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How To Increase The Odds Your Fund's Tear Sheet Helps Your Asset Raising

Money management firms marketing to sophisticated investors distribute two recurring documents to prospects: a fund performance tear sheet and a flipchart pitchbook. Both carry the firm's name. Both land in the same inboxes. And yet, despite going to the same people, these documents have fundamentally different jobs.

Today, let's talk about the tear sheet. The tear sheet's job is specific and narrow. Getting it right is a material asset raising issue.

What the Tear Sheet Is For

This document is meant to be a portfolio manager's most current data reporting communication. Its job is to give anyone who already has baseline familiarity with the strategy the numbers they need to track whether the fund is performing as expected.

Note that phrase: *anyone who already has baseline familiarity.*

The tear sheet is not a stand-alone introductory document to a fund. It is *not* meant to explain your strategy to someone who has never heard of you. Instead, it is the performance and portfolio analytics-related overview document that should report your investment product's data — clearly, consistently, every month — without variation in format or delivery timing. It should also list your firm's service providers, management fees, and fund lock-up information, if any.

In practice, the tear sheet should contain, at minimum: monthly, year-to-date and since inception net returns, and comparison to a relevant benchmark. These are the numbers a family office, endowment, foundation, institutional plan sponsor, investment consultant, or wealth management investment advisory firm will scan in 90 seconds to determine whether you are, or remain, within their ballpark of acceptance performance-wise.

Space Permitting

There are two other categories of portfolio information the tear sheet could also include some but not all of (due to the limited real estate you have in a two-page document that also must include compliance/disclaimer language). These are holdings by category and performance attribution data.

Think of holdings by category data as your portfolio's exposures by industry/sector, by geography and/or by asset class. For some portfolio managers' strategies there may be little shift from quarter to quarter. For others, their investment processes result in frequent changes in exposures. This has ramifications for a portfolio's risk exposure so potential allocators are rightly interested in this.

Reporting performance attribution data gives the portfolio manager the potential to demonstrate skill over luck, which is precisely what sophisticated investors conducting due diligence are looking for. If your strategy's thesis holds that a particular factor is driving your alpha generation including some data that reflects that claim is to your benefit. The point is not to explain the strategy and its implementation process with this data. It is to show, month by month, that the portfolio is being managed in accordance with what your other investment process documentation describes. (Yes, that belongs in a separate marketing document.)

If all or some of the relevant holdings by category data and performance attribution data you have to share with prospective allocators and investors won't fit on the tear sheet, that's fine. The pitchbook is the receptacle for the full amount of such content.

The tear sheet could also include a table of top holdings, but the portfolio manager needs to decide whether, tactically, he or she wants to reserve that data for the pitchbook and not reveal it earlier than necessary within the selling cycle.

What Does Not Belong In The Tear Sheet

The tear sheet is *not* the place for marketplace commentary, investment thesis musings, rationale for specific positions, or explanations of process and strategy implementation. These belong in other document types. Cramming such content into the performance tear sheet document (yes, I've seen this) creates the wrong impression and consumes space needed for numbers.

A sophisticated investor who sees a bunch of paragraph-based content squeezed into a tear sheet is receiving a document that does not know what it is. And that can create doubt about the organization that produced it.

The Discipline That Matters Most

The most important discipline in producing a tear sheet is content and design consistency.

Sophisticated investors receive tear sheets from many managers simultaneously. A tear sheet that looks different month to month, or arrives unpredictably, signals potential organizational disorder — and perceived disorder raises questions that have nothing to do with your investment process and everything to do with whether you can effectively run a money management business.

The format, once set, should be locked. Data elements should appear in the same location every month. The benchmark comparison should use the same index, labeled the same way. Charts and tables should follow the same design look. The document should arrive on the same week of the month, every month.

The Tear Sheet Cannot Do Its Job Alone

An investment firm that distributes a monthly tear sheet but does not update its pitchbook in a timely manner is showing current numbers against a stale backdrop. And a firm that neglects to provide available attribution and portfolio characteristics data that the tear sheet cannot hold is showing investors numbers with insufficient context. This can unintentionally invite prospects to resort to a simple beat-the-benchmark evaluation of your fund. That would undersell what the strategy is otherwise doing.

The tear sheet and the pitchbook are complementary. Both are necessary. They address different needs of prospective allocators and investors, and they serve different moments in the due diligence and selling cycle. The tear sheet builds the picture month by month — but it needs its counterpart, and the data elaboration the pitchbook format can hold, to make that picture complete.

Give sophisticated investors both documents. Keep both current. Make both clear. And do not ask either one to do the other's job.

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About the author

Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 39-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.

The firm has decades of experience as professional storytellers, content strategists and content creators. 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.

The firm'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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