Marketing To Sophisticated Investors column
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How To Not Strike Out Pitching Family Office Investors

This article is about how to prevent your money management firm from striking out in an early due diligence get acquainted meeting with sophisticated investors.

Some months ago, a hedge fund industry trade publication asked me to lead an in-person teaching session for investment firm owners on the topic of asset raising. There were also some family office investors in the audience. Among the subjects I addressed was explaining about the beyond-the-numbers due diligence vetting that sophisticated allocators carry out and the growing lack of patience these investors were having with portfolio managers who were unable to readily answer some straightforward, important questions about the products they were marketing.

That was then

One of the stories I shared with the audience was about the time five years ago that a family office investor who I've known for years was telling me of frustrations in her due diligence meetings when trying to get portfolio managers to provide cogent and non-vague explanations as to how they ran their strategies.

One part of the family office investor's frustration was over having to ask for an explanation in the first place. Money management firms *should* be going to great efforts to make it easy for prospects to learn about, and buy into, how their strategies are being run. Unfortunately, those that do are more the exception than the rule. The bigger part of the prospective investor's frustration was in the number of times that the same question had to be asked, because the manager response the first time, and often in later times as well, was too amorphous.

Once performance, pedigree, fund size and track record length are acceptable enough to warrant further due diligence, investment process remains the most important consideration by sophisticated investors in vetting managers and strategies. After all, good performance could have been due more to luck than skill. Therefore, understanding a portfolio manager's investment process is what helps sophisticated allocators determine which manager is best.

Three strikes

With the story I was sharing, I explained how this allocator was telling me of 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. Never again would she give a manager that many chances. Going forward, she would no longer ask managers to explain how they run their funds more than thrice. It was going to be *three strikes and you're out*.

The next observation I shared with the asset raising for hedge funds audience was this: They face more competition today than fund managers did a few years back. Further, with the simultaneous macro-economic and geo-political threats to investment portfolios today — aftermath impacts of COVID, Russia's invasion, global inflation and interest rates — sophisticated investors will be even more demanding of transparency and cogent explanations regarding investment process.

"Spot On"

When my teaching session finished one of the people who came up to speak with me was a fellow who had been sitting in the back, often nodding his head in agreement to one or more of the insights and marketing tips I was sharing with the audience. Introducing himself, he told me he was in fact a family office investor who vetted money managers like those in attendance.

The money management firms that make it easiest for us to understand and buy into their investment process are the ones that make it further through our due diligence vetting, he told me. The detail of what I shared with the portfolio managers that day as to exactly what they should be covering in their communications and sales marketing, and about the forms in which that content should be delivered throughout the selling cycle, he said, was "spot on" to what his family office was looking for and expecting to receive.

This is now — three strikes have become a luxury and rarity

The family office investor said he had a story to share with me. He and a fellow member of his family office investment committee were visiting with a portfolio manager and his team at the money management firm's offices. This was the round one, in-person meeting the family office agreed to, having already analyzed and approved of the initial data regarding the fund and firm. As the meeting progressed, and the portfolio manager had yet to bring up the subject of how he ran the strategy, the family office fellows asked him to explain about that. The manager then proceeded to go off topic, onto some tangent. He talked himself down some rabbit hole side topic, the family office investor said. Minutes passed.

So, the prospective investors interrupted the portfolio manager. For a second time, the manager was asked to walk them through how he goes about assembling and managing his basket of holdings. For a second time in a row, said the family office investor, this guy starts rambling rather than answer the straightforward question, and he talks himself down some second rabbit hole side topic.

Two strikes

My partner and I look at each other and then back to the portfolio manager, the family office due diligence gatekeeper tells me. They tell the portfolio manager that they are still not getting a clear explanation as to how he is running 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.

Don't Monkee around with sophisticated investors' most valuable asset

Time can never be regained. Information gathering patience exhibited by sophisticated investors pre-COVID is no longer as great or as forgiving today. As The Monkees sang, *That Was Then, This Is Now*. (A hat-tip to Vance. You can Google it and him.)

So, what should your firm do to increase the odds it makes it into due diligence playoffs when batting against competitors whose marketing efforts may be more respectful of prospective investors' time spent researching money managers?

If your investment management firm has yet to lock down an explanation of its investment process that can be clearly communicated in enough detail — and with a non-rambling storyline that delivers the strategy implementation description that sophisticated investors are aiming to gather in their due diligence questioning — then stop taking meetings with prospects.

Put time into more thoughtfully crafting this content. Have your portfolio manager rehearse this verbally with other staff members before restarting in-person meetings with prospects. This will improve his or her ability to have a more focused and profitable dialogue with prospects on the subject. Also, make sure this vital content exists in print form as well to hand over to investors conducting due diligence on you. This makes it far easier for them to share that beyond-the-numbers info about your investment offering with others on their investment committee.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 36-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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