

Guest Column

What 1100, 6 & 500 Have To Do With You Winning New Allocators

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At an emerging managers conference I recently attended, a panel of allocators was telling the audience that many portfolio managers do not appreciate just how competitive the market is for winning investments from sophisticated investors. Their views were based on their personal experiences in reading the marketing materials from and speaking with the founders and staff of emerging manager firms that pitch them to allocate.

One of the panelists said their firm seeded experienced managers who made the move from investment firm employee to emerging manager firm founder and owner. The audience was then given this statistic: Over 1,100 emerging manager firms pitched them in the past year. Only six won an allocation. Said another way, only a little over one half of one percent of the investment management firms vying for an allocation won one. That means 99.45% of them failed. That is quite a high failure rate.

Continuing on that topic, another allocator panelist commented that he frequently sees funds that have been around too long without getting investors. There was something he found often correlated with these stalled emerging managers: a lack of execution on the fundraising side. It is something most emerging managers don't have experience with and so they lack the ability to execute effectively, he observed.

Also speaking was an emerging manager who talked about the two years it took to land two anchor investors. His firm had kept track of how many first meetings they held with prospective allocators in order to identify those who were interested in continuing the conversation, and then making it through due diligence vetting with that group to finally win the two allocations. How many first meetings would you guess

they had? The answer was 500. This statistic underscores the sheer persistence required. Each meeting is a step in a long, attritional process — one that tests not just your strategy, but your stamina and adaptability.

Lastly, tied in throughout the conference sessions, all speakers kept repeating that portfolio managers need to differentiate themselves. (But no one elaborated.)

How will you make yourself more compelling against much of your competition?

I have three recommendations for you: Differentiate. Prepare. Persist.

Differentiate — Start by reexamining detail of the methodology your fund employs and the characteristics of the portfolio. I find that elements of these are most often the biggest differentiators a portfolio manager can have. There will be competitors who have similarly acceptable pedigrees or performance, but it is unlikely that others will replicate the thinking behind and process for running your strategy.

Prepare — Do not start making contact with prospective allocators who are sophisticated investors until you are prepared to be run through the due diligence gauntlet. First is investment strategy due diligence vetting. If and when you pass, next up is operational due diligence vetting.

To prep for these, draft and have ready to disseminate the needed range of written content, from performance analytics to copy that describes the investment process, to content that demonstrates how the portfolio manager thinks. Also, prepare an operational due diligence playbook (with the help of your back office service providers) that touches upon the key elements and responsibilities that fall to the

firm president or COO to either oversee or carry out for managing the business and fulfilling the fiduciary duties to clientele.

Persist — Once initial contact is made with prospects, be ready to follow up. They are bound to be on your mind more than you are on theirs. However, following up with them can slip your mind if you are not keeping records of who you spoke to when, what was discussed, what was the next step to be taken by whom, and when. As an emerging manager reaches out to more prospective investor contacts there is more to keep track of. Caution: neither a Word file nor an email program is an effective tool for managing the needed notes and To Dos that comprise a sales marketing effort.

There is also a balance between being persistent and becoming annoying. In order to be perceived as always being the former and never the latter, make the effort to offer currency in exchange for the prospect to pay attention to you again. Currency, for them, are thoughtful insights from the portfolio manager. These could be about elements of strategy implementation, analysis of a stock or sector, or even opinion as to whether or not a current marketplace issue requires making tactical changes for portfolio risk management purposes. Such new thought can count as valid reason to recontact/update with prospective allocators to your fund.

Final Thought

The path to winning new allocations is arduous, but not insurmountable. By differentiating your strategy, preparing meticulously and persisting with discipline and value, you dramatically increase your odds of standing out in a crowded field. Remember: in a world where 1,100 compete and only six succeed, every detail matters.