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

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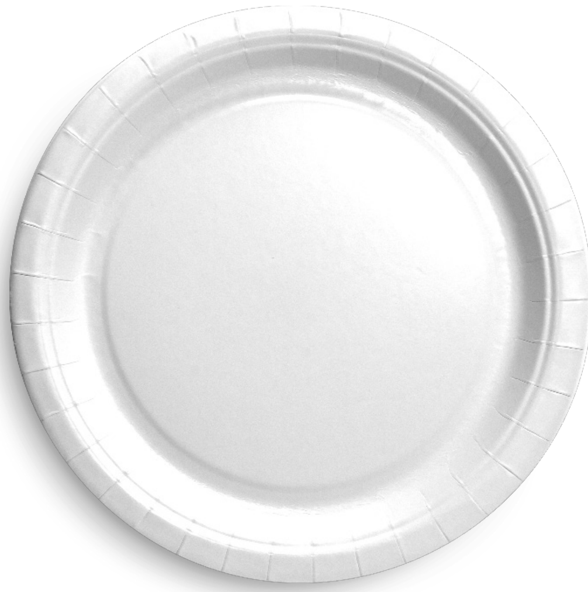
Is Your Fund Marketing Misreading The Important Pie Chart?



A portfolio manager approached me recently at an alternative investments industry event with a question. His investment firm, whose strategy was to acquire and lease an asset type, was not getting the traction it expected with its investor fundraising efforts in winning over both institutional investors and family offices, he told me. It was not that they were losing out at investment committee finals consideration to competitors; they were getting nowhere near that far in the investor-conducted due diligence vetting process. Rather, they were getting a response of "no interest" from the vast majority of their initial contacts with people.

So, I asked him for an explanation about his firm's investment offering and the performance and characteristics of the portfolio. Next, I asked him to detail for me the types of investors with whom his firm had been having direct contact but no luck. Then I asked him to tell me the "He said, she said" back and forth of both sides of the conversations, as he could remember it.

A few points became readily apparent to me, which I then shared with him. The first few points had to do with how well his firm knew themselves.

I told him I observed that the explanation about the particular investment strategy and offering was, at the same time, both rambling and disjointed; and it was missing key contextual information that investors would need to learn to understand the role this offering might play within their total portfolios.

Next, I commented, as was evident in my questioning of him, while he could answer the past performance percentage return question, he couldn't answer how much risk they took to generate that return. He did not know what their risk/return profile was or how it compared to any benchmark or peer group. The kinds of people and organizations his firm would want to market to, whether now or in the future, would want to know these things and could become uncomfortable when seeing that a money manager who is pitching them cannot provide such information.

The most blatant obstacle his firm faced, however, had to do with their lack of understanding different investor audiences and which their offering was best for. I told him his firm hasn't given thought to what its natural target market is for its investment offering as it stands today.

Whole pie thinking is a mistake

I said that they were making what I've found over the decades to be a common error in fund marketing to sophisticated investors: their firm had been working under the misassumption that *all* institutional plan sponsors with an emerging manager allocation program and *all* family offices were targets who should want to invest.

I explained that his firm's AUM size was currently too small for most of the institutions with emerging manager programs to consider an allocation. The minimum investment amount for many would so dwarf the small AUM they currently had from friends and family money that the institutions' investment policy statements would likely prohibit an allocation. The fund would have to grow AUM significantly to be considered. That's why they were getting "no interest" responses from the institutional plan sponsor organizations they approached.

As for family office investors, here the story differed. There was opportunity to be found, but only among a select few who were part of the family office investor world.

Paper plate show & tell

It so happened that he and I were standing alongside a counter at this event that held a stack of small-sized paper plates on which to put one's hors d'oeuvres.

I picked up a plate and turned it on its side, facing him. Imagine this is a pie chart that represents all family office investors, I said. This total pie is *not* your product's market; yours is only a small slice of that. He reached into his pocket, took out a pen and handed it to me.

I drew two pie wedge lines that delineated a one quarter-sized wedge of the paper pie plate. Assume this represents family office investors that would consider an alternative yield generating strategy, I told him.

Drawing a line inside of that pie chart slice I said to him, we now reduce that wedge size by removing those investors who would require a longer track record than you have. Drawing a line inside of that new smaller slice I said to him, we now remove those investors who would require a manager to have a larger AUM than you do. Drawing a line inside of that slice, I made a fourth, smaller pie wedge. Assume this now eliminates those investors who would not want exposure — or more exposure than they already have — to the asset class that you focus on. It is this slice of a slice of a slice that is, in fact, your current natural target market. It is these people who are prospects; all others you come across are actually suspects who, once screened, do not turn out to be near-term prospects for your fund.

When an investment firm starts fundraising efforts without first having thought this through the likelihood that it may become discouraged for the wrong reasons is high, not low.

Even once natural target market prospects have been properly identified, I told the money manager, the investment firm still needs to do a better job that its similarly performing competitors in making it easy for the sophisticated investors to conduct their beyond-the-numbers due diligence to understand and buy into the investment process the portfolio manager follows. This requires being detailed enough, being transparent enough, and providing the information in print and not just verbally. This way, you increase the odds that your contact person at the family office or institutional plan sponsor will be willing to become your evangelist with their fellow investment committee members. Also, importantly, you will have increased the odds of them not messing up in communicating your story when you are not there with them.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 37-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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