Guest Column

A Qualified Marketing Failure Among Many Emerging Manager Firms

By Bruce Frumerman, CEO of Frumerman & Nemeth Inc.

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 33-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.

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If your money management firm does not have many billions in AUM and a handful of sales people marketing around the country or around the world, then yours is among the majority of emerging manager firms that have limited resources in budget and staff for asset raising. This makes it all the more important that you run the most effective, informed and focused asset raising efforts.

When Wednesday's Child is a Money Manager

I receive phone calls a few times a year from emerging managers who are new to me, sharing what I call their tale of woe.

There are some common points I hear again and again:

- We can't get any investors beyond friends and family to invest with us.
- We hit a wall in our asset raising marketing efforts and have no traction with anyone we can see as being a potential investor.
- Family offices have no interest in our strategy.
- Institutional investors and their gatekeeper consultants won't give us the time of day.

Do you know what ties most of these tales of woe to each other?

The Suspect, Not Prospect, Error

This is something that a large number of money management firm owners and sales people have failed to grasp: *Not every suspect is a prospect.*

Just because your firm identified an individual or organization that makes investments, it does not mean that your product offering is currently a fit for their requirements or needs.

How much attention has your firm given to the requirements or needs questions that arise in the world of sophisticated investors? By this, I'm referring to family offices, endowments, foundations, institutional plan sponsors and their investment consultant gatekeepers, and some in the financial planning/investment advisory wealth management firm world.

What The Suspect Requires

The bigger the institutional investor that you would like to pitch, the greater the likelihood that it has drafted an investment policy statement. A requirement often written into investment policy statements covers the assets under management size of investments that may be considered. The larger the investor, the greater the likelihood there is a minimum AUM size requirement that an emerging manager's product must exceed.

Such an investor is looking to make an allocation that is big enough to "move the needle." Making a very big return from a relatively tiny (for them) allocation is of little value. What is the allocation size that such investors look to make? It is more along the lines of $50 million, $100 million and $250 million, not $1 million, $10 million or $20 million.

Also, sophisticated investors look to avoid taking on significant investment firm business risk exposures. The smaller the money management firm is in AUM, the greater the potential that an institutional investor's allocation to such a firm would constitute a major allocation. Institutional investors often seek to avoid this type of exposure.

As a result of these concerns, investment policy statements put in place at such institutional investors specify a required minimum AUM size that must be met by an investment firm before they would consent to consider conducting further due diligence.

There are some institutional plan sponsors that allocate to emerging managers, but they have AUM minimum size requirements as well, both due to the move the needle and exposure to business risk issues.

You would think that all emerging manager firms know this, consider this and go prospecting for investors with all this in mind. Yet, I cannot count the number of times over the decades that I have heard from an emerging manager that had $100 million AUM, or less, tell me they can't understand why their firm has been unable to land large investors as clients. That AUM size alone immediately disqualifies them from consideration by many institutional investors never occurred to them.

I'll share a story that is a case example of that very point. A hedge fund seeder (that seeded money managers and then left them alone to run their businesses) called me to a meeting with two co-portfolio managers at a firm he backed. They had good past performance records when employees at a larger firm. The seeder gave his allocation based on that pedigree. However, when left to their own marketing devices, the two associates kept complaining of hitting a brick wall in their asset raising efforts. At our meeting one of the co-portfolio managers bragged about the size of their contact list of investors. Yet, none on their list gave a positive response to their approaches. They would not grant a meeting.

I questioned the co-portfolio managers about their fund, from its strategy, performance and characteristics to the current AUM for the product. I learned they were running $25 million, all the

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seeder's money. Then I asked some detailed questions about the contact list they were so proud of. It turned out that all were mega-sized institutional investors that had allocated to, or tracked, investment offerings at their large former employer. I asked them, don't you know all such investors have investment policy statement guidelines that preclude them from allocating to a money manager as small as you? I continued, why have you been spinning your wheels attempting to market to them now? With a straight face one of the two perplexed colleagues responded, *They're the only people we know!* Lesson: If you identify a class of suspects who turn out to not be prospects you have to look elsewhere.

Track record length is another key requirement. Sophisticated investors are on the lookout for emerging managers with good performance; and where they have enough information to make a subjective determination as to whether performance is more likely due to skill than luck. The shorter the track record, the greater the likelihood that it could have been luck, not skill. For this reason, there are institutional investors and consultant gatekeepers who put in place investment policy statement guidelines calling for a track record of a minimum number of years. There could be a three-year track record requirement; some might require five. Do not assume they are all the same.

Emerging manager firms will find themselves beating their heads against a wall if in trying to sell to sophisticated institutional investors they do not look to get these questions about size and track record length answered right up front. The suspect may not be a prospect.

What The Suspect Needs

If your fund has acceptable performance, and your AUM size and track record length meet minimum requirements in investment policy statements, do your strategy's characteristics also meet one or more of the needs within the potential investor's total portfolio? Your firm needs to determine whether it can meet one or more needs sophisticated investors have to improve returns or mitigate risk within their total portfolios.

Many emerging manager firm owners have not put the time and effort into determining what role or roles their strategy could play for potential investors and how to explain this to them.

A salient cause that my firm recognizes for an emerging manager's tale of woe is where the characteristics of what its particular strategy delivers does not fit an unmet or underserved need in the portfolio of the organization it pitched. For example, you may have a good product offering, but the timing is off. An investor might say it is not looking for further exposures of the type you offer, and they do not plan to dedicate due diligence time this year looking into competing offerings. In such a case the suspect is not currently a prospect. Move on. Keep qualifying others. Return to them some time down the road and requalify them then.

Sweeping Generalizations And The Tale Of Woe

There are some, but not all, single family office investors who are interested in identifying and allocating to smaller emerging manager firms. These are investors who would consider making a starter allocation to a small but intriguing emerging manager in the $1 million to $20 million range. Your firm may not have come across any yet, but that does not mean they do not exist.

I make this comment because a few times a year I hear specific tales of woe where some money managers claim that no family office investors care at all for firms of their size and strategies of their type. Baloney. While there are fewer of them than those that only allocate to $1 billion-plus sized money management firms, they are out there. It takes time and effort promoting your investing ideas and insights, and participation at industry events, to seek them out or get them intrigued enough about you to seek you out.

Aim For A Qualified Success

Just because you have identified someone at a family office, endowment, foundation, institutional plan sponsor, investment consultant gatekeeper or wealth management firm does not make him or her a prospect; at best, this person is a suspect. You need to qualify those your asset raising research comes across to determine whether you meet the base criteria required for them to be allowed to consider you and your investment product. When you find you do not meet an investor's base criteria, she or he is not a prospect for you now. Similarly, if you cannot currently fulfill an institution's unmet investment needs through what your strategy offers today, that suspect is not a prospect for you now.

Do not burn your finite number of sales marketing hours on suspects who, upon a little examination, do not qualify as prospects. Focus on seeking out, qualifying and actively pursuing potential investors who are actually prospects for your investment management firm.

Take these actions and you'll increase your ability to run a qualified marketing success.