ALPHAWEEK

An AlphaWeek conversation with
Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

April 2022

The Biggest Impacts of the Geopolitical Crisis on Fundraising Communications

AlphaWeek:
We are speaking today to Bruce Frumerman, CEO of the 34-year-old financial communications and sales marketing consulting firm Frumerman & Nemeth Inc. in Manhattan. His firm's work has helped money management firm clients out-market competitors and attract over $7 billion in new assets, yet they're not third-party-marketers.

Bruce, thanks for joining us!

We'd like to speak with you about what ramifications you see the latest geopolitical crisis will have regarding fundraising communications for portfolio managers who run actively managed strategies. What were Frumerman & Nemeth's initial observations about this?

Bruce Frumerman:
Just weeks ago, all portfolio managers had on their minds was uncertainty as to when the Covid-19 pandemic might start to fade enough for supply chains to recover to their pre-virus state and when inflation might be tamped down.

However, the market gyrations that have occurred in these first weeks of the Russian-instigated war and the resulting geopolitical crisis have shown portfolio managers, and their current and prospective investors, what is likely to be but a taste of the market volatility and fluctuating stock valuation uncertainties that will be seen as Russia's invasion of Ukraine continues to play out.

AlphaWeek:
We all recognize the tragedy this is for the people of Ukraine. The repercussions of Russia's actions are being felt around the world, first at a humanitarian level and then politically and financially.

Frumerman:
That's right. And, unfortunately, it could take years before this geopolitical crisis resolves.

AlphaWeek:
What could this mean for money management firm owners who look to raise assets beyond friends and family?

Frumerman:
As a result of this geopolitical crisis, actively managed strategies should attract even greater attention. Along with that, there is going to be more pointed due diligence questioning from sophisticated investors. By that I mean family offices, endowments, foundations, plan sponsors, the gatekeepers for these, and also some allocators in the wealth management field serving UHNW and HNW investors.

AlphaWeek:
Which types of money managers are most likely to get this greater due diligence questioning?

Frumerman:
The one for which the geopolitical crisis may raise the most due diligence process vetting questions — and provide the best opportunities for portfolio managers in their fundraising communications — is with equities investing.

Experienced, sophisticated investors understand that for both long-only and long/short equity managers, navigating successfully through time periods when there is more unpredictability than usual requires more than just having astute company-specific risk analysis to support their stock selection and portfolio allocation decisions.

Then there are the fundamentals-based commodities investing money managers who, relatively speaking, buy and hold rather than follow quant-based, high portfolio turnover trading strategies.

For both these types of liquid strategies, Frumerman & Nemeth expects due diligence questioning about investment process and strategy implementation to be ratcheted up for the foreseeable time to come.

AlphaWeek:
What kinds of questions are the types sophisticated investors you refer to likely to probe about?

Frumerman:
It starts with questions about a portfolio manager's decision making for putting on or adding to positions. I'll give you three examples:

> *What is the detail as to how the portfolio manager is taking into account company-specific risk and also non-company specific risk?*
>
> *In what environments do managers's risk management protocol have them giving more weight to certain specific factors than others?*
>
> *How, exactly, with the stock picking process, does the money management firm aim to use volatility to its advantage?*

Next, will be portfolio monitoring related questioning. One of the key questions a portfolio manager will have to answer will be:

> *To what degree — and under what conditions — does the manager allow the prices of holdings to drop before taking some action?*

Let me give you an idea of just how much more pressing this point has become. Just weeks ago, I attended an alternatives investing industry event at which one of the speakers was head of investment manager due diligence and manager selection for one of the major US wealth management and brokerage firms. The sole anecdote shared about traveling to have an onsite, in-person catch-up visit with a portfolio manager during these Covid-19 times was a case where a manager's portfolio kept dropping in value. And this was what the portfolio manager was asked: *How much of a drawdown is too much at this point*? *Can you just give it to me straight?*

AlphaWeek:
That sounds like the portfolio manager never explained this in the first place. Shouldn't this be part of what an investment firm needs to explain about its strategy early in its fundraising communications and sales marketing contacts with prospective investors?

Frumerman:
That's right. It could be the portfolio manager never addressed this topic in his or her marketing efforts. Or, it could be that the manager never had a sufficient enough risk management protocol established within the investment methodology, and so began to suffer significant losses when unaccounted for market events impacted the portfolio's holdings. Also, it's possible that the manager could have been guilty of strategy drift — veering from the originally claimed process — which resulted in the drawdowns.

AlphaWeek:
Any other questions you see coming to the fore?

Frumerman:
There is one that dovetails with the point we just discussed, and that would be about when there are risk exposures. I'll give you a multi-point question for this one:

> *How, and when, does the manager seek to hedge or rebalance positions so as to dampen the degree of downside volatility of the portfolio versus its benchmark, or take action when correlations among holdings rise?*

AlphaWeek:
Do you see the topics that these questions address as being things a money manager should wait to be asked and respond to, or should they be proactive with the information?

Frumerman:
You raise an important point. A portfolio manager should not wait for a prospective investor to bring up these questions. It is better for a firm to be delivering in its fundraising communications — both verbal and in print — the detail to educate people about how the investment team thinks and runs its strategy. And with the yet-to-die-off Covid-19 environment, plus now the additional Russia-instigated geopolitical crisis going on, it is important to include mention of current events and explain how they are taken into consideration.

So, once a portfolio manager has walked a prospect through the detail of her or his investment process it is important to point out which elements of the just-described methodology play particularly important roles in setting, monitoring and modifying valuation and risk management assessments. This is needed on stock, sector and macro levels as all have the potential to be impacted by volatility-triggering events and possible jarring reversals of fortune, at least in the near- to mid-term for some years to come.

AlphaWeek:
And none of this has to do with reciting performance data. So, how do you classify it?

Frumerman:

It is the beyond-the-numbers factors that differentiate one portfolio manager from another. This is what is going to take on greater importance at the behind-closed-doors investment committee meetings that discuss, debate and vote on which new manager gets the allocation.

To better explain themselves in their fundraising communications to sophisticated investors, and out-market competitors, portfolio managers need to recognize that success in this will be dependent upon how good is the portfolio manager's Story of How. This is what Frumerman & Nemeth calls the detailed communication about how the manager thinks about portfolio management and how that approach is specifically applied in the steps the firm takes to assemble and manage the portfolio's basket of holdings.

There are many points of detail that should be delivered in fundraising communications about this; particularly for equity managers for whom fundamental analysis is often part of, or the foundation for, how they run their strategy.

With the geopolitical crisis now on top of the remaining market impact of Covid-19, expect that sophisticated investors will be more often quizzing portfolio managers on such points far before making an allocation.

So, it is important for a money management firm to reexamine its portfolio manager's Story of How from the perspective of interested but skeptical sophisticated investors. Then, add to the firm's fundraising communications what is found to be the missing elaboration and detail needed to clearly communicate how, in its strategy implementation, the firm seeks to take into account the market gyrations and geopolitical crisis we all face today.

# # #

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 34-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.

Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.