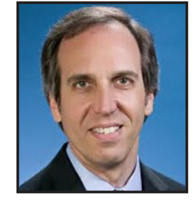
Guest Column

Asset Raising Tips For The Pandemic & Post-Pandemic Years

By Bruce Frumerman, ceo of Frumerman & Nemeth Inc.



Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 33-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.

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Are You Prepared For The Changes In Due Diligence Vetting?

You have read, and probably experienced, the obvious — in-person due diligence meetings have halted and phone calls and video meetings have increased. But there is much more than just that making your asset raising efforts more challenging. Over the past year, there have been changes in due diligence considerations by sophisticated investors. For example, there are some investment process due diligence factors to which many are giving much more attention, and there are new challenging questions that have not been asked before. There is also a change in the scrutiny that money management firms' communications marketing materials are getting.

Have you conducted detailed market intelligence gathering over the past twelve months and then put in place improvements for what and how you communicate and sell to sophisticated investors as you seek to out-market competitors and grow assets? Well, the vast majority of your competitors didn't do this either. Let's begin to rectify this situation for your emerging manager firm now.

Behind The Scenes

To give some context, let's turn back the clock.

Just a few weeks into lockdown in March 2020, a family office investor and I were having a catch-up call. He was telling me what was occupying his time since the pandemic and the global recessionary environment began. Whatever the valuations were on his family office's direct, private investment holdings as of the close of February 2020, he said to me, became irrelevant by the end of March. He was, at that time, in the midst of revaluing each holding to determine an updated risk/return valuation. He noted that despite the fact that the stock market was not reflecting what he felt was the added risk, there were non-company specific risk and global macro-economic factors that for years will be having erratic impact on all of his family office's investment holdings, be they private investments or publicly traded securities.

For its first order of business, the family office was determining what it felt the new, adjusted risk/return valuations were on their direct, private holdings. They would then decide which they would keep or shutter. Next, for the outsourced investment strategies to which the family office had made allocations, they planned to ask what those portfolio managers had to say about analyzing and adjusting the risk/return valuations of their holdings.

The new pandemic world also refocused what was more important to this family office in its planned due diligence of new money managers. His family office was now, he told me, taking a forward-thinking, through-the-windscreen view of things rather than a rear-view mirror attitude assuming what worked before is likely to work as well in the pandemic and post-pandemic (but still global recessionary) world.

What this investor said to me was echoed by other family office investors in conversations through last spring and summer. Here are some of the fresh due diligence questions that family offices have begun to ask, and for which your money management firm should have answers:

• For holdings that were in your portfolio pre-pandemic and that you still hold, how, within your investment process, have you re-valued the risk/return of each holding?

• If you added to or reduced positions on holdings that were in your portfolio pre-pandemic, what valuation and risk/return considerations did you make that led to the change in allocation size?

• For new positions that you have added to your portfolio since the pandemic began, or that you may add in the future, how have 'must have' versus 'nice to have' valuation and risk/return related characteristics requirements in your portfolio manager's investment process changed?

Back in autumn of 2020, family office investors began to turn their sights outward again. They became interested again to learn of emerging manager investment boutiques that were new to them; and where they might find portfolio managers who displayed intriguing investment insights running strategies that took into account (rather than ignored) the global environment and its impact on investing.

Proof of how important this had become was seen in September when Frumerman & Nemeth Inc. conducted a survey of family office investors attending the annual Opal Emerging Manager Summit conference. The survey questions were posed to attendees during the Post-Pandemic Investor Due Diligence Considerations & Asset Raising Tips session I was leading with family office investor panelists. The investor audience's responses offer specific beyond-the-numbers insights about what your investment management firm needs to communicate to make it through the due diligence gauntlet.

Global Recession

The global recession was, and remains, on every family office investor's mind. It did not matter that the stock market was doing well in autumn 2020; the recessionary environment was something many felt would have an impact on parts of their investment portfolios for years to come.

When asked: *Post-vaccine distribution, how long do you think it will take to get beyond the global recessionary environment?* almost three quarters of family offices felt it would last three years and the remainder felt it would last five years.

Think about this. How long do you believe it will take for there to be global distribution of vaccines? You need to add a year, or maybe two, to take into account the earliest time period by which worldwide distribution and inoculation with approved vaccines will have taken place. So, that audience vote for "three years" means four to five years from now, and the "five years" vote means six to seven years hence.

This gives you a sense of the number of years where sophisticated investors are go-

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ing to be expecting that portfolio managers communicate to them detail on how they seek to identify and manage big, non-company specific risk factor exposures. This is likely to crop up in due diligence vetting conversations for quite a while.

Any New Thoughts, Or Staying With The 'Same Old'?

These views about the added risks in the marketplace globally raised an important due diligence consideration question. *Would the family office investor find it acceptable to have money managers claim they have made no changes to their strategy implementation for managing their portfolios through this pandemic and recessionary time*? Half of the responding investors said that if a portfolio manager made this statement, they would stop their due diligence on that manager then and there.

Therefore, fifty percent of the investors will eliminate from consideration portfolio managers whom they believe do not have a grasp of changed risk/return exposures on positions held since pre-pandemic, and no insightful thinking for making valuation and risk/return decisions regarding new holdings under consideration to add to their portfolio. These basics are from where half of the investors are expecting alpha opportunity. Where does your money management firm stand in regard to this?

Beyond-the-Numbers Thinking

Another question posed was this: *How important in today's environment have the beyond-the-numbers factors such as the investment process, valuations, risk management protocols and strategy implementation detail become in your due diligence assessment of a new money manager*? Over eighty percent of investors responded that this was even more important than pre-pandemic.

When sophisticated investors consider new managers, performance has always ranked third in importance, risk management second and investment process first. The dramatic response here shows how much more weight investors are giving to the subjective-based views of portfolio managers.

Beyond-the-Numbers Content Delivery

This led to the 'rate the people pitching for your investment dollars' question: *What percentage of emerging managers that contact you provide in print — without prodding — all of the information beyond performance data that you need to determine whether you buy into their investment strategy?*

For this, let's look at the table of responses.

0% of managers	28%
<10% of managers	16%
<25% of managers	25%
<50% of managers	50%

These responses show that most emerging manager firms are doing a poor job of writing about how they run their strategies. This constitutes a pretty solid reason to reject.

Assuming a firm's performance is within the ballpark of acceptance, this is the very content that will get a firm into semi-finals and finals consideration. Not all family office investors are willing to prod for such information. It takes less time to find a reason to reject than to seek out a reason to press on dedicating finite due diligence time to a money manager.

Also, even if the money management firm is prodded to provide the desired information for the investor to understand and buy into how the portfolio is being run, does the emerging manager even have this required content to share? In my financial communications and sales marketing consulting firm's thirty-plus years of experience no more than five percent of the money management firms we have come across have this content in written form. Importantly, information about how a money management firm invests should be in paragraph form, not simply shoehorned into a pitchbook using abbreviated bullet point phrases.

3 Take-Aways To Act On Now

Don't ignore today's environment — Family office investors are expecting global recessionary related macro-economic factors to, from time to time, significantly impact, and shift, the risk/return profiles on portfolio holdings. They want to know what a portfolio manager's thinking is about this, and want to have it spelled out in detail. How your portfolio manager addresses the valuations and risk management elements of her or his strategy may be the differentiating factor that helps you win a new investor mandate. Build this into your communications and have it in print.

Try to see yourself with an outsider's eye — If you have not done so since the pandemic began, take the time now to reexamine the story you tell about how you invest. Your marketing collateral will be more closely examined than before. Your written explanation about your investment process and strategy implementation is the 'physical' representation of what your money management firm has to offer.

When my firm is examining a money manager client's marketing collateral and how its team members communicate it verbally, we, who have done this countless times over the decades, do so taking the viewpoint of a sophisticated and interested but skeptical and ornery prospect. Try to do this. If a stranger gave it to you about his firm and asked you to invest based on that, would you?

Craft a more complete and compelling storyline — Your firm must create content that communicates in detail its investment beliefs and process, and makes clear where you have innovative thinking and insights that you apply to your investment process. It must also deliver enough detail that it is clear the organization is running a repeatable process.

This paragraph-based content represents about eighty percent of what the money manager should cover in a round one meeting with a prospect. (Remember, your prospect saw your numbers before the meeting or video call and found it sufficient enough to be willing to take this next due diligence step.) As a standalone marketing collateral document, this beyond-the-numbers information belongs in an evergreen type of document that does not contain performance data. Your performance tear sheet and flipchart pitchbook are where to present your numbers-based information.

This investment process storyline is the most important content a money management firm has to use to educate and persuade people to understand and buy into how it invests.

Emerging manager firms that take these insights into consideration and act on these tips will find themselves in a better position during these pandemic, post-pandemic and global recessionary times to out-market competitors, attract the interest of sophisticated investors, make it through the due diligence gauntlet and win new mandates.