Marketing To Sophisticated Investors column
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When 'Height & Length' Are Asset Raising Obstacles For Your Fund

Tip 20: Preparing For Post-Pandemic Asset Raising

Welcome to the twentieth 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.

Does your investment management firm have many billions in AUM and a half dozen or more sales people marketing around the country or around the world? If the answer is No, then your organization has limited resources in budget and staff, and it is all the more important that you make the most effective, informed and focused use of your asset raising time. Importantly, you need the ability to differentiate a suspect from a prospect.

Unfortunately, many money management firms burn their time and effort in pursuit of investors who they will not win over, at least for now. Worse, some overly focus, to their detriment, on such investors.

Does your firm, too, have a tale of woe?

A few times every year, I receive phone calls from money management firm executives who are new to me, sharing what I call their tales of woe. These stories of sales marketing hardship most frequently come from equity owners of small to mid-sized investment management firms.

Here are summary points common to most of these tales of woe:

- We can't get any investors beyond friends and family to invest with us.
- Family offices have no interest in our strategy.
- Institutional investors and their gatekeeper consultants won't give us the time of day.

Would you like to know the most common thread that ties the vast majority of these tales of woe to each other? It is the measurements hurdle of the very first beyond-the-performance numbers screen run by sophisticated investors.

The height and length hurdles

Consider the world of sophisticated investors. Here, I'm referring to family offices, endowments, foundations, institutional plan sponsors and their investment consultant gatekeepers, and some in the financial planning/investment advisory wealth management firm world.

The more institutionalized the investor the greater the likelihood that the organization has drafted an investment policy statement that it then follows.

This type of investor will often seek to minimize business risk exposure to money management firms that are not of an institutional size. So, investment policy statement guidelines usually stipulate that the investor cannot make an allocation where its assets would comprise more than X% of the total assets in a fund.

Therefore, a requirement often written into such documents has to do with money manager AUM size. The bigger the size of the institutional investor the greater the likelihood it set a hard cutoff AUM minimum requirement for investment products on which it will consider conducting due diligence. This is what I refer to as the height hurdle for the emerging manager.

Institutional investors need to make allocations that are big enough to 'move the needle' with returns generated. Making a one hundred percent return from a relatively tiny (for them) allocation is near useless. What is the allocation size that such investors, many of whom run multi-billion-dollar portfolios, look to make? Think $50 million, $100 million, $250 million, not $1 million, $10 million or $20 million. But, due to investment policy statement guidelines the investors set, these allocations cannot exceed X% of the total assets portfolio managers have in their portfolios.

These are the reasons the investment policy statements at these institutional investors stipulate a required minimum AUM size before they would consent to consider conducting due diligence on an investment firm. This minimum AUM size requirement — like the 'You must be this tall to ride the roller coaster' sign as the amusement park — is often an obstacle for many young investment management firms whose AUM number is not high enough.

Are there some institutional plan sponsors that allocate to emerging managers? Yes, but they too have AUM minimum size requirements because of the move the needle issue.

Yet I cannot count the number of times over the decades that I have heard from an emerging manager that had $100 million AUM or less tell me they can't understand why his or her firm has been unable to land large investors as clients. AUM size alone immediately disqualifies them from consideration by many institutional investors, but that never occurred to them.

Here is an example of that very point.

'You must be this tall'

As I was stepping down from the podium at an emerging manager investing conference at which I was a speaker I was approached by a state pension plan investment committee member I'd known for some years. We started to catch up. In my peripheral vision I spotted an equities portfolio manager I knew approaching us. From the conference badge the institutional investor was wearing the emerging manager was able to detect from a distance what type of attendee he was.

I introduce the portfolio manager to the institutional investor. The manager starts telling about his firm and strategy. Interrupting the manager, the investor asks what the AUM size is. The manager replies, $20 million. The institutional investor tells him he's too small; they require a minimum size of $100 million. "But our strategy is so good," the manager responds. "Your AUM isn't high enough for us," the investor responds. "But we have decades of experience running a similar strategy at a big firm," the manager countered. "That's nice, but your AUM still is not high enough for us to be able to consider you," responds the plan sponsor investor, ending the discussion.

Lesson: If you identify a class of suspects who turn out to not be prospects you have to make note and look elsewhere for nearer-term opportunities.

How long has this been going on?

A second key beyond-the-performance numbers screening requirement, and sometimes obstacle, is track record. Sophisticated investors are on the lookout for money managers who are good performers; and, importantly, where they believe the performance is more likely due to skill than luck. The shorter the track record, no matter how stellar, the greater the likelihood that luck may have outweighed skill.

This is why family office, endowment, foundation and pension plan investors, and their consultant gatekeepers, often have an investment policy statement guideline requiring a track record length be for a specific minimum number of years. Some might have a three-year track record requirement; some might require five. You cannot assume they are all the same. You need to research this or inquire.

Not every suspect is a prospect

Portfolio managers will find they are beating their heads against a wall if, in trying to sell to sophisticated institutional investors, they do not look to get these questions about acceptable height and length — of AUM size and track record length — answered right up front.

If you come up short in your current characteristics with investors you meet, make note of their first beyond-the-performance numbers screening requirement and circle back to them when you meet their AUM and track record minimums for consideration. Such suspects may not be today's prospects, but they might be once you grow.

Marketing tip

What should a money management firm do when it finds itself to be not too far off, but still short of, a prospective investor's AUM size minimum requirement; or, instead, say, has an 18-month track record and the prospect requires at least three years?

Assuming your returns and explanation about strategy implementation are of potential interest, ask them if they would be willing to follow your performance *and* your firm's writings between now and when you reach their required minimum AUM 'height' or track record length. For those who say *Yes*, your content marketing (quarterly letters, research pieces, commentaries and transcripts from speaking engagements) will prove to be a very good way to keep engagement with them, demonstrate consistency in investment process and make more tangible the intellectual acumen of management at your firm.

This will help brand your firm and differentiate it from its competitors. It will also improve your odds of getting a warm reception from these prospective investors who have been following you when they learn you have become big enough and old enough to be worthy of their more active due diligence vetting.

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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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