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Marketing To Sophisticated Investors column
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Geopolitical Crisis, Equities Managers & Their Fundraising Communications

Tip 24: Preparing For Post-Pandemic Asset Raising

Welcome to the twenty-fourth 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.

And to think that just weeks ago all portfolio managers had on their minds was uncertainty as to when the Covid-19 pandemic might start to fade enough for supply chains to recover to their pre-virus state and when inflation might be tamped down.

The market gyrations that have occurred in these first weeks of the Russian-instigated war and the resulting geopolitical crisis are likely but a taste of the market volatility and fluctuating stock valuation uncertainties that will be seen as Russia's invasion of Ukraine continues to play out. This crisis is a tragedy for the people of Ukraine, and its repercussions are being felt around the world, both politically and financially. Unfortunately, it could take years before this geopolitical crisis resolves.

As a result of this, active management, particularly when it comes to equities investing, should attract even greater attention, and more pointed due diligence questioning from sophisticated investors: family offices, endowments, foundations, plan sponsors, the gatekeepers for these, and also some allocators in the wealth management field for UHNW and HNW investors.

Experienced, sophisticated investors understand that for both long-only and long/short equity managers, navigating successfully through time periods fraught with more unpredictability than usual requires more than just having astute company-specific risk analysis supporting portfolio allocation decisions.

Expect due diligence questioning about investment process and strategy implementation to be ratcheted up for the foreseeable time to come.

But, do not wait for the prospective investor to bring this up. It is better for your firm to be delivering in its fundraising communications — both verbal and in print — the detail to educate people about how the investment team thinks and runs its strategy. Further, it is important to include mention of current events.

Once a portfolio manager has walked a prospect through the detail of her or his investment process it is important to point out which elements of the just-described methodology play particularly important roles in setting, monitoring and modifying valuation and risk management assessments. This is needed on stock, sector and macro levels as all have the potential to be impacted by volatility-triggering events and possible jarring reversals of fortune, at least in the near- to mid-term for some years to come.

The beyond-the-numbers factors that differentiate one portfolio manager from the others are likely to take on greater importance at the behind-closed-doors investment committee meetings that discuss, debate and vote on which new manager to allocate to.

Based on my financial communications and sales marketing consulting firm's 34 years of experience in seeing what it takes for money management firms' fundraising communications to better explain themselves to sophisticated investors, we believe this will hinge upon what we call a portfolio manager's Story of How. This is the detailed communication about how the manager thinks about portfolio management and how that approach is specifically applied in the steps they take to assemble and manage the portfolio's basket of holdings.

There are many points of detail that should be delivered in fundraising communications about this, particularly for equity managers for whom fundamental analysis is often part of, or the foundation for, how they run their strategy.

To help stimulate the thinking of equity managers to better view themselves from the perspective of prospective sophisticated investors who want to understand and buy into how the manager invests, here are just some tip-of-the-iceberg examples of topic categories and questions for which the portfolio manager should have communications to educate people about how she or he seeks to define, and run, their risk-managed strategy.

For decision making about putting on or adding to positions:

- What is the detail as to how the portfolio manager is taking into account company-specific risk and also non-company specific risk?
- In what environments does the manager's risk management protocol have them giving more weight to certain specific factors than others?
- How, exactly, with the stock picking process, does the money management firm aim to use volatility to its advantage?

For portfolio monitoring:

- To what degree — and under what conditions — does the manager allow stock prices to drop before taking some action?

For changing risk exposures:

- How, and when, does the manager seek to hedge or rebalance positions so as to dampen the degree of downside volatility of the portfolio versus its benchmark, or take action when correlations among holdings rise?

There is no cookie-cutter answer as to which range of questions are most relevant to the strategy your equities manager trades. So, it is important to reexamine your portfolio manager's Story of How from the perspective of interested but skeptical sophisticated investors. Then, add to the firm's fundraising communications what you find to be the missing elaboration and detail needed to clearly communicate how, in its strategy implementation, your firm seeks to take into account the market gyrations and geopolitical crisis we all face today.

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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.

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