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New Investor Study Gives Hedge Fund Managers Homework For Out-Marketing Competitors

by Bruce Frumerman, Frumerman & Nemeth Inc.

Rising competition among money managers is one of the key topics covered in Boston Consulting Group's recently released ninth annual study of the worldwide asset management industry, *Building On Success: Global Asset Management 2011*.

In today's marketplace there are "virtually limitless investment choices," Boston Consulting Group (BCG) observes. Good news for investors but a bigger competitive challenge for asset management firms.

Investor demands keep toughening, BCG says, with institutions "probing into managers' investment processes and philosophies." In order to pursue growth, "asset managers need to review what they do best, make it distinctive, and market it powerfully," the report advises.

"More than ever, asset managers need to have a tight, compelling investment proposition," BCG says. "A crystal-clear value proposition can be a true differentiator."

What can be gleaned from the Boston Consulting Group study's insights and recommendations?

For one thing, the comment that institutional investors are "probing into managers' investment processes and philosophies" is telling in more ways than one. It reaffirms what organizations such as SEI, Preqin and Morningstar have said in their previous investor studies since the market crash: that understanding and buying into how a money manager thinks and invests continues to be a key focus in the due diligence vetting of asset management firms. Yet, institutional investors are still having to probe to get that investment process and philosophy information out of the money managers. That means the communications efforts of asset management firms are not getting the job done, and so they are losing opportunities to attract more assets.

Next, consider the call to have "a tight, compelling investment proposition." Too many hedge fund managers are coming across to prospective investors as being commodity-like in their generic sounding descriptions of what they do. And when non-rehearsed hedge fund managers are put in a room with prospects and asked to tell and sell those investors on what they do too many may be drifting off message because they haven't put in the time and effort to figure out just how to do so in a tight, compelling and crystal-clear manner.

To overcome these challenges in an ever more competitive marketplace hedge fund firms need two communications tools to be more distinctive and market more powerfully: long- and short-version storylines about their investment processes and the philosophies that drive them.

The content to be communicated in the long- and short-version storylines is the "evergreen" part of a hedge fund firm's story for educating and persuading people to understand and buy into how it invests: the process behind the strategy. Copy should focus on explaining the investment opportunity and the product's place within an investor's total portfolio, communicate how the portfolio is structured and managed, and promote the soundness of the investment process followed by the investment advisor.

In crafting a hedge fund's storyline it is important to determine what should be the buyer-focused key selling messages and set the priority in which they should be presented in order to communicate a linear storyline. Hedge fund firm owners need to consider what sales language to use, with consistency, in verbal and written sales presentations and in marketing materials.

Long-version storyline copy should serve as the content to apply to marketing tools such as a brochure about the investment process, flip chart and cap intro presentations and the web site. The copy content will also serve as the basis for in-person verbal presentations about the hedge fund.

Additionally, the key selling messages about the investment beliefs and process behind managing the hedge fund should be used as secondary themes in monthly or quarterly letters to investors. (This content will remind investors of reasons why they invested with the firm in the first place. Also, it will help turn the IR letters into marketing documents that can serve to demonstrate that the hedge fund does stick to its investment process for its product.) This information can also serve as the guidelines for what points to seek to address later on in conference speaking opportunities and with the financial trade press.

Short-version storyline copy often serves as the firm's "elevator pitch". The content can also be applied to a backgrounder/fact sheet type document to distribute when seeking to convince a prospect to schedule an in-person meeting and as copy points to use in sales letters of introduction.

Building a storyline about investment process and philosophy that satisfies institutional investors and differentiates a hedge fund from its rising competition requires thought and content that goes beyond a few bullet points on one or two pages of a flip chart pitchbook.

It's obviously tough enough for hedge fund firm owners in having to dedicate more attention and dollars to having in place institutional quality, arms length and transparent operations and administration; something that is no longer a firm differentiator and that many portfolio managers consider to be one step away from their day-to-day task of managing the portfolio. Yet, for those hedge funds that don't also heed the call to devote more attention and resources to communicating more detail about how they invest — and what sets them apart from the competition — they will find their ability to survive and thrive becoming more tenuous.

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Bruce Frumerman is CEO of Frumerman & Nemeth Inc., a 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. His firm's work has helped money management clients attract over \$7 billion in new assets, yet Frumerman & Nemeth is not a Third Party Marketing firm. Bruce has over 30 years of experience in helping money managers to develop buyer-focused positioning strategies to differentiate them from their competitors; create more cogent and compelling sales presentations and marketing materials to better tell their story; and use media relations marketing and industry conference speaking opportunities to help establish a branded identity for their organization by generating third-party endorsement for the expertise of their people, the value of their services and the quality of their products. He has authored many articles on the topic of marketing money management services and is a frequent speaker on the subject at industry conferences. He can be reached at info@frumerman.com, or by visiting www.frumerman.com.