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Marketing To Sophisticated Investors column
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When The Hedge Fund Declared A Red Alert Situation

Tip 11: Preparing For Post-Pandemic Asset Raising

Welcome to the eleventh 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.

When starting up a money management firm business the best position to be in is to have committed investors of size before the launch of the fund. While this is an ideal it is not the reality for the majority of money management firm start-ups. From the get-go, most investment management firms need to initiate new business prospecting outreach at their pre-launch stage and then carry over that activity on an ongoing basis.

However, some of the investment management firms that found themselves in the good position of beginning trading with a sizeable AUM allocation from an institutional investor, never, in their early years, gave much thought to undertaking ongoing, active communications and sales marketing, both to further grow assets and to reinforce with the investors they acquired reminders as to why they allocated to the investment firm in the first place.

This neglect can cause significant troubles for down the road. Here is an example of where this can lead.

An executive from a hedge fund, with an over a fifteen-year track record as employees elsewhere, contacted me because, he said, they all of a sudden found themselves "in a red alert situation". They had recently lost over two thirds of their assets under management. While they should have had prospective investors in the pipeline, they had no such pipeline. Now, they realized, they had to start marketing to attract new investors.

Back when they opened the doors of their new firm, an institutional investor, aware of and impressed with the portfolio manager's background, agreed to become the anchor investor. Much of the rest of investor assets that came across the transom were friends and family and former business colleagues' money. So, in every case here, limited due diligence was conducted. These investors bought into pedigree.

Over the years, during which the money management firm suffered one bad year, it grew total assets, through original investor allocations and portfolio appreciation, to around $800 million; and they felt they were on track to quickly reach $1 billion AUM. All was well for a time. Then came the red alert incidents. The anchor investor pulled out. Performance was not the reason. Instead, the institutional investor decided to manage its assets in-house rather than continue to employ outside managers. Then, over two thirds of the allocations from some former business colleagues were pulled out. In these cases, asset class reallocations were the reason. This left the money management firm with around $250 million in AUM — a drop of over 68%.

This investment firm had done relatively little prospecting for new business. Since it started business with a large anchor client, the management team had felt there was no rush to put much time, effort and budget towards marketing. Asset raising was perceived to be a low priority activity.

The firm had had a sales person on staff, but from the story shared with me, that person was never given proper direction, or much useful ammunition to work with or a detailed explanation about how the strategy was being run. What sufficed to win over acquaintances who invested by pedigree and did little due diligence was of little use for marketing to sophisticated, skeptical prospects with no tie to the portfolio manager. That staffer did not bring in a single new investor. Not a complete surprise.

So, the money management firm executive said to me, this is why they felt they had reached a red alert situation. For the first time they recognized that they needed to reexamine what they were doing with communications and sales marketing and figure out how to turn things around. Now they needed to contact and woo 'strangers' to invest with them.

I'll call this the Joni Mitchell ah-ha

This investment firm's late realization brought to mind for me Joni Mitchell when she famously sang *Don't it always seem to go that you don't know what you've got till it's gone*.

Manager pedigree helped launch this business, but having a good pedigree does not eliminate the need to grow and diversify the investor customer base. Nor can pedigree prevent an exodus when a key client decides to, say, eliminate its exposure to a portfolio manager's asset class or reduce its exposure to reflect new asset allocation thinking.

For the vast majority of investment management firms, marketing and asset raising are need-to-have, not nice-to-have, fulltime job functions. Further, the selling cycle when marketing to sophisticated investors such as family offices, endowments, foundations, institutional plan sponsors and their investment consultant gatekeepers can run from two months to two years. With how their due diligence is conducted, one to two years is more the norm than just a few months.

If your money management firm does not have a well thought out, well-structured and proactively implemented communications and sales marketing action plan up and operating, then make that a priority task. Don't let your firm get into a potential red alert situation.

What should they do?

Are you curious as to what steps a hedge fund in this predicament needs to take first? As we wrote about previously here at the Asset Manager Marketing Hub column, the firm owners need to build two types of marketing plans — a sales marketing plan (**http://bit.ly/2u5TzB4**) as well as a communications marketing plan (**http://bit.ly/2Gjsd1i**). Follow those two links to learn the ten recommended steps for putting in place each type of asset raising plan. You are likely to find actionable steps that are equally relevant for improving your own money management firm's ability to market.

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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.

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