Marketing To Sophisticated Investors column
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May 2022

"They told us to make a 57-page pitchbook" — ex-hedge fund owner

Tip 26: Preparing For Post-Pandemic Asset Raising

Welcome to the twenty-sixth 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.

I was having a catch-up call with a former hedge fund manager who used to run a research-intensive equity strategy. A few years ago, he and his partner shut down their fund and the portfolio manager went into a different line of business. His firm closed not because of poor performance, but because they had trouble convincing enough sophisticated investors to allocate to them.

Looking back on it now, distilling down what went wrong, he said to me, "They told us to make a 57-page pitchbook, and so we did."

He went on, recounting to me the instructions he and his partner received from the consulting sales 'expert' they'd hired to help them pursue and win over sophisticated investors. They were told to "put absolutely everything into the pitchbook" and send that first thing to a prospective investor. The former portfolio manager said to me that he questioned whether this was wise. Wouldn't prospective investors get turned off with being presented with marketing collateral that was so big? But, he said, he was told this was how it was done and that investors would be unlikely to later look at any other material from him. It would be better, he was advised, that if an investor later asks some question — whether at a first sales meeting or later on — that the portfolio manager point them to which page on the pitchbook was about that point. He acquiesced, and ended up with a 57-page flipchart pitchbook that, it seemed, made him uncomfortable from the start.

In hindsight

There were problems that he now recognized after the fact. First, he confessed, the flipchart pitchbook didn't really cover 'everything' anyhow. Second, and more importantly, he revealed, he and his partner never did a good job of explaining their investment process. Not in verbal selling situations or in their written collateral, which amounted to their flipchart alone. So, despite him filling up 57 pitchbook pages, he still ended up *under*-communicating — and therefore *under*-selling — the most important firm differentiator and added value component of his investment strategy.

That, he believes, gets to the crux of why he is no longer running a fund.

Communicating your edge

When marketing to sophisticated investors, once your performance track record has been deemed to be within the ballpark of acceptance, one of the key areas of their due diligence focus is on deciding whether your returns were based on skill or just luck. The more that alpha can be attributed to what appears to be manager skill, the more likely your firm will be able to attract sticky assets.

Further, with strategies whose alpha comes from fundamentals-based research — a labor-intensive job for the money manager and team, in which subjective analysis plays a big role — there is the obvious need to clearly communicate the manager's 'edge' based on how he or she built and runs that investment process.

This requires building out a detailed and complete explanation and delivering this both verbally and in supporting printed materials; not just in a pitchbook, but beyond that as well.

How to not become an ex-manager: 4 tips

Tip 1 — Contrary to the guidance that the former hedge fund manager got, prospective investors will, in fact, look at other marketing materials in addition to a pitchbook.

Family offices, endowments, foundations and plan sponsors tend to vet managers of interest over a period of time that can run from two months to two years. The best opportunities for winning new investors come when there is the potential for having dialogue over time with those conducting the due diligence; particularly about subjective-based factors that may play a role in a manager's alpha generation. This, after all, is the key element that differentiates one fund manager from the next.

Tip 2 — In order to do a good job at explaining investment process firm owners need to structure how to state this verbally in meetings and in print as well.

No prospective investor hearing such important information at a meeting has the ability to write down the full detail of what was said in conversation, and then accurately share this with others on the investment committee who will be discussing, debating and voting on whose investment process they believe is the most sensible one to allocate to for the asset class in question.

Tip 3 — While a flipchart pitchbook is just right for displaying charts, graphs and bullet points, it is the wrong type of marketing document to deliver the pages of paragraph-based content, which is what is needed to communicate detail on how a portfolio manager actually invests. A brochure format document is required instead.

Tip 4 — In order to make it through the selling cycle — and increase the odds of being at the right place at the right time — a money management firm needs to develop a content marketing action plan. The plan's objective should be to provide prospects with information that helps educate and persuade them to understand and buy into how the portfolio manager thinks and runs strategy implementation at the fund.

Also, it must be thought out as to what content to deliver at which stage in the dialogue and relationship building between the hedge fund and the prospective investor. As with a card game, where a player needs to decide which card in the hand to play when, so too for the money management firm does its executive team need to plan out which of its insights and portfolio management action explanations to communicate when within the selling cycle. Lastly, it must be determined which content belongs in what type of marketing collateral document. You cannot rely only on verbal conversations to relay important points.

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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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