowhere near complete enough for sophisticated investors to decide whether they believe the way the firm briefly says it invests is a sensible enough methodology for the asset class in which that money manager invests. These truncated strategy descriptions typically do not deliver enough information to clearly differentiate the firm from its competitors.

It was this briefer copy on which the academics conducted their vocabulary usage and sentence structure analysis. Neither money managers nor sophisticated investors, the academics were not in a position to determine whether the strategy descriptions were delivering what those in the know would consider to be just generic overview type language found to be used by most money management firms, or content that actually delivered more detailed information about their asset class specific marketplace views and steps taken to seek out alpha. The former type of strategy description is what comes across to sophisticated investors as being a commodity-like manager choice, easily replaceable as soon as performance lags; while the latter type, communicating some of the personality and character of the particular manager's approach, adds subjective-based investment process detail that helps shape a brand identity for the money management firm — all based on how it thinks and runs its portfolio.

Written communications can make or break asset raising efforts

While this academic study did not look to address what a good investment strategy description is, you can bet the sophisticated investors are seeking to determine just that. This is where the long version storyline about how the money management firm invests comes to play. This content needs to address investment beliefs and the strategy implementation steps taken to assemble and manage the money management firm's basket of holdings.

You cannot write this important content in a muddled, opaque way. Your written explanation must also jibe with the verbal explanation delivered at in-person sales meetings with sophisticated investors. Contradictions between written and verbal explanations describing the investment process raises a large red flag for the sophisticated investor.

Cogent and compelling writing that communicates how a money manager thinks and the process used to run the investment strategy is not just a significant differentiator that can separate a portfolio manager from his or her peers, it also makes the due diligence analysis job of the sophisticated investor easier.

Are you planting asset raising seeds with your firm's writings?

Clearly written and properly detailed communications requirements go beyond the explanation of strategy. Sophisticated investors are also judging a prospective manager on which they are conducting due diligence when reading and analyzing their writings about performance reporting analysis in monthly and quarterly letters to investors, in their stock research reports, asset class related market commentaries and white papers on issues that relate to seeking out investment opportunity or managing portfolio risk.

While such written communications and marketing materials are provided to a money management firm's current investors and the prospects with whom it is in direct contact, there are outreach opportunities to leverage these writings further. Online at websites such as Harvest Exchange sophisticated investors are reading content written by a wide range of money management firms that are seeking to display their intellectual acumen and attract or retain as clients plan sponsors, family offices, endowments, foundations and RIA firms.

As these sophisticated investors have read so much content from so many money management firms pitching for their business they do not have much tolerance for poor writing. Better written content comes across like a breath of fresh air — wanted, but not always found.

Money managers who are doing a good job with their second key job — successfully educating and persuading prospective investors and those who influence them to understand and buy into how they invest; and being able to do so in print — are much more likely to be perceived to be better money managers than their competition.

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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.

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