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Asset Raising Beyond Your Friends & Family



There is something that does not occur to many emerging manager firm owners.

It is this: Portfolio managers have two essential jobs. One is to deliver performance that is within the ballpark of acceptance and the second one is to educate and persuade people to understand and buy into how they invest. For those who can't succeed with the second job and attract sophisticated investors to allocate, it won't matter how good they are at the first. They will find it difficult to grow, let alone stay in business.

When easy becomes hard

For most emerging managers the first outside allocations to their strategies come from friends and family; these are people who already know them, think well of them and trust them. However, once these portfolio managers begin marketing to strangers, they often find themselves getting a chillier reception.

This frequently comes as a surprise but sometimes brings about an 'ah-ha' moment. A portfolio manager confided to me, after he experienced how tough it was to interest strangers in his firm and convert them into investors, that he realized now that he *could have talked Jabberwocky* to some of his friends and family allocators and they still would have invested. They knew him and, in their minds, that was enough.

In contrast, it is another story altogether when it comes to selling to financially educated, skeptical sophisticated investors such as institutional plan sponsors and their gatekeepers, family offices, fund of funds, endowments and foundations, savvy UHNW investors, and some in the independent financial planning/investment advisory wealth management firm world. To conduct their due diligence vetting, these types of allocators require far more information than what many an emerging manager communicated to friends and family to win them over as investors.

To make matters worse, you are not alone. There are thousands of money management firms competing against you to win allocations. While some firms will prosper, many will not. Many have an AUM size that is too small to survive. You can put yourself among the former by following some steps that will engage and improve your abilities to win over sophisticated investors.

Keys to success

What is it that enables one money manager to grow and retain assets while a competitor cannot?

Is access to distribution channels the key to success? That can be useful but just because an emerging manager's products are available through a distribution channel or platform doesn't make demand pull exist for those products or mean that the channel is proactively soliciting for investors in the firm's products.

Is performance the guaranteed way in? Of course not. If that were so there would be but a fraction of the number of money management firms there are. While performance is a significant ingredient in the formula for success in attracting assets, it is just part of the equation.

As an institutional investor was once quoted in the financial trade press as saying, "I am not going to buy a track record. I want to buy an investment process." Remember that comment. It lies at the heart of what you are selling. (**Note:** *You have just read the first key asset raising insight offered in this, our inaugural column.*)

Planned marketing outreach or red flag?

Marketing does more than "get the word out". It is what can create an investment management firm's identity and position and differentiate it in the eyes of the marketplace of investors, advisors and the marketplace.

However, when marketing its investment process is given short shrift by a money management firm of any size, its ability to attract and retain assets suffers. When it is given short shrift by an emerging manager that firm will either live out a life with very stunted growth or end up closing its doors.

Worse yet, when sophisticated investors come across an emerging manager who is clearly not budgeting enough of time, effort and personal savings toward building and running a competitive asset raising outreach effort they view that as a red flag. What the sophisticated investor sees is a portfolio manager who lacks a small business owner's head on his or her shoulders. Sophisticated investors are well aware that the attrition rate is high among emerging manager firms that don't put in the time and work needed to craft and execute thoughtful growth and marketing plans.

Two chief risks

As emerging managers should be aware, there are two chief risks that concern sophisticated investors who consider being early allocators to managers who only have small investments from friends and family.

The first is strategy risk. Will strategy implementation of the manager's investment process prove to be effective in navigating through different market environments and deliver the desired risk adjusted return exposure?

The second concern is business risk exposure. The fewer outside investors an emerging manager has the greater the amount of business risk exposure each early allocator has to the young firm. Here I'm talking about whether the investment boutique gains enough traction to grow assets, and therefore stay in business, or stall and close its doors. If portfolio managers can win over more investors — yes, I said *if*, not *when* — then the business risk exposure per investor diminishes.

So, as a family office investor commented to me, from the perspective of the outside investor there is a countdown clock ticking at the emerging manager firm. Can they secure enough management fee revenue from external investors before their operating capital is depleted? And what actions are they taking to accomplish this?

Who will pay for the business risk exposure you give early outside investors?

You would think that every emerging manager would be cognizant of these concerns and of the countdown clock their young business has as it joins the competitive investment management marketplace.

Yet, over the years, there have been occasions when I had emerging managers say to me that only after they have landed a handful of large allocation anchor investors would they fund a communications and sales marketing asset raising effort (only with other peoples' money, from the added management fee revenue). They were not willing to spend their own personal savings on this. As some managers went on to complain, it was already costing them enough to pay for their brokerage, accounting, fund admin and legal expenses!

Imagine you were a family office investor hearing this in your round one due diligence meeting with an emerging manager. Are you likely to be admiring his thrift and plans to push some needed business operations expenses onto others? Or, might the penny-wise, pound-foolish business management thinking steer you to decide he lacks a small business owner's head on his shoulders and you are not interested in spending further due diligence time on such a portfolio manager?

This brings us to two summary insights on the business risk exposure issue.

First, it costs a good chunk of personal savings to fund early years of operations for an emerging manager investment firm. If you either lack the necessary funds or are not willing to allocate enough of your personal savings towards running the business until management fee revenue grows enough to cover all front and back office expenses, then don't become an emerging manager. Become an employee elsewhere. Being a small business owner emerging manager is not for everyone.

Second, the more communications and sales marketing actions you have to point to that demonstrate you are making ongoing efforts to run asset raising outreach, out-market competitors and grow your investor base sooner than later, the more likely some early stage allocators to emerging manager strategies may be to continue due diligence vetting after a first meeting.

What else are you going to need to know and take action on if your emerging manager firm is to survive and thrive?

I'm glad you asked. We'll begin to delve into that in our next MAIN Asset Raising Insights column. See you next month!

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About the author

Bruce Frumerman is CEO of Frumerman & 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. Frumerman & Nemeth's work has helped money management firm clients attract over \$7 billion in new assets, yet they are *not* third-party marketers.

The firm has decades of experience as professional storytellers, content strategists and content creators. 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.

The firm'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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