Asset Raising Insights
COLUMN

MANHATTAN
Alternative Investment Network

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September 2026

This Examination Can Improve Your Fund's Asset Raising Success

Money management firm owners are well acquainted with the audit. Wisely, many budget, without blinking, for an annual accountancy review of their numbers, and they welcome compliance audits to confirm that nothing in their IR and marketing communications runs afoul of the SEC or the CFTC. They recognize that thinking one is doing a sufficient job is not the same thing as verifying it. That gap is exactly what the outsider's eye is for — catching the recordkeeping or filing error, the misstated figure, the missing disclosure, before it becomes a problem that costs real money or real reputation.

Yet here is what most investment firm owners have not fully absorbed: an outsider's eye is just as necessary on the front office side of the business. And the reasons for needing it have to do with something as vital as regulatory compliance.

Two Different Penalties For Two Different Kinds Of Complacency

Regulatory bodies care a great deal about whether your firm follows the rules governing disclosure, marketing claims and recordkeeping. They could not care less about whether your firm is interesting enough, differentiated enough, or persuasive enough to be worth the lengthy due diligence time it typically takes allocators to get comfortable with your investment offering and firm to write a check. But prospective sophisticated investors do.

These two entirely separate scorekeepers — government regulators and prospective investors — can penalize you in entirely separate ways.

Grow complacent about regulatory compliance, and the penalty is concrete: an SEC audit you didn't ask for, weeks of staff time and legal expense diverting you from running the business, and potentially a fine at the end of it. It shows up on a calendar and as an undesirable budget line item.

Grow complacent — or simply uninformed — about how your firm comes across in its marketing and sales communications, and the penalty is quieter, slower, and in some ways more damaging: assets under management grow slower than they should. In the worst cases, they don't grow at all. Nobody sends you a violation notice when your marketing collateral and conversations with a potential investor fails to differentiate you from the next boutique on the allocator's calendar that week. You simply don't get the call back. Quarter after quarter, the firm that could be managing $400 million is still managing $4 million, or less, and the portfolio manager isn't always sure why.

Just as your back office benefits from an accounting firm's outside financial audit of your investment product, your front office — in its communications and sales marketing efforts that are responsible for raising assets and helping retain clients — can benefit from an audit of its own. Yet how many emerging and mid-sized managers have ever commissioned one? Very few. Most simply assume the pitchbook is fine, and enough, because nobody has told them otherwise, which is precisely the same logic a firm owner would never apply to their compliance required filings.

This Kind Of Audit Looks Nothing Like A Consumer Brand Audit

A communications and sales marketing audit built for an investment management firm selling an investment offering to sophisticated institutional investors bears almost no resemblance to one built for a consumer products company trying to build brand awareness for, say, a new cookie among retail shoppers. The cookie company is fighting for a few seconds of attention and an impulse decision at a shelf or a screen. Not you. Your firm is fighting for a multi-year commitment of institutional capital from an audience that has far more experience in and earned skepticism from evaluating money managers than do the friends and family investors your investment boutique may have won over more quickly in the past.

Sophisticated allocators carry out a two-month to two-year due diligence vetting, and for a significant stretch of that process, they are actively hunting for red flags that justify saying No. Saying No is the safe, low-career-risk decision for allocators; saying Yes requires them to put their own judgment on the line and become an evangelist for the portfolio manager with the rest of the investment committee. Their decision is shaped by how they read your materials and absorb what you may be telling them verbally.

An audit worth commissioning has to be built with the sophisticated investor in mind. It needs to find the red flags in your existing materials before a skeptical allocator does, and it needs to prescribe how to eliminate them. Just as important, it needs to identify the gaps on the other side of the ledger: what isn't being communicated that needs to be, what is being communicated poorly or incompletely, and what is being delivered in the wrong format — a claim buried in a footnote of a pitchbook when it belongs up front in a letter to investors, for instance, or a differentiation point made verbally by the portfolio manager that never once appears in writing.

Learn What To Stop Doing — And What To Start

An audit's real value is not just the findings. It's what your investment firm does with the resulting recommendations afterward: retiring practices that are quietly costing credibility with sophisticated allocators and adopting practices your firm may have been meaning to get around to but never prioritized.

A good communications and sales marketing audit can guide your firm with a To Do list of actions to take for you to improve what you say, how you say it, and which document or verbal contact with a prospect should be carrying each piece of that message. These include: your pitchbook, your letters to investors, your in-person pitch, or something else entirely.

Finding Asset Raising Audit Help

Not everyone who calls himself a marketing or ‘branding’ consultant is equipped for this work. A productive communications and sales marketing audit for an investment firm demands an auditor who knows portfolio management in enough depth to sit down with your portfolio manager and talk shop as a peer — not as a marketing generalist nodding politely through concepts he or she doesn’t fully grasp because they may really just be in the graphic design business for websites or pitchbooks. If the auditor can’t follow a discussion of your risk management methodology or your position sizing thesis, she has no real way of judging whether your written and verbal communications about your methodology make sense, seem to be missing pieces of the story, or are landing incorrectly.

It also demands an auditor who understands, firsthand, how sophisticated investors actually think and vet — not secondhand, from articles or hearsay, but from direct conversations with the family offices, consultants, and institutional allocators who make these decisions. That kind of knowledge doesn’t come from a marketing textbook. It comes from hearing investors describe in their own words what makes them say Yes and what makes them walk away.

Improve Your Fund Raising Success

Establishing and carrying out a plan of action following a communications and sales marketing audit can help lead your firm to better buyer-focused communications and sales outreach, thus enabling you to more effectively out-market competitors chasing the same pool of capital, and improving your ability to grow AUM.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 39-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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