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**The Initial Due Diligence Meeting:  
What family office investors want you to communicate  
by Bruce Frumerman, Frumerman & Nemeth Inc.**

Is your hedge fund making the most of its initial in-person meetings with family office investors? Are you productively using that face time with them? Are you communicating what they're looking to glean from that initial meeting with you? And is your marketing collateral effectively communicating what they and their investment committee colleagues need to know in order to understand and buy into how you invest?

Recently released survey results of polled family office investment committee members offer a rare glimpse into the subjective, non-data issues family offices are looking into at their initial in-person meetings, and beyond, when they are evaluating alternative strategies portfolio managers and their investment processes.

The survey was conducted by Wealth Management Insights Summit ([www.wmisummit.com](http://www.wmisummit.com)), the family office investor alternative strategies cap intro event and conference produced by nGage Events. The respondents were family office investment committee member attendees of the second annual WMI conference, held in February 2014.

Here are some of the findings.

There were five points that the majority of the family office investment committee member respondents said they looked to learn when conducting their first in-person meeting with an alternative strategies portfolio manager: pinpointing the investment edge that has made the fund successful (83%), understanding and buying into the investment philosophy and process (74%), gauging why the performance is repeatable (65%), understanding in what market environments the strategy is expected to outperform and underperform (61%), and judging how enthusiastic the portfolio manager seems to be about the strategy he or she is running (52%).

The top three reasons these investors said they rejected allocating to a manager who had acceptable performance, AUM size, track record length and Ops & Admin structure were 1) the manager did not give enough transparency into the investment process, 2) the investment process seemed to lack a solid risk management methodology, and 3) comfort factor could not be established for the firm's culture or the quality of staff.

When asked how often family office investment committee members find that the flip chart pitch books from hedge funds provide all of the information they need to understand and buy into how the managers invest, the responses were 9% Always, 52% Sometimes, 30% Rarely and 9% Never.

There has also been an increased amount of discussion among family office investment committee members about the funds in which they have already invested. When asked if post-investment conversations with family office members about the performance or volatility of holdings in the portfolio increased since post-crash, 70% of respondents said Yes. Also, 87% of respondents said they have had occasion to have to defend why an investment decision had been made to allocate to one manager versus another who had similar performance.

## **Implications for hedge fund marketers**

When family office investors grant alternative strategies portfolio managers an initial in-person meeting they nearly always have seen a firm's data beforehand. So, as these survey results reinforce, there are two important goals the investor has. The family office wants to get an initial understanding of how the money management firm generated its returns. Also, the family office is looking to make that subjective judgment call as to whether it is willing to dedicate additional time — beyond this first meeting — to conduct further due diligence on the portfolio manager and the firm. This is why face to face meetings are so valuable to investors, and why the impression the hedge fund gives at this first meeting will end up being its last if it hasn't prepared well enough.

The challenge you have is to effectively educate family office investment committee members on how you think, especially in the crucial, initial in-person meeting. Additionally, you need marketing collateral that communicates in writing the verbal explanation you gave about how you invest. This is both to remind the person you met with what you told them, and to enable other investment committee members who did not meet you to learn about your investment process and what separates you from the pack.

Since 91% of surveyed investors stated that the flip chart pitch books hedge funds provide do not supply all of the information they need to understand and buy into how the managers invest, it would be wise to reevaluate your communications marketing strategy. At my firm, we intentionally craft an additional marketing tool for our clients: a brochure format document to address in detail the investment beliefs and investment process that a hedge fund follows. This covers in writing the very storyline that family office investors — and investment consultants and gatekeepers, plan sponsors and RIAs, for that matter — are looking to learn and evaluate in their due diligence when it comes to the subjective, non-data issues about your strategy.

Prepare for your future introductory sales meetings and cap intro presentations with these points in mind and you will improve your chances for attracting the interest of family office investors and differentiating yourself from your competitors.

The next annual Wealth Management Insights Summit is scheduled for April 19-21, 2015 at the Ponte Vedra Inn & Club in Ponte Vedra, Florida.

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