Marketing To Sophisticated Investors column
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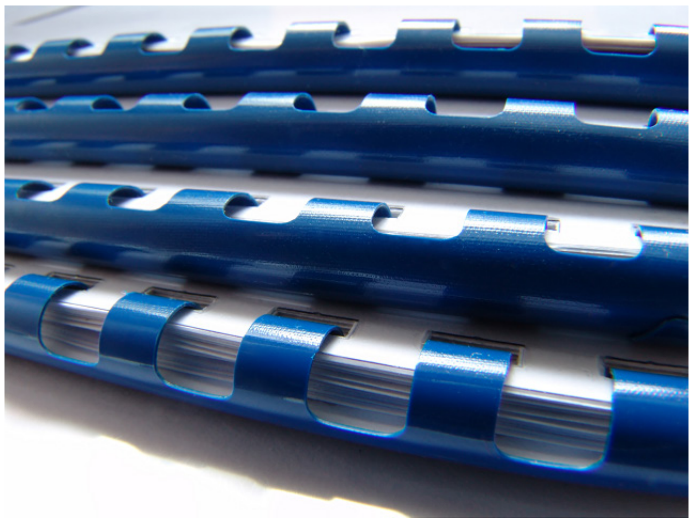
You Can't PowerPoint Your Way Out Of This Investor Due Diligence Vetting

Tip 17: Preparing For Post-Pandemic Asset Raising



Welcome to the seventeenth of a series of articles offering insights and tips to prepare money management firms for improving their abilities to out-market competitors and attract assets from sophisticated investors in the coming post-pandemic, recessionary world.

"*I have some clients who could use pitchbooks*," said the third-party marketer who rang my 34-year-old financial communications and sales marketing consulting firm. "*All I need is a flipchart pitchbook*," said the portfolio manager who reached out to me the week after that.

"*And once that is given to prospective investors, then what will you do?*" I asked the portfolio manager. There was no immediate response. There was silence as the person on the other end of the call had to think about it.

While there are some things that a flipchart pitchbook can help a portfolio manager or salesperson communicate to the investors they pitch, there is other information that this type of marketing collateral cannot properly convey.

This is something that a surprisingly large number of people in the investment management business have never given much thought to. That's too bad, since the implications can significantly affect a money management firm's ability to raise assets from sophisticated investors, and, notably, to attract sticky assets.

Your Ektachrome replacement

The pitchbook trend began a few years after desktop computers appeared in offices, when Microsoft Office software was released. The program PowerPoint had a very specific purpose. It was for making 'electronic' slides to project to a room full of people while a person was giving a speech and referring to slide content.

This became the lower cost slide production solution. State of the art had been to make a draft of slide content, farm that out to a specialty 'service bureau' to professionally produce the type, charts and graphs and get them onto Ektachrome slides for you. You put these in a slide carousel, projected them onto the auditorium's screen and clicked your way through the slides as you spoke.

What was projected on the majority of those slides at conferences and business meetings (which was before the software got repurposed by investment management firms as a desktop publishing tool for producing sales collateral)?

Charts, tables and a few bullet points. And maybe a cartoon or stock photo.

When Bob's your uncle

Simple presentation of data was perfect on Ektachrome slides. They provided visual accompaniment to speeches, and the same continues to be true for money manager pitchbooks.

If you have a line chart, pie chart, bar chart, or scatter chart to display to communicate points about your investment portfolio, then Bob's your uncle, you have the right tool. The same goes for displaying visual aids such as organization charts that diagram who is who, doing what, at your company. The horizontal format is fine for that.

Pro's prose don't fit

Have you ever stopped to consider why PowerPoint software was not named PowerParagraphs?

It has to do with the kind of text it is designed to display in the horizontal format: bullet point copy. Short phrases. Lists with few words per entry. That's it. Not more.

When PowerPoint use evolved into the flipchart pitchbooks money management firms use for pitching sophisticated investors, the flipcharts presented a problem for the investors conducting due diligence on the thinking behind, and process for, how the firms are running their strategies.

The investment committee challenge to the money management firm

The committee's manager selection job is to review the few investment products under consideration whose data — performance and risk characteristics — were good enough to make their short list of candidates.

What does the investment committee discuss, debate and vote on to choose who wins their allocation? It tends to be subjective-based judgements about how the portfolios are run. They are looking to decide whose returns were more likely due to skill rather than luck. For this, they are discussing, debating and voting on points that pitchbook bullet point copy cannot sufficiently answer:

> *Whose investment process seems the most sensible?*
>
> *Whose investment process seems the most repeatable?*
>
> *Whose strategy implementation seems to take into account managing the basket of holdings through changing market conditions?*

Answering these 'pick your manager' questions requires many paragraphs worth of content detailing portfolio manager thinking, investment methodology and risk management protocols.

The problem for the money management firm doing the communicating is that this information is paragraph-based content about strategy implementation, and it takes up quite a few pages to do justice to in print.

A slide page or two of bullet point phrases cannot cover such detail. Instead, a brochure format document is required to deliver this copy intensive content to sophisticated investors.

Yet, what does the typical portfolio manager or salesperson *not* do, when having made contact with a family office, endowment, foundation, plan sponsor or investment consultant gatekeeper to any of those? They do not provide this content detail in printed form. Instead, their sales marketing 'game plan' more often than not is to try to PowerPoint their way out of the sophisticated investors' due diligence investment strategy vetting challenge. But this usually backfires.

The investment firm gives the prospective investor the flipchart pitchbook in physical or electronic form and then fills in the missing parts with some 'verbal elaboration' (as many money management firms would claim) to deliver that investor-sought, beyond-the-numbers content about how the portfolio manager thinks and assembles and manages the portfolio.

How good is your memory?

Think about this: How good of a detailed long-term memory do your investor prospects have? Can they, days after your meeting, just by mental recall and looking at the few notes they jotted at the time you were speaking with them, type up exactly all of your 'how we invest' detail, and put it into their records and share it in print with their fellow investment committee members? Why would your investment firm challenge its prospect to work harder when deciding who to allocate to?

This is exactly what the money management firm that uses a pitchbook as its primary tool to communicate in print about how it runs its strategy is betting its livelihood on.

Four reasons (to be cheerful)

Why is it so commonplace for money management firms to try to PowerPoint their way out of this due diligence vetting by sophisticated prospects?

There are four possible explanations my firm has found as to why money management firm owners chose to communicate detailed, text-based content about how they run their investment process using a PowerPoint-style pitchbook in their asset raising efforts.

Reason 1: It never occurred to the firm owners how difficult they are making it for prospects to conduct their due diligence vetting the detail of how the money manager runs its strategy. This, despite the fact that if someone pitched *them* to invest a few million in a fund based only on written content in a flipchart pitchbook they would find that to be insufficient and say No.

I have put this very example to portfolio managers for decades. Their response has always been No. Even though most of them have been marketing their own funds with no more than the pitchbook as their 'in print' explanation about how they invest.

Reason 2: The firm owners are attempting to get away with taking the lazy way out. It takes work to craft the paragraphs' worth of text that accurately reflects how a strategy is run and demonstrates the personality and character of the portfolio manager and the investment process. (Wouldn't it be nice if prospects could *intuit* what the firm owners do not spell out about how their strategy is run? It sure would make it more effortless to win new clients that way.)

Reason 3: They are attempting to get away with taking the cheap way out. The firm owners want to avoid spending their own money to pay for the expertise, time and effort to produce this content in fully written out form. Penny-wise leading to pound foolish since this significantly harms their ability to win over an investment committee.

Reason 4: The firm owners lack the perspective and skills to produce the content. Many cannot perceive themselves as outsiders do — how sophisticated and interested but skeptical prospects may see them. They lack a buyer-focused perspective. Also, many have never spelled out on paper the step-by-step investment process they actually run, so they often mistakenly and unintentionally truncate what they communicate to outsiders. They end up short-changing themselves from communicating the value of their thinking and process.

A thank you

My financial communications and sales marketing consulting firm loves to work with money manager clients whose competitors follow one or more of those four reasons to justify why they attempt to PowerPoint their way out of the subjective-based, investment strategy process vetting due diligence challenge.

In contrast, our clients get armed with separate, stand-alone, brochure format marketing collateral pieces that are structured specifically to educate and persuade sophisticated prospects to understand and buy into *how* they invest.

The pages' worth of content in this separate marketing collateral, which is an additional selling tool beyond the monthly performance tear sheet and pitchbook, enables the investment committee member prospect who decides to become the money management firm's evangelist to share with his or her peers the content that communicates what they need to see to answer the three aforementioned subjective evaluation questions about a manager's investment process that they discuss, debate and vote on when deciding who wins their next new allocation.

What will you do?

As your money management firm looks ahead to how it will out-market competitors and win the attention, interest and investment mandates from sophisticated investors it should give serious thought to the insights offered here.

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About the author

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.

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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