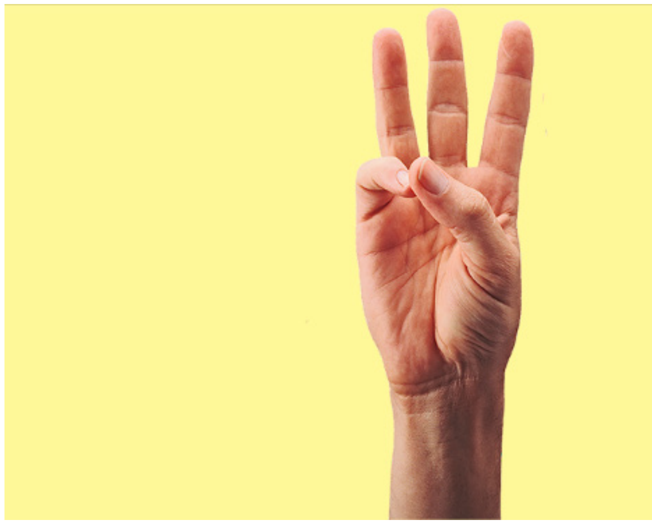
Marketing To Sophisticated Investors column
by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

June 2023

Your Fund Has 3 Prospective Investor Types, Not 1



There are many investment management firm owners who, based on an initial positive selling experience marketing their fund, make a tactical error. They fall prey to the assumption that all prospects are the same. By this I don't mean they are thinking that plan sponsors, family offices, endowments, foundations and retail investors are the same. I mean they fall into the very trap that portfolio managers take great pains to avoid in the running of their investment strategies.

The correlation / causality assumption error

When portfolio managers construct their investment methodologies, they are selecting which factors to include and what weight to give them. When portfolio managers have performance success with these newly structured strategies the savvy ones will not assume that their factor selection automatically correlates to all future investment portfolio success; nor will they believe, without further investigation, that their factors and the weightings given them were the primary cause of their good performance.

Yet, when it comes to selling their investment strategies to prospective investors, investment management firm owners too often miss what made the selling process so relatively easy in those first new customer wins. This becomes a problem when they later find they 'hit a wall' in their asset raising efforts. *It worked before, and with less effort. Why has it become so hard now?*

When investment managers do not understand the three-not-one point, they often make errors in judgement that affect their asset raising ability. The problem is that this turns the third and most important type of investor against any money manager looking to grow significant assets and serve the institutional investor world.

The three-not-one types of investors I'm referring to can be identified by what the primary driver is behind their due diligence vetting of competing investment firms and products. Said another way, where investors are willing to *stop* in their due diligence effort can help you classify the prospect type.

Pedigree

This first type of investor is the one for whom pedigree makes all the difference. This is the so-called trust buy-in. Here, there is not that much trust building the money manager actually finds herself having to go through to land such people as investors.

There are two breeds of pedigree-focused investor. The first falls under the friends and family moniker; and they are literally friends and family. Such a person's response to a portfolio manager explaining detail for running a strategy might as well be this: *I don't understand what you're talking about but I've known your Aunt Ida for years, so here's a check.*

The second breed of this type of investor is the one who did not previously know the portfolio manager, so their pedigree focus is different. For them, the *That's good enough for me* decision is based on work or school ties: where the portfolio manager works (a big shop that is, therefore, an easily defensible 'buying IBM' decision, in case performance later drops), or where they *used* to work (who their former employer was), or what college the portfolio manager graduated from. All such subjective-based 'due diligence stops here' vetting comes from the old *Nobody ever got fired for buying IBM* and the *They must be smart if they were there* schools of thought.

When a money manager hears some pundit proclaim that getting people to trust you is the main factor for getting investors to allocate, they are only one-third accurate prospect-wise.

The people who are the pedigree-based prospective investors are an investment firm's so-called low hanging fruit prospects. They will be easier to sell than the next two types of investors.

Performance

This second type of investor is the performance chaser. They are avid readers of funds performance tables. If your fund's current performance is not outperforming peers the performance chaser will reject any sales marketing overtures. Land in the top quintile of performers for your category and this type of investor will be interested — in dumping their now underperforming money manager in your category and reallocating to you. Of course, once your performance drops, as it will at some point, performance chasers will pull their allocations from your fund and move it on to a higher performing competitor.

The prospective investors whose due diligence decision making starts *and* ends with performance are the least sticky of investor types. The smaller your money management firm the riskier it is to have performance chasers comprise your main investors. If they walk, the bulk of your firm's revenue base departs with them.

Process

For due diligence vetting by sophisticated investors, it's not enough to find a good performing, pedigreed portfolio manager. Family offices, endowments, foundations, institutional plan sponsors, investment consultant gatekeepers and some in the independent financial planning/investment advisory wealth management firm world want to make a decision about something else as well: whether a manager's performance was more likely due to skill or luck. With this type of investor, performance ranks third in importance, risk management second and investment process first.

For this group, what differentiates one money manager from the other is strategy implementation with the investment process. Those investment management firms that cannot communicate their process in sufficient detail are, at best, perceived to be selling 'me too' funds. Who would be willing to put in more due diligence time into a 'me too' fund?

Build all of your marketing for the type three investor

My 35-year-old financial communications and sales marketing consulting firm always recommends to its money management firm clients that their asset raising outreach clearly explains the investment process being followed by the portfolio manager. This is the information the type three sophisticated investors need in order to make their buy-in.

This requires crafting or refining content that goes far beyond what many investment management firms had been doing. Too many simply push the performance data and investment team bios in sales marketing meetings and in marketing collateral, and then add some bullet point phrases regarding running the investment process. So, the information delivery almost seems like an afterthought (and too little).

There are additional benefits to building all of your marketing to address the expected questions from, and issues concerning, the type three investor.

Active, ongoing promotion of how a firm runs its investment strategy to the pedigree buy-in prospects helps make them more educated clients. This, in turn, makes for more satisfied investor clients and increases the potential that some of them may refer people outside of the portfolio manager's own friends and family circle, recommending they take a get acquainted meeting or call with the investment firm.

Lastly, there is always the chance that your firm might convert some performance chaser investors to become stickier by having given them investment process-related reasons to allow your portfolio manager a few more months to recover from performance drops when they occur.

Pursue and diversify x3

It makes sense to aim to diversify your investor base so that your money management firm does not find itself limited to friends and family folks only, or find itself too risk exposed to performance chasers as a group.

Importantly, when you decide it's time for your firm to pursue sophisticated institutional investors, only begin to make contact *after* you built out communications, in detail and in print, about strategy implementation with your investment process. This information is what differentiates your beyond-the-numbers communications from the competition; helps people make the subjective judgement as to whether your acceptable performance was more likely due to skill than luck; and is value added for all three of the investor prospect types for your firm.

Never forget that pursuing sticky asset branding for a money management firm is dependent upon its ability to get people to appreciate and buy into the intellectual acumen of a portfolio management team.

# # #

About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 35-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.