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

December 2021

When Family Office Investors Give Up On A Pitching Hedge Fund

Tip 21: Preparing For Post-Pandemic Asset Raising

Welcome to the twenty-first 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 world.

Stellar performance alone was never what got sophisticated family office investors to allocate to a manager. Only performance chasers did that. What family offices time and again have said is the most important factor they consider is the investment process. The question for the hedge funds marketing to this audience is, how long will they give you to educate and persuade them to understand and buy into how you invest?

Hedge funds that begin pitching sophisticated investors without having first figured out how to properly deliver beyond-the-numbers due diligence vetting information about how they run their strategies *before* they were asked, keep having less and less wiggle room for responding and doing so in a complete enough way. (Of course, the right and proper way to have handled this in the first place was to bring up the portfolio manager's investment process without having to be asked, and to explain it in enough detail to satisfy a prospect's due diligence examination into whether returns were more likely due to skill or luck.)

What if your portfolio manager could not sufficiently answer these questions when first asked? Your money management firm would say it would get back to the prospect with the information requested, and then seek to speedily construct and deliver it at the next contact. A lot of times, however, portfolio managers have a difficult time in effectively communicating their thinking and investment process.

Times at bat have dwindled

Around five years ago, at a family office investor conference, I was in a related conversation with other family office investors and hearing a complaint about investment firms that were doing a poor job of communicating sufficient detail, even when prompted.

The chief investment officer of a family office's investment committee was sharing a frustration about trying to go through her due diligence vetting on a high performing hedge fund manager. At issue was the beyond-the-numbers questions asked but not sufficiently answered. As she got to the point in her story to tell me how many meetings and calls were held with this portfolio manager in attempts to get sufficient explanations — both verbal and in print — about investment process, how valuations considerations and risk management were built into the methodology and how strategy implementation was designed to take into account changing marketplace conditions, three other family office investor colleagues strolled up to us, heard this and joined in the conversation.

At this point, with five of us now in the discussion, the family office CIO shared that she had seven separate contacts with this particular portfolio manager — in-person meetings and long phone calls. In adding up her time spent in these information gathering sessions with the portfolio manager, plus the added time spent analyzing his hedge fund's data, she now came to the conclusion that the inordinate amount of time dedicated to unfruitful due diligence efforts on this one fund was unacceptable. So, she said to us, she thought that from now on she would not give an investment firm under consideration more than maybe five total opportunities to answer the strategy implementation related, beyond-the-numbers questions she poses to them first at the initial meeting. What, she asked, did the three other family offices think? The three of them responded in joint agreement: allow no more than three strikes. If you have asked the same questions three times and the portfolio manager does not deliver acceptable responses, both verbally and in print, drop that firm from consideration. The family office investor teller of the story then agreed with them. Three strikes then you're out.

More recently, a family office investor and I were having a catch-up call as we hadn't seen each other for some time. One of the things he shared with me was about the events he had been attending — in-person pre-pandemic and online since then — in his search for money managers running interesting strategies that might be useful additions to his family office's portfolio of holdings. By this he was referring to a portfolio manager's strategy implementation, not an asset class category.

A point of frustration for him was that, among the investment managers whom he found had acceptable performance that he met with, a large number of them could not give a cogent explanation about investment process. When questioned, these portfolio managers' responses to his probing to understand strategy implementation were either so opaque or disjointed, he said, that he developed the impression that these managers lacked a sensible, repeatable process. This, in turn, got him thinking that these portfolio managers were more likely to be the type to become guilty of strategy drift, which, of course, he wanted to avoid. Add these points together and the impression the family office investor is left with is that their good past returns were more likely due to luck than skill. He rejected these money managers then and there, deciding they were not worth meeting with a second time. One strike and you're out.

Make your first swing be a hit

Patience has worn thin, and not just due to the pandemic. Family office investors do not want to feel like they are talking to a brick wall when they are in the midst of conducting due diligence on your firm. When they do not get responses with the information they request so that they can move you through their due diligence process of evaluation and consideration these prospective investors are today far more likely to employ a one strike and you're out approach to sifting through the many managers and strategies vying for their attention.

When you are given your turn at bat you need to show up with cogent, compelling communications for the sophisticated investor prospect to be able to understand and buy into your strategy and how you implement it. This, after all, is the source of the alpha you aim to deliver. Otherwise, you may find yourself in a one strike and you're out marketing situation.

# # #

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.

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