Marketing To Sophisticated Investors column
by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

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Marketing After You Replaced Your Portfolio Manager

Tip 9: Preparing For Post-Pandemic Asset Raising

Welcome to the ninth 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.

There can come a time at a money management firm when a portfolio manager leaves for another opportunity, or when senior management replaces a portfolio manager for one reason or another.

Portfolio manager exits are something that sophisticated institutional investors follow assiduously as this could have a substantial impact on a current or considered allocation.

Many times, when a new hire is brought in, or an employee is promoted into the position, that new portfolio manager — once he or she gains the 'sea legs' in taking over the existing portfolio — often makes changes to the methodology being deployed. This results in strategy shift for the investment product, which creates communications challenges both from an IR perspective in dealing with current clients and for outward marketing to prospects. Importantly, there is a new team member to introduce to clients and prospects.

Replacing a portfolio manager is not a rare occurrence in the money management industry. A major, top tier firm made just such an announcement last week, and not that long ago a news headline reported that *'Firm 'X' reshuffles PM lineup on raft of funds*. Not with just one fund. That firm had a lot of reassuring to do.

In this day and age, even retail investors read articles warning them to beware whenever the portfolio manager of a mutual fund they're invested in departs as this could portend a coming drop in performance or rise in the volatility of the portfolio. So, imagine how a sophisticated investor is going to take the news of portfolio manager turnover, no matter the investment product type or its wrapper. Most likely, the family offices, endowments, foundations, institutional plan sponsors, investment consultant gatekeepers for these types of investors, and some in the independent wealth management firm world would be significantly more wary, worried and skeptical than would the retail investor.

If your firm put a new portfolio manager in place for running an existing strategy with a live track record — particularly in these atypical and stress inducing times for investors — you need to develop and implement a well-thought communications action plan.

Why, first

The first subject to be addressed is Why — Why did the former portfolio manager leave, or why was the person let go? Sophisticated investors will look to glean information about whether there are personnel management issues, company instability, and/or indecision within the executive management team. Or, was this a straightforward, calmly handled 'moving on' event at your firm?

No change, strategy tweaks or a new direction?

There are three possible scenarios regarding investment strategy implementation for the firm that replaces its portfolio manager. Which is applicable to your firm's situation?

One possibility is that there will be no change to the original investment process. The way research is carried out, holdings are selected, trades are executed, and holdings are monitored and managed are to remain exactly the same. Also, going forward, the risk/return characteristics of portfolio holdings remain the same. The new portfolio manager will continue implementing the same methodology that was in place before his or her arrival.

A second possibility is that the new portfolio manager will be following much of the strategy implementation that was run by the predecessor, but with some changes. These could be tweaks to risk management protocol, for example. Examples of what would not count as being 'just a tweak' to the investment process include switching from, say, a diversified to concentrated portfolio, significantly changing the use of leverage, or dropping an asset class that before was part of the portfolio's basket of holdings. You cannot try to hide what could be easily perceived as significant strategy implementation changes under the guise of 'just a tweak'.

A third possibility is that the new portfolio manager was brought in to carry out a change in direction for managing the strategy of the existing product. This scenario takes the most IR and sales communications work.

The first thing that some clients and prospects will question in this third scenario is that if your firm is changing the investment process for its product, then there must have been something wrong with the previous strategy all along. This is something your money management firm needs to get in front of, bring up on its own and address before it is asked such a question. Wait to be questioned about this point and any response you give will come off as defensive. Your communications on this issue will have been weakened.

Next to be explained are what changes were made and why.

The case of the Merger Arb fund

My financial communications and sales marketing consulting firm had a hedge fund firm turn to us for help not long after it hired a new portfolio manager to take over and run its merger arbitrage strategy that had a ten-year track record under its previous manager and had been experiencing significant near-term underperformance compared to its peers. The hedge fund actively traded the stocks of companies that were the subject of publicly announced tender offers, mergers and reorganizations.

The replacement portfolio manager had different views on how to analyze company M&A news. He had a different approach than his predecessor for what types of pricing spreads he sought to identify and exploit. He also changed risk management protocol for position weightings, instituted a more detailed analytics methodology to monitor the potential for a deal's cancellation and had his own views as to the desired risk/reward attributes for the merger arbitrage portfolio's basket of holdings.

All of these changes required a build-out of a new investment process storyline to explain the qualitative and quantitative elements comprising the multi-factor security selection process and the multi-factor analytics detail of holdings monitoring that was the basis for much of the new risk management protocol added to the strategy.

Not only did this new direction for investment process need to be explained to current and prospective clients in IR and sales communications, this needed to be prefaced with an explanation of what marketplace factors the firm's executive management team felt had a significant enough change to warrant altering the methodology the merger arb equity portfolio had been using for 15 years.

These communications required all new paragraph-based content that would go beyond what a flipchart pitchbook could communicate, so a separate, brochure format marketing collateral piece needed to be created, and it was.

Once the CEO and the new portfolio manager had in hand the new written explanation that my firm crafted for both the hedge fund's revised strategy implementation and what led the CEO to want to make the portfolio manager and investment process change, the two of them started holding in-person meetings with all current clients. After that, they reached out to investment consultants who were already monitoring the firm's investment products. Then they used the new content in verbal and written presentations when pitching new prospects. Next, the portfolio manager was marketed to institutional investor industry conference producers as a speaker on the subject of strategy implementation considerations for the coming year in the merger arb investing space. His industry conference appearance was scripted, from the accompanying slides to his speech. As a result, a transcript of his remarks was circulated afterwards, marketing to prospects who did not attend the event. In these ways, the new portfolio manager was introduced to clients, prospects and those who may influence them.

With this communications and sales marketing effort the investment firm found it was able to retain most of its current investors in the hedge fund and interest new prospects in considering the hedge fund's new investment process and why it made sense in the current investment environment.

Mum's not the word

If your firm replaced its portfolio manager — for whatever reason — you cannot remain mum about this. In a timely basis you must determine what to say and how to say it, and initiate a communications outreach effort so that you control how your firm is perceived about this change.

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About the author

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.

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.

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