Marketing To Sophisticated Investors column
by Bruce Frumerman, CEO, Frumerman & Nemeth Inc.

July 2022

Marketing Smarter for Hedge Funds – a special report

Tip 28: Preparing For Post-Pandemic Asset Raising

Welcome to the twenty-eighth 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.

Ten years ago, SEI Investment Manager Services released its report on the hedge fund industry, titled The Shifting Hedge Fund Landscape. Ten years after, in June 2022, it released its Back To The Future update report on the hedge fund industry, addressing, among other things, competitive pressures and institutional gatekeepers.

As SEI observes in its new report, "Hedge funds now face the distinct possibility that they will become victims of their own success. Is it even possible to differentiate a fund in so crowded and competitive an environment?"

The 2022 report goes on to ask important questions about asset raising in today's environment:

> How have asset-raising challenges changed in the decade since SEI last wrote about the hedge fund market? How is marketing to retail investors different, or similar, to how managers approach institutions? What tips can we suggest to managers looking to take advantage of the rising demand from the non-institutional market while avoiding common pitfalls? To answer these questions, SEI spoke with Bruce Frumerman, CEO of the 34-year-old — now 35-year-old — financial communications and sales marketing consulting firm, Frumerman & Nemeth Inc.

The special section of SEI's report, titled Marketing Smarter, provides the answers. Here they are.

Segmenting prospective investors— the song remains the same

One thing that hasn't changed in both the institutional and retail investor worlds, Frumerman says, is that "there are still three types of investors." Frumerman & Nemeth classifies these investors as people who allocate based on pedigree, those who only buy performance, and those who buy process. Pedigree investors range from friends and family investors to those whose due diligence goes no further than choosing either the mega-sized firm name (like buying IBM, you won't be judged harshly) or the portfolio manager who came from a top "name" firm or prestigious university.

"Performance chasers are not sticky asset investors. Attracting assets based on current performance can negatively affect investment boutiques much more than the mega-sized firms once performance inevitably flattens or drops. Our experience is that the sticky asset investors are those who buy into the investment process of the portfolio manager," Frumerman says.

Alpha skill or just luck?

In today's market, institutional investors and investment consultant gatekeepers are delving more deeply into how the hedge fund manager assembles and manages his or her portfolio basket of holdings, Frumerman notes. "To make that subjective decision as to whether a manager's performance is more likely due to skill than luck, this due diligence vetting is requiring hedge funds to be far more transparent and detailed in their explanations about their investment process and strategy implementation," Frumerman continues. The days when "transparency" meant just providing holdings and attribution analysis are long gone. "Institutional investors are looking to see that risk management protocol elements are legitimate steps within the investment methodology. A decade ago, hedge fund managers often claimed they had an investment process and risk management that was dealt with as an 'overlay' rather than woven into the methodology. That just doesn't cut it today."

Gatekeepers — a key to attracting sticky asset retail clients

Marketing to, and through, retail investor gatekeepers offers the best means for winning over stickier asset investors, says Frumerman. These include both the independent, fee-only wealth management firms that are platform-agnostic, as well as the captive sales force RIAs at brokerages and financial supermarket firms.

"Hedge fund firm owners should realize that those firms that help the gatekeepers demonstrate their added value to their retail clients will win more market share," Frumerman says. "It's not enough for the gatekeeper to merely tell a retail investor that the alternative strategy asset class category and fund performance warrants their allocation, because that positions the hedge fund as being an easily replaceable, commodity-like choice."

Gatekeepers can make their added value tangible when they can tell a client why, beyond pedigree and past performance, they made the evaluation that Fund A is better than Fund B, Frumerman observes. All this comes down to whose investment process is, subjectively, the more reasonable and repeatable one to allocate to. Frumerman points out that this is something that gatekeepers can communicate only when strategy implementation detail has been explained to them, both verbally and in collateral.

"Marketing collateral retells this key information, which both defines and differentiates one fund and manager from another," Frumerman says. "It is a point of reference and a script for wealth manager gatekeepers to use when explaining why they are making a particular allocation recommendation to their retail investor client." Importantly, he adds, "this is paragraphs-worth of content that pitch books are not designed to contain."

Retail is not that different from institutional

"Don't underestimate the interest and ability of retail investors to want to understand and buy into the alternative strategy being recommended by their wealth manager gatekeeper, or that they themselves read about on online investment platforms," Frumerman advises. "They are little different from the non-professional investors who can be found on investment committees at pension plans, endowments, and foundations." Since many are interested in having explained to them, and indeed may have a duty to understand, how the managers they invest with run their strategies, "GPs should make an effort to share this information, and do so in an easily understandable way," he says. "But whatever you do, do not dumb it down."

A brand is a firm's story of how

As noted in the survey, firm brands are important to investors. But they and their gatekeepers must recognize that different strategies often require different implementation. Clearly understanding that is critical in evaluating the true benefit of the specific fund in which they are looking to invest.

"Particularly for alternative strategy portfolio managers, brand identity is their Story of How regarding the investment process and strategy implementation on a product-specific level," Frumerman says. "Out-marketing similar-performing competitors will come down to the hedge fund manager's ability to differentiate itself for both retail investors and their wealth manager gatekeepers, as well as for institutional investors, based on the firm's competence to educate and persuade people to understand and buy into how they invest. Managers who can sharpen their skills to achieve this will likely see greater opportunities to grow assets and their investor base."

A copy of the complete SEI report can be found here: https://seic.com/knowledge-center/hedge-funds-back-to-the-future

# # #

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.