

Hedge Fund Marketing To Independent RIA Firms

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Independent, fee-only financial planning/investment advisory wealth management firms that serve high net worth investors are a target market for hedge fund boutique firms and their products. While one segment of this type of wealth management firm allocates only to mutual funds, 40 Act funds and index funds, those serving higher net worth clientele also invest their clients in alternative strategies, managed accounts and LPs.

This is an often overlooked marketing opportunity for hedge funds, where one sale can translate into tens or hundreds as these 'managers of managers' invest their clients in the alternative strategies and managers they've selected to deliver specific risk/return and correlation characteristics within customers' portfolios.

Assembly Required

The good news for the hedge fund portfolio manager is that these firms exist. The bad news is that you can't buy a list of them; you'll need to assemble your own. Old-fashioned research and "leg work" is required; a lot of reading up on the firms and then making inquiry phone calls to determine if what looks to be a suspect qualifies as a prospect. Conducting online research is the starting point. Reading the website copy of independent RIA firms can help you start to separate the 'maybe' from the 'definitely not' firms. The initial targets are the RIA firms that appear to be allocating beyond just core equity and fixed income holdings. I often recommend a hedge fund firm start its search within its local geographic radius, as these are firms that they could most easily drop in and see if an initial qualifying contact makes them look promising.

Now back to more good news...

Why They Like Boutique Firms

The business model of many of these independent RIA firms dictates that they have an interest in differentiating themselves and their offerings from that of their wirehouse and big investment platform-based competitors. Such independent wealth management firms benefit from offering their investor clients access to high quality money managers that are not appearing as offerings on the major retail brokerage firm platforms.

To successfully market to such RIA firms, it is important to have context about how they work, what makes them nervous, how they have to resell what you're looking to sell them on, and how to make their jobs easier while at the same time making your firm the defensible decision in their due diligence manager selection.

Understanding How They Work

The investment advisory services that independent RIA firms provide fall into three main phases: asset allocation, manager selection, and portfolio monitoring combined with investor relations follow up with clients. For this, the fee-only independent RIA is typically charging a flat-percentage management fee related to the client's AUM size. This annual fee tends to be around 1% of AUM, and there might be a reduced sliding scale for clients as their AUM size rises.

Earning that 1%

An asset allocation is, of course, made by the RIA, taking into account a client's investment goals, risk tolerance and timeframe. Stock, bond and alternative strategies are considered and weighted. Then the RIA goes shopping to pick the money managers and products, which can range from funds to managed accounts to LPs. Most hedge fund firm owners know this, but what often does not occur to them is what must happen next.

Once the managers and products are selected, the RIA has to explain these to the client and get buy-in for the investment recommendations being made. When that is accepted and the RIA has allocated to the chosen money managers, the RIA must not only monitor performance, but also fulfill an investor relations function. This requires keeping the client apprised of not just performance, but also about ongoing strategy implementation by each money manager within the client portfolio.

That is the basic structure of an independent RIA firm's investment advisory work, and it has not changed over the years. However, while that three-step job function has not changed for them, there has been a change in what these wealth management firms find they must do today to win over, and keep, an investor.

Know What Makes Them Nervous

These wealth management firms face a tougher time getting clients to buy into, and stick with, their investment recommendations than in previous eras.

Two market events shaped the change in what RIAs had to effectively communicate to prospects and clients to get buy-in to their investment recommendations: the bursting of the tech bubble in 2000, and the 2008 crash.

Before the tech bubble burst, I often saw independent financial planning/investment advisory RIA firms selling their clients on their investment recommendations by relying on just a few rote sentences, such as:

- The asset class of the product I'm recommending fits with the suggested portfolio asset allocation I said meets your investing goals and risk tolerance
- Their performance has been good lately
- The manager has a good pedigree

I recall a time during the tech bubble when an independent RIA firm client allocated some of his firm's clients to a portfolio manager running a leveraged options and futures trading strategy. Before he did so, he asked my firm to do a favor; take a look at this money management boutique's explanation about how it invested, and take a call with that firm to hear what they had previously told him.

The hedge fund's near-term performance numbers were high, and the portfolio manager had formerly been an employee at a well-known shop. That attracted the RIA firm owner, but his gut gave him pause, because, truth be told, he didn't understand what this money management firm's strategy actually was. What did they do? Did it make sense? And could it be a repeatable process? After I read this firm's marketing materials and spoke to its salesperson, it was clear that there was no methodical, thoughtful process here. Making matters worse, its sales person actually said "Our portfolio manager's strategy is complicated. You wouldn't understand it." A red flag warning if ever there was one, as I told the RIA firm owner.

Too enticed by the siren song of high returns, the independent RIA firm invested anyhow with this hedge fund. Then, as the tech bubble was bursting, I got a call from the RIA firm telling me the hedge fund rang to say its holdings were now illiquid, they had no idea what the pricing was

on what they held, and they would probably not know for at least three days. The portfolio had already tanked about 30% in a day, based on early estimates. "What should we tell our high net worth clients?" the RIA firm asked in a panic. They had quite an investor relations issue on their hands, and it took quite some time to win back client trust.

Not every RIA firm suffered from such losses when the tech bubble burst, but many had allocations to alternative strategies managers whose strategies they didn't understand and that got trounced in the crash of 2008. High net worth clients then put these RIA 'managers of managers' on the defensive, asking them to explain why they allocated to the managers they did. Their value (i.e. what that 1% investment advisory fee is for) became as much tied up in explanations as to why they preferred and were recommending one boutique money manager investing in an alternative strategy asset class over another with similar performance and pedigree.

In the aftermath of these two market crashes, many of the high net worth clients of these independent RIA firms became more skeptical as to what added value their RIA investment advisor was bringing to the table. Asset allocation recommendations? OK. But manager selection recommendations, particularly when it came to the more esoteric, non-core holdings in alternative strategies? Not so much.

In Selling Them, Help Them Resell You

I can distill down into two sentences what your hedge fund firm needs to understand and address in order to successfully market to the independent RIA wealth management firms: Manager selection requires justification beyond the numbers, just as it does for institutional investors. The justification explanation requires a written script.

As with family offices, endowments, foundations and institutional plan sponsors, independent RIA firms also need to conduct due diligence that goes beyond just approval of your performance, pedigree, track record length and AUM under management figure. They, too, want to understand and buy into the two key 'beyond the numbers' elements that drive your investing: your investment beliefs and the process you follow to assemble and manage your basket of holdings.

You cannot get away with simply talking this content at an in-person sales meeting. This is not content that can be effectively communicated in a flip chart pitchbook in abbreviated bullet point phrases. An additional marketing collateral tool is required.

Deliver the Due Diligence Info and Script They Need

While a pitchbook is the right tool for showing data such as charts, graphs and numbers, you cannot cram into bullet points the needed text-based content that will communicate a compelling and detailed explanation of your investment process.

A better tool for delivering the paragraphs of copy needed to explain how a portfolio manager assembles and manages his or her basket of holdings is a brochure-format marketing piece. People read and absorb detail from paragraph- and sentence-based content. Bullet point phrases cannot deliver this required content detail.

This "beyond your numbers" brochure format marketing collateral piece will make it easier for the independent RIA wealth management firm to decide in its due diligence why they should buy into how you invest. Equally important, this document will then serve as their script for communicating to their clients why they are recommending allocating to you rather than a similar performing competitor.

So, consider adding independent, fee-only financial planning/investment advisory wealth management firms to the list of prospective investors you pursue. And take the time to incorporate a brochure-format marketing document into your communications to them to help answer the due diligence questions they'll have about how you invest.

You'll make their due diligence job easier and be supplying them with a ready-made point of reference for them to use to most effectively retell what makes your firm and fund good enough to invest with. Also, it will help make it a more defensible decision to go with your fund rather than going with your competition, who likely provided a less detailed, more opaque explanation about how they invest.

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About the author

Bruce Frummerman is founder and CEO of Frummerman & Nemeth Inc. (www.frumerman.com), a 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. Founded in 1987 pre-crash, Frummerman & Nemeth's work has helped money management clients attract over \$7 billion in new assets, yet they are not third-party marketers.

This year, Frummerman & Nemeth was named Hedge Fund Branding Specialist of the Year - USA by *Wealth & Finance International* for its 2015 Alternative Investment Awards, named Best Hedge Fund Marketing Firm - New York by *Acquisition International* for its 2015 Hedge Fund Awards, and was recipient of the 2015 Innovation & Excellence in Financial Services Communications - USA award for the *Corporate LiveWire* Innovation & Excellence Awards. Last year, Frummerman & Nemeth was named the Top US Hedge Fund Marketing Firm of the Year for the second consecutive year by *Acquisition International* Magazine's International Hedge Fund Awards, named the Best North American Public Relations Firm by *Hedgeweek's* 2014 USA awards, named Communications & Sales Marketing Consultancy Firm of the Year - USA for the M&A 2014 Awards by *Acquisition International*, named Overall Marketing Company of the Year - USA for the 2014 Business Excellence Awards by *Acquisition International*, and named Best Buyer-Focused Positioning Strategies Consulting Firm of The Year - USA for the 2014 Finance Awards by *Wealth & Finance International*.

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