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Your Fund's Observation & Interpretation Marketing Opportunities

Tip 35: Preparing For Post-Pandemic Asset Raising



Welcome to the thirty fifth of a series of articles offering insights and tips to prepare money management firms for improving their abilities to out-market competitors and attract assets from sophisticated investors in the coming post-pandemic world.

How did the good past performance for a money manager happen? Was it due to manager skill, or could it have just been luck? While good past performance is no guarantee of future good performance, there is greater likelihood that the good performing manager who can demonstrate examples of skill is more likely to repeat success, than the one who is not making the effort to do so.

This is behind the thinking of sophisticated investors when they decide to conduct due diligence on portfolio managers. One of the things they want to learn is how the portfolio manager thinks, because what investors are really buying into is the brainpower of the portfolio manager.

The first impressions about the intellectual acumen of the portfolio manager comes from the detailed explanation he or she provides as to how they run their investment methodology; seeking out investments and in assembling and managing the basket of holdings that comprise the portfolio. If the communications about this are too vague, too opaque or incomplete the healthy skepticism of the prospective investor will remain, and the assumption of luck will outweigh the assumption of skill as the driver of performance.

Assuming the money manager passes that first communications and sales marketing hurdle successfully, there is more investigation on tap. Unlike investors who are willing to allocate to a manager without conducting much due diligence — such as those who are performance chasers and only allocate based on that, or those who invest based on pedigree, being impressed enough by where someone used to work, where he or she went to school, or picking only big-name firms as a being defensible choice — sophisticated investors take a different tact. These family offices, endowments, foundations, institutional plan sponsors and their gatekeepers, and some in the independent financial planning/investment advisory wealth management space conduct deeper analysis of the portfolio manager and investment product under consideration.

Challenges of the times

These times have added challenges for investors: The global inflation and recessionary environment. Russia, war and energy prices. Covid that has yet to go away.

BlackRock stated at the start of this year that it believes investors are entering what it calls a new regime of greater economic and market volatility, which is set to stay. Paul Tudor Jones concurred recently, commenting in the press that he believes this is the most challenging economic environment in 40 years.

So, while vetting the intellectual acumen of a portfolio manager was always something that sophisticated investors would do, in these times even greater weight is likely to be given to such evaluations by skeptical prospects.

Yet, not all new information, or the market's reaction to it, is valuable information. There is much noise out there.

As some family office investors have commented to me, they are particularly interested in how a portfolio manager thinks when significant enough new information comes out in the marketplace — be it as broad as macro-economic or as spotlight focused as company-specific.

If sophisticated investors are given communications from an investment management firm that demonstrates how the portfolio manager takes into account new information and how that thinking might be applied to refining any elements of the investment process — from research to analytics, and from position weighting to risk management protocols — then this marketing collateral gives the potential investor a better sense of the smarts they may be buying into if they allocate to the manager's strategy.

Observation & Interpretation Marketing

This is why it is important for portfolio managers to demonstrate the intellectual acumen of management at their firms by sharing examples of their thinking. My 35-year-old financial communications and sales marketing consulting firm calls this Observation and Interpretation Marketing.

We have money manager clients where investment commentaries are created that are separate from missives talking about fund performance and specific holdings. In these commentary pieces we help them share examples of how the investment firm is observing certain event driven news or investment marketplace events or conditions and, importantly, how they interpret what they observe. Their resulting opinions from what they observe and interpret, after all, are a key thing portfolio managers are selling, as this is a core element within any active investing approach.

I cannot share proprietary examples of this from my clients, but I can point you to a publicly available one. Howard Marks, co-chairman of Oaktree Capital Management, is a good example of who does this well, on an infrequent basis, with his memos. His missives tend to take a 50,000 foot view of things, connect the dots between different investment points or considerations and provide his interpretation of things, which often take a different slant than what passes as current common wisdom. Don't bother trying to emulate Mr. Marks (or Warren Buffet, for that matter), but do take note of the observation and interpretation counterpoint his written communications marketing presents. The intellectual acumen of management is clear.

Write good, thoughtful commentaries — not fluff nor filler. Do not imitate your competitors. Do it on a regular schedule. After a while you will have built a compendium of writings that, like a compiled book of articles, make tangible the conceptual added value of what the money manager brings to the table that separates him or her from competitors. This can be content marketing at its best.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 35-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.

Mr. Frumerman can be reached at info@frumerman.com, or by visiting www.frumerman.com.