Relax…

The business will come to you*

* and other investment management marketing myths

Executive Summary

As an institutional marketer and strategist, new firms often contact me to help them grow their business. I realized I had a collection of observations and stories that might prove to be a valuable compendium of best practices when marketing to sophisticated institutional clients.

The myths:

- "If we build it, they will come."
- We have great performance…
- Benchmarking "Creativity"
- "I'm ready to monetize my strategy."

The truth:

The institutional investment management business has been a **persistently inefficient business:**

- You cannot win solely on price;
- You cannot win solely on performance;
- You cannot win solely on charm.

The process for acquiring clients focuses on establishing trust, which demands excellence, consistency, integrity and time.

Elapsed time of eighteen months to two years—sometimes longer, is required.

Exceptions, when they occur, are made for a team that is already trusted partner.

The myths largely stem from the presumption that there can be "shortcuts" to this process for a new introduction, however with very few exceptions, there cannot.

But that does not stop firms from trying…*sometimes, pretty creatively.*

‘If we build it, they will come.’

………apologies to “Field of Dreams”, written by Dane Malanoski

New firms that are created by a lift-out from a bank or insurance company are especially prone to take full credit for their product’s success. They often underestimate the advantages of the credibility that is usually associated with a brand name, and undervalue the infrastructure, support personnel (such as analysts) and other resources that were provided.

Disclosure: If they built THIS, I would come.

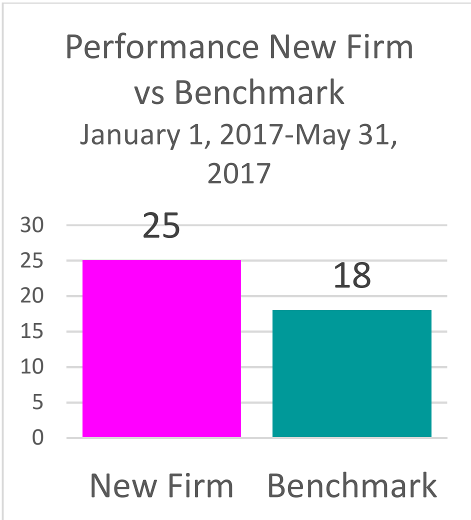
It is even more egregious when the business development/client service team, not the PMs, handled most of the contact with the clients and consultants. In this case, it is they who deserve much of the credit for the success.

It will be *difficult for a firm like this to gain traction without “earning it”* while under their new shingle. Institutional clients and consultants will require that they prove themselves by following the same steps as any other new firm, which probably means the firm will be followed for several quarters, if not years, before clients and consultants are comfortable enough to hire the team in the new firm structure.

There are, of course, some exceptions. A new firm formed by a lift-out consisting of high-performing, personable, well-known institutional money managers who were client-facing will have a tremendous advantage. In this case, c*lients will often attribute the product’s success to the team*, so the new firm can continue as their trusted partner. In this case, the firm must show evidence of an institutional memory, either by building out infrastructure or by engaging outside firms to handle processes such as administration, compliance and copier repair.

“We have great performance.”

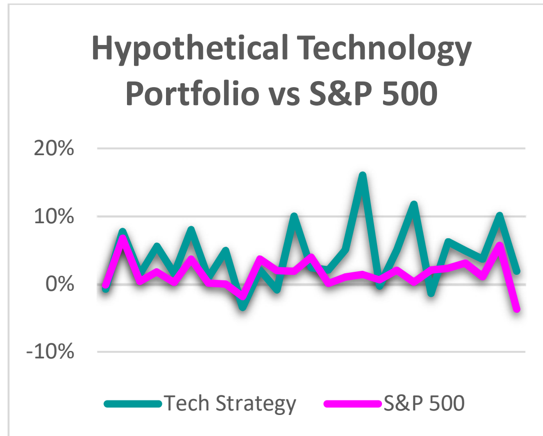
“Great performance” is a real help to a new firm and it is made even more relevant when the track record is longer than one or two years, and produced by the current team in the current firm. The illustration below depicts the outstanding relative performance of the “New Firm” over five months.



Whenever a high-performing individual or team goes out on their own, the biggest concern will be that they lack the support system that existed in the former shop: analysts, broker-generated research (and commissions to pay with), compliance, and administration for example. That causes a prospective client to take a wait-and-see approach and to treat the team as a new firm, even if this is consistent with the type of performance achieved in their former home.

Benchmarking "Creativity"

Some of the most 'interesting' pitches I have heard come from portfolio managers benchmarking to the wrong benchmark, for example, an aggressive growth manager benchmarked to the S&P 500. The graph below illustrates the performance of a hypothetical portfolio invested in technology stocks (an aggressive sector-based strategy) compared to the performance of the broad S&P 500.



These managers ought to know better—few sophisticated allocators will attribute to their alpha to skill instead of their aggressive style and focus on technology.

To measure skill, performance should be compared to an appropriate index, such as the CRSP US Technology Index. Outperform the relevant index in strong and weak markets over time and potential clients and consultants will be impressed. And they should.

"I'm ready to monetize my strategy."

I must say, this one is my personal favorite.

I frequently work with new firms—emerging managers, developing managers and boutiques. Even if I believe they are better off growing their business without a marketer at this point, I am always delighted to have an exploratory conversation with anyone and to help them in any way that I can.

This particular scene often plays out like this:

I agree to an introductory conference call from someone who claims to have worked for a well-respected firm (often a hedge fund), who has now gone out on their own, either voluntarily or involuntarily[1]. Often, they have created a slightly modified version of the strategy that they ran at their previous firm and have been managing their "personal assets" (usually $200,000 to $500,000) for usually (a lot) less than one year.

Typically, the opening salvo is: "I'm ready to monetize my strategy".

I do not laugh out loud. I do not roll my eyes. I gather a few perfunctory datapoints:

How long at your old firm, how long at your new firm, how many employees, assets under management, performance.

Then I ask for a brief overview of the strategy.

As a rule, these folks do NOT comprehend 'brief'. They love to explain in great detail their proprietary investing insights and nuances, which they are certain are brilliant and unique or, at the very least, completely overlooked by all other investors.

I respectfully explain how the business development trajectory works, recommend that they keep going managing their own assets to develop at least a two-year track record, approach family and friends to ratchet up the assets.

However, I have a secret plan: I am considering teaming up with a few folks to create a seeding fund, called "The Arrogance Fund".

Dispelling the myths: Here's what you actually do need to win institutional clients.

The process for acquiring clients focuses on establishing trust, which demands excellence, consistency, integrity and time.

In order to win business from sophisticated clients, they need to:

- Know you;
- Like you;
- Trust you;

[1] By the way, if it was an involuntary separation, I want to understand the circumstances of course, but it does not automatically diminish the talent of the individual in my eyes.

- Understand your investment process and,
- Believe your success is repeatable.

Messaging is critical to your firm's success.

The landscape is crowded and competitive. *A firm has only one chance to capture a prospective client's, consultant's or advisor's attention with an effective introduction that resonates.*

In our industry, the backbone of a marketing effort centers on a story, (usually a PowerPoint presentation) that ties together your background, your business, your investment process and what you do better than anyone else -- "Your Edge".

It should be easy to remember and easy for the client, consultant, advisor or other allocator to retell.

However, it is important to be able to convey these same messages without the presentation, which is where good design and clearly articulated differentiation matter.

The best presentations are:

- Clear;
- Concise and
- Compelling.

It should tie together everything about your firm and *convey the significance of your edge.*

Your team should be coached to deliver your presentation, but also to convey your message without ever opening the book.

That is a mark of good branding.

Understand and articulate where you fit into a multi-manager investment strategy.

It's really not about you.

View your strategy through the eyes of the allocator. What do you bring to the table? Protection? Aggressive growth? Uncorrelated results? A limited-term opportunity?

Prove it: Show charts, graphs, peer comparisons and tell anecdotes. When these reinforce one another, it adds up to a persuasive discussion.

Your true value is to become a partner.

Allocators are overwhelmed. Too many firms are vying for attention. It is the trusted partners that get hired.

Be willing to do *more*. Become a resource, not just a peddler.

Presumably, you have insights or an expertise that nobody else can match: "Your Edge". Send helpful information directly, post on social media, present at conferences.

Anything you can do to make the client's, consultant's, and advisor's life easier will set you apart from the masses and provide sound reasons for them to value their interactions with you, and ultimately, to want to work with you.

I was fortunate that early in my career, I was given the opportunity to create from scratch the US marketing effort for a large, multinational bank.

Our strategy was not mainstream, in fact most allocators could not immediately see the value in committing oversized assets to a niche area in the non-US markets.

We were, however, seen as experts in that area of the world.

We had access to senior executives because the value of our thought leadership reached further than simple discussions about the pension plan; it had implications for their business overall.

We were able to raise $1 billion in assets in three years because we became a trusted partner.

Even a small team can accomplish this. It's important to *stay current and stay relevant.*

Finally, make life easier for your potential allocators.

On my website you will find a link to my paper entitled *"Nine Tips to Mastering Investment Management Clientese"*. It is a guide to effective communication with sophisticated allocators, which is a good framework for effective meetings. (www.GeorgesGEMS.com)

This is no myth:

The only real shortcut to winning business from sophisticated investors is this:

- Know your product,
- Know your market and
- Share your knowledge.

Then, you can... Relax

Growing Emerging Managers' Services (GEMS) is a marketing and strategy firm that serves emerging and developed managers. GEMS is a full-service outsourced marketer.

GEMS can also be your marketing strategist. On a consulting basis, we develop a target market, position your product, design your presentation and coach your presenters to effectively deliver your presentation.

You can download my other White Papers at:
https://www.GeorgesGEMS.com/IDidn'tKnowThat

"Nine Tips to Mastering Investment Management Clientese"

"Demystifying Factors"

"Is Your Index Fooling You?"

Please see the GEMS website for more information:

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