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

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New Investor Due Diligence Will Question Your Values

Tip 6: Preparing For Post-Pandemic Asset Raising

Welcome to the 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, recessionary world.

For What It's Worth

For a great many companies, both public and private, as well as for the assets behind asset-backed lending investments, the intrinsic valuations these investments had prior to the pandemic and recession are no longer relevant, let alone accurate; despite the market being up.

Over the summer, sophisticated investors such as family offices began re-evaluating their direct investment holdings to determine where and how risk/return exposures changed. They are calculating which holdings now have lower upside potential in this pandemic and global recessionary world. They are calculating which holdings now have higher risk than what they previously bargained for, and are beginning to think what they want to do about it. They are looking to determine which investments have fallen into the write-off territory. Many of the direct holdings in their portfolios are likely to have valuation adjustments made to them.

This has significant ramifications for every portfolio manager vying for a new allocation from sophisticated investors, because it will be resulting in more probing due diligence vetting by family offices, endowments, foundations, institutional plan sponsors and their consultant gatekeepers.

However, in my talks with a wide range of portfolio managers over the summer there were valuation-related questions I found that they were not prepared to answer. In their asset raising efforts they will find they will have to.

What Are Your Investment Firm's Changed Valuation Views?

Here are some of the key questions your money management firm must be prepared to address when explaining your strategy to a new prospect, as well as when updating with existing investors.

1. For positions you held pre-Covid, how have you re-examined the previous valuations you gave them?
2. For positions where your re-valuations show increased risk or reduced upside what actions have or do you plan to take, and why?
3. How have you modified position sizing and asset allocation, and why?
4. For new positions you are researching and considering adding to your portfolio are you using your same unchanged thinking from the pre-pandemic, pre-global recessionary environment? Why or why not? (If you claim you have no need to make any tactical adjustments to running your strategy, and you are not running a momentum investing strategy that acts 'blind' to valuations, watch out.)
5. Many investors believe that the coming years will likely see more extreme non-company specific risk factors affecting holdings, and this will impact valuations and portfolio investment decisions. What insights is your firm applying to its investment management approach to mitigate risk exposures while pursuing alpha?

Sophisticated investors expect portfolio managers to recognize that just because the market is currently up, and global recessionary factors have yet to have their full impact, it doesn't mean this is a business as usual investment environment, particularly when it comes to the three-to eight-year outlook ahead (less than the lock-up time for PE investments).

Portfolio managers who cannot address the valuations topic in detail may leave the impression that they give less thought and attention to their basket of holdings than do the institutional investors they are pitching, who already put in the time and effort to conduct updated due diligence analysis on their direct holdings to determine where their views on valuation changed and what they plan to do about it.

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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.

Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.