Marketing To Sophisticated Investors column
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Where The Marketing Hurdle Goes Beyond The Hurdle Rate

Tip 30: Preparing For Post-Pandemic Asset Raising

Welcome to the thirtieth 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 received a call recently from a portfolio manager who is aiming to structure a new private equity investment vehicle. He wanted counsel as to whether setting a hurdle rate with his offering was going to be a 'must have' or not, since he could think of some big players in the space who had done without. Setting favorable terms is indeed important. However, while his question was quickly answered, it remained the focus of his attention as our discussion continued — as if this factor was going to be the main hurdle and primary emphasis in the fund's asset raising efforts.

When I inquired about how the manager intended to communicate to address the two biggest marketing hurdles for a portfolio strategy that aims to acquire and turn around companies, he had far less of an explanation than he did for stating plans for payback of principal, and the planned income generated return stream details for over the intended lifespan of his fund's envisioned investments.

These marketing hurdles I was referring to aren't about sourcing deals, as some might think. Instead, they are about the value issues that relate to strategy and process.

Your valuations

Experienced, skeptical investors have become more wary of PE firms in their marketing communications potentially inflating their in-house valuations of businesses they intend to acquire, whether intentionally or not. What's more, this issue can get exacerbated regarding interim positions in a PE portfolio when a fund is in a further fundraising stage.

How such prospective or actual investments are being valued is one of the elements that differentiates one PE firm from another. Further, as valuations within industry sectors inflate, such as with the technology sector, return expectations need to be adjusted. Sophisticated investors have picked up on how realistic or not a GP's claimed return potential may really be.

As a result, communicating detail about how valuation work is conducted, and what qualifies as good enough or too risky for the PE firm's management team, is important information to convey, both verbally and in print.

The more opaque, briefer or seemingly over-promising such communications are, the more skeptical pitched sophisticated investors become.

Your added value

Next, is the manager anything more than a pocketbook? What exactly does the PE firm intend to bring to the table in its capacity as a full or partial owner of a business? Will it be a passive investor, simply handing over needed capital and letting the company's management team carry on as before, but now with a needed cash infusion in hand? Or, will it be a consensual activist investor role that the PE firm takes on, providing contacts and counsel that a company's management team otherwise lacks for improving operations and sales, in addition to delivering needed capital? The full value of the GP needs to be spelled out, as this, too, is what differentiates one PE firm from another.

If detailed enough communications about the valuations and added value marketing hurdles are not planned for then a PE firm's executive team will soon find it faces asset raising hurdles that go beyond just setting a hurdle rate.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 35-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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