Marketing To Sophisticated Investors column
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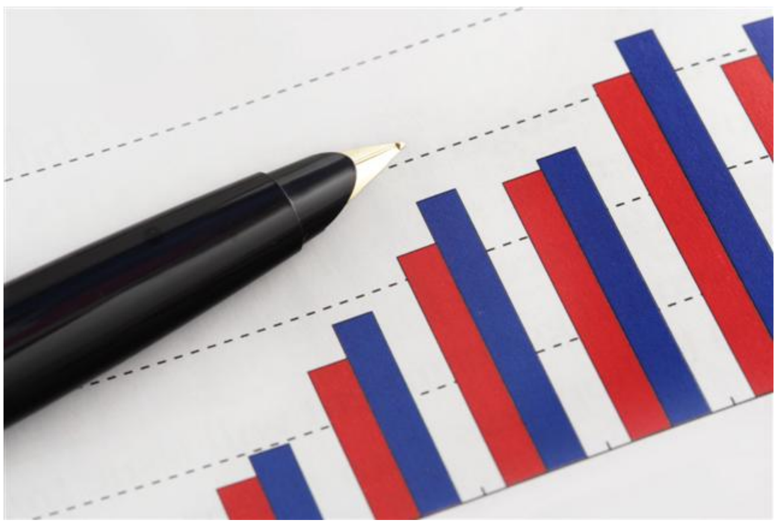
June 2021

Could Your Fund's Chosen Benchmark Be Harming Your Asset Raising Ability?

Tip 15: Preparing For Post-Pandemic Asset Raising



Welcome to the fifteenth 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.

Over the past few years my 33-year-old financial communications and sales marketing consulting firm has found itself working with a greater number of money management firms whose portfolio managers are running funds or separately managed account offerings that straddle more than one type of traditional asset allocation or strategy type. The financial instruments in which these managers invest can run the gamut, as can the way they may combine in one portfolio different types of instruments chosen for reasons other than the most typical. On one end of the spectrum the portfolio manager may only trade a single financial instrument. On the other end of the spectrum the manager may straddle the global macro, go-anywhere, managed futures and specialized risk management camps all at the same time.

Unlike, say, the U.S. small cap growth equity manager for whom it's an easy decision to use a U.S. small cap growth index as a benchmark, portfolio managers whose strategies are not as easy to pigeon hole need to give benchmark selection deeper thought as it has some important implications for how prospective investors will perceive them and what they need to communicate.

When such portfolio managers turn to us to help craft a more cogent, compelling and competitive explanation for them to communicate to sophisticated institutional investors about how they think and invest, there are two related topics that tend to come up early on in discussion with them. One is whether there might be a better product positioning for what they have. The other is a review of questions that have been raised in conversation by prospects in sales meetings regarding the context in which prospects are currently perceiving and considering them.

Underlying this questioning by prospects is one of the first questions these investors are likely to be asking themselves: *What role or roles could this strategy play within our total portfolio?* This is a question we regularly find ourselves helping money management firms think about from the buyer's perspective. The answer to this question many times changes after the portfolio management team and we have rethought and restructured how they communicate in their sales marketing about how they invest and what this can mean for their clients and prospective investors.

This discussion in turn raises two key questions we find ourselves asking:

> *Are there investment process points or concepts about which prospective investors need to be educated by the money management firm so they can understand, and agree with, the context in which the money manager wants the strategy to be viewed?*
>
> *Based on the answer to the points and concepts question, is the benchmark the portfolio manager is currently using really the most appropriate one?*

The benchmark (or benchmarks) your firm chooses to use when presenting your strategy's performance telegraphs to prospective investors in what bucket or category they should consider you. Make sure you are leading them in the right direction, or else you could be unintentionally redirecting their thinking in the wrong direction.

Consider this: While the S&P 500 Index is always used as a point of reference when looking at a portfolio manager's since inception performance that does not make that index the most appropriate 'peer group investment returns set' against which to benchmark a portfolio manager's strategy.

Say you are a money manager who invests in only one single type of futures contract. Is benchmarking returns against a CTA index the right thing to do? Should you benchmark against a trend following index? Or is something else more appropriate?

Say you are benchmarking against a 60/40 stocks/bonds portfolio, but you are investing in neither stocks nor bonds. Are prospects meant to see you as being akin to a Target Date Fund offering, or to a very specific two-ETF combo portfolio equivalent?

What if your performance returns do not mimic your chosen benchmark's returns, do not correlate to that benchmark's returns and do not have the same risk/return exposure as the chosen benchmark's returns?

There are no sweeping generalization answers as to what is the right choice for one portfolio manger's product versus another's. Selection of the best choice of benchmark for a money management firm to use should take into account both the characteristics the strategy produces with its live track record combined with the role or roles the strategy is meant to play within an investor's total portfolio.

A reexamination — and possible rethinking of how to explain — the investment approach and investment process that your portfolio manager is deploying, combined with the data on the portfolio's exposures and risk characteristics, is the right starting point for having a fresh look at whether you have selected the most appropriate benchmark against which your fund should be compared.

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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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