

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

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When Should I Start Marketing My New Fund?



I get asked this very good question about a dozen times a year. It is a legitimate question for founders of relatively young investment management firms to ask — from the just launched to those under three years old — as there are many costs attached to initiating an asset raising effort as well as consequences for taking missteps.

So, before turning from only managing your own assets in your fund as you grow your track record to asking others to invest with you, what should you consider?

There is the time and effort cost for preparing to begin to explain yourself and your offering to outsiders. There is a financial expenditure for developing the right content and then producing the physical and electronic versions of marketing documents that your firm will need to share with prospective investors throughout the selling cycle. There are also two potential lost opportunity costs. One is pitching people too hastily to invest before the portfolio manager has locked down how to tell the story the right way (sophisticated investors will not allow an emerging manager a do-over). The other is waiting so long to get around to creating awareness that the firm and product offering even exist that the ramp-up time to prepare properly to market can add months onto how much time it might take to begin to generate positive marketing results.

While my communications and sales marketing consulting firm's general observations and insights regarding when to start marketing a fund will not apply to every young investment management firm and team, they can prove to be a useful starting point for self-examination by the portfolio manager and his or her team.

There are three key factors to consider before you make the decision to ask others to invest with you. The first is your assets under management size. The second is your track record length. The third is who you personally know. All three factors impact a young investment firm's stage one marketing outreach efforts.

When might be too soon to start marketing?

The answer often lies in size and length considerations by the prospective investors.

If the investment dollar size being traded in the live portfolio is low, or the track record length of the live portfolio is very short, then it could be too soon to begin to market to outsiders.

The shorter the live track record of portfolio performance the less likely any prospective investor would invest.

Some say that until a portfolio has a live track record that passes the 18-month mark there is a higher possibility that good returns could have been due to luck rather than skill. This issue becomes even more significant for the start-up manager who is a first-time portfolio manager rather than those who left being an investment management firm portfolio manager or analyst employee elsewhere to start their own businesses. Further, for family office investors, who are more institutional than retail, many require a three-year live track record minimum to even spend time evaluating portfolio managers and their strategies.

So, for assets under management, how small is small? While this can be subjective, in the eye of the beholder, here are some thoughts on the matter. I've had many portfolio managers who were running live portfolios with just their own dollars call me for asset raising counsel. A few were running under \$100,000. (Even unsophisticated individual retail investors would consider this to be tiny.) Some were running under \$1m. (Most individual retail investors would likely consider this to be very small.) Others were running between \$8m to \$20m. (Most individual retail investors would likely consider this to be a little portfolio.) Some were running around \$50m to \$80m. (Individual retail investors would still likely consider this to be small but might worry a little less about the size of the business.) And then there were those running around the \$150m mark. (These managers are more likely to get a first hearing from some single family office investors.)

What should your sales marketing goals be?

There are two primary sales marketing goals all money management firms should have. The first goal is to win an allocation from an investor. Of course. But equally important is to get prospective investors intrigued enough to be willing to follow you. This second goal

helps build an audience and increases the odds of being at the right place at the right time when such a prospect is ready to move forward in due diligence vetting. However, many emerging managers forget or attempt to ignore this task. Even the largest of money management firms pursue this second goal so ignore it at your peril.

Who can you viably market to?

My firm advises owners of young investment management firms to divide their potential investor audiences into three groups: friends and family, acquaintances, and family offices.

By friends and family I'm being literal. If a person is not a real friend or an actual family member then they do not belong in this category. The people classified in this category are ones who have a years' long relationship with the portfolio manager. They know her or his personality and character. They know where he or she came from, and their back story that led to them starting their own money management firm.

Acquaintances are just that. They have crossed paths enough times with the money manager before the investment boutique business launch so that they know each other. This includes fellow employees at the portfolio manager's previous job, people in the same industry who would be seen time and again at industry events, and also one step removed, non-business contacts. Such people can include folks known from seeing with enough regularity at one place or another so that the portfolio manager is on a first name basis with them. These can be, for instance, people known locally from the golf course or pickleball courts, or folks the portfolio manager has seen time and again attending the same cultural events.

Family office investors are a separate and completely different type of investor. To them, in most cases, the young investment management firm and its portfolio manager would be unknown to them until they were approached. Also, unlike the vast majority of retail investors, they are sophisticated investors who have been previously pitched by hundreds of other money management firms. So, they are an audience where getting the pitch right the first time is vital.

Earlier I mentioned 'outsiders'. So, which of the above audience types should you classify as that type of prospective allocator? Consider as 'outsiders' anyone who has not received any detail from you about your young investment management firm and the product you are running. These are the truly cold pitch prospects. It is safe to assume that such prospects will not give you a do-over if they are unimpressed, confused or wary based on your initial pitch conversation or presentation to them.

Why marketing sooner than you may have thought might be a good idea

The answer lies in the second sales marketing goal — to get prospects to be willing to follow you. There are times when it is worth seeking to interest a prospective investor who is either not ready or willing to make an allocation in the near-term to agree to follow you. For this to succeed the firm needs to both be able to educate and persuade people to understand and buy into how it invests, and provide ongoing output of content marketing that further demonstrates how the portfolio manager thinks. After all, it is the intellectual

acumen of management that investors buy into. Past performance is simply a rear-view demonstration of the veracity of how the manager thinks and implements the strategy. And this gets back to one of the aforementioned lost opportunity costs if the time, effort and dollars are not invested up front for doing a good job producing those vital communications with prospects to convert them into investors.

So, when does it make sense to start marketing?

You should consider pitching people after you have built your list of those who are not strangers — friends, family and acquaintances — and classified them based on their likely acceptance of your current fund size and track record length.

You should only begin to market after you have crafted a cogent, compelling, transparent and detailed explanation as to how the strategy is being run.

Equally, you should only begin marketing after you have built a communications marketing action plan and started producing content that goes beyond the above-mentioned portfolio process explanation, and performance reporting. The objective is to be producing and disseminating a range of ongoing communications over time that will keep you and your firm in front of prospects.

Finally, approach a prospect only after you have planned your ‘what next’ series of sales marketing action steps to take once you have had the initial conversation or meeting with them.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 37-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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