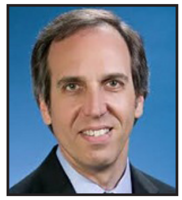
Guest Column

When Fund Managers Lose The Sale At The Initial Investor Meeting

By Bruce Frumerman, ceo of Frumerman & Nemeth Inc.



Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 36-year-old financial communications and sales marketing consultancy that is internationally recognized for helping 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.

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

Is your money management firm too often striking out in its early due diligence/ get acquainted meetings with sophisticated investors?

A few years ago, a family office investor whom I'd known for years was telling me about some frustrating initial due diligence meetings she had with emerging managers that had acceptable performance track records. She was asking these particular portfolio managers to provide cogent and clear explanations as to how they ran their strategies. They weren't cooperating.

The first frustration, I was told, was over having to ask for an investment process explanation in the first place. Money management firms should communicate unambiguously about how their strategies are run, making it easy for prospects to learn about, and buy into, what the fund manager would be doing with an investor's allocation. Unfortunately, those emerging managers that do are the exception rather than the rule. The second, and bigger, frustration was about the number of times that the same question had to be asked of these portfolio managers. That was because the money manager response the first time, and later times as well, was too unstructured and too vague.

This presents a problem for the potential investor. A portfolio manager's good performance could have been due more to luck than skill. If they cannot understand a portfolio manager's investment process, sophisticated allocators are unable to make subjective determinations as to which manager is running a more skills-based portfolio strategy.

How frustrating can manager questioning get? This family office allocator had an occasion where a top performing manager had to be asked seven times to give elaboration about investment process, and there still was no sensible explanation proffered about strategy implementation. At that point, the family office investment committee head decided to never again give a manager that many chances. Going forward, managers would be asked (and re-asked) to explain how they run their funds no more than three times. It was going to be three strikes and you're out.

But Marketing Is Tougher Now

Emerging managers face more competition today than they did a few years back. Further, with the simultaneous macroeconomic and geopolitical threats to investment portfolios today — aftermath impacts of Covid, Russia's invasion, global inflation and interest rates — sophisticated investors are more demanding of transparency and cogent explanations about a portfolio manager's investment process.

How much tougher is the due diligence vetting crowd now?

Another family office investor, one tasked with handling round one vetting for its investment committee, recently said to me that the money management firms that make it easiest for him and his colleagues to understand and buy into the investment process they follow are the ones that make it further through the family office's due diligence vetting.

This family office investor then went on to share a story with me that exemplified how they have recently been looking to make more effective use of allocating their finite time available for conducting manager due diligence, taking into consideration the large number of money management firms pitching for their business. He and a fellow member of his family office investment committee were visiting with a portfolio manager and his team at the fund's offices. This round one, in-person meeting was taking place after the family office had already conducted an initial analysis and approval of the data regarding the fund and firm. As the meeting progressed, and the portfolio manager continued to speak, he had yet to bring up the subject of how he ran the strategy. So, the family office fellows interrupted him and asked that he explain that. The portfolio manager instead proceeded to go off topic, onto some side tangent about a single stock holding. He talked himself down a rabbit hole side topic, the family office investor said.

So, the family office investors interrupted the portfolio manager. For a second time, they asked the manager to walk them through how he goes about assembling and managing his basket of holdings. For a second time, the family office investor tells me, the manager started rambling again rather than answer the straightforward question, and he talked himself down a second rabbit hole side topic.

"My partner and I look at each other and then back at the portfolio manager," the family office due diligence gatekeeper tells me. The portfolio manager was told that that they were still not getting a clear explanation as to how he runs his strategy, so their family office's due diligence time looking into his firm has just ended. "With that, we stood up, thanked him for his time and walked out of his office. You should have seen the look on his face," the investor said to me.

What Is The Sophisticated Investor's Most Valuable Asset During Due Diligence?

It's the finite amount of time they have to dedicate to vetting all potentially interesting managers and their strategies.

To improve the odds that your firm

Continued On Next Page

COLUMN:

Continued From Previous Page

makes it past the first meeting and on through the rest of the due diligence gauntlet, see to it that you first lock down an explanation for your investment process that can be clearly communicated in enough detail. This must include a conversational, plain-spoken storyline explanation that delivers the strategy implementation description that sophisticated investors are aiming to gather in their due diligence questioning.

Obviously, you must put the needed time into crafting this content well. Your portfolio manager should rehearse this out loud, as if actually speaking with an investor, with other staff members before starting (or restarting) in-person meetings with prospects. Also, make sure this vital content exists in print form to hand over to investors conducting due diligence on you. Giving a one-time conversational style verbal delivery of this important information that differentiates you from competitors and makes tangible the intellectual acumen of management at the initial in-person pitch meeting is not enough. Delivering this content additionally in print makes it far easier for the initial due diligence vetting family office member to share that beyond-the-numbers info about your investment offering with others on their investment committee.