Marketing To Sophisticated Investors column
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Portfolio Managers – Are you getting your investors car sick?

Tip 12: Preparing For Post-Pandemic Asset Raising

Welcome to the twelfth 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.

Most sophisticated institutional investors, from family offices on up, put in due diligence time and effort when considering whether to make an allocation to an investment strategy offered to them. In our experience, we have found that all investment management firm owners marketing to such investors understand that performance and pedigree are among the factors that are going to be considered. Far fewer recognize that detail about their investment process is going to be discussed, debated and voted on at the investment committee level. And fewer still understand the importance of defining and communicating portfolio characteristics.

Personality & Character – at the portfolio level

The investment beliefs of portfolio managers and how they apply this to their investment process are key elements that shape the brand identity at money management firms. This content is of prime importance when sophisticated investors are considering whether to cede control over some of their investment funds to outside investment managers and the strategies they run.

The due diligence drill down from that information on process is centered on content that communicates the personality and character of the portfolio. This is information that should educate investors about what they should expect to find in the portfolio and how they should expect the basket of holdings to behave.

This is one part a changing risk/return and volatility issue and one part a no strategy drift issue.

It is important that portfolio managers understand where their prospective investors are coming from when it comes to these points.

This requires being buyer-focused rather than seller-focused.

Here is a straightforward analogy your investment management firm is unlikely to forget.

How car sick will you get me?

This is what it comes down to. No investor likes or wants surprises. Sophisticated investors want to know what they bought in to. Further, once they do buy into a strategy they do not want to see strategy drift.

These institutional investors are the ones who tend to make multi-million-dollar allocations when choosing to add an investment manager and his or her strategy to their total portfolio. Handing over such a sizable sum is like leaving the driving to the portfolio manager. The family office, endowment, foundation or plan sponsor seat themselves in the back seat of the car. The portfolio manager is at the wheel. The investor wants to know how bumpy that drive towards achieving the long-term returns objective is likely to be. If investors are not told in advance what road conditions may be like on the trip towards profiting from the portfolio manager's investments, then there is greater potential for the investors to become surprised along the way, and think of pulling their allocations.

Here are some of the questions to which your firm should have prepared answers. Better still, build this information into your detailed written explanation about how you assemble and manage the basket of holdings for your strategy. Also, include communications about this in your sales marketing dialogues with prospective investors. These actions will give you the opportunity to present this information in an educational, up front, transparent manner. That is better than waiting to be asked these questions:

1. How bumpy should I typically expect the ride invested in your strategy to be?
2. In what market conditions am I more likely to see downside volatility spikes?
3. What non-company specific risk factors might cause you to reevaluate the risk/return valuations of your holdings, and what steps might you then take?
4. What have you built into your process for running your investment methodology to weather such stresses on the portfolio?
5. How should I expect the composition of portfolio holdings to potentially change, driven by what you may believe to be significant enough market changes to warrant such change?

No strategy performs well, with consistency, in all market environments. You don't want investors to flee once you bounce them through a few potholes. Clarity up front during your communications and sales marketing efforts that link the personality and character of the portfolio with discussion about potential performance in different market environments will help sophisticated investors set reasonable expectations about when the investment ride with you may get bumpier, while simultaneously reinforcing comfort factor that your strategy implementation remains a sensible and prudent way to reach the investment destination. This, in turn, will help your money management firm attract and retain sticky assets.

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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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