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KEEPING CONSULTANTS HAPPY: INVESTMENT MANAGEMENT MARKETING

Once upon a time, I sat in on a webinar hosted by FundFire. The topic was “Consultant Roundtable: How to Get on the Recommended List.”

For a number of my clients and contacts, the entire purpose of their investment management marketing strategy is to get their firms on as many approved lists as possible.

With that in mind, there were a couple of interesting points of emphasis to pass along, as it relates to building a high-quality relationship between investment managers and their consultant buyer personas.

Know your Audience
The investment management consultants on FundFire's panel agreed that it is important for asset managers to learn the key attributes of what a consultant is looking for in a placement.

Due diligence enables a manager to be concise and on-point in their communications, sending along only the content which demonstrates knowledge of what’s important with regard to the placement, as well as how a manager’s approach dovetails with the consultant's needs.

Each unquestionably believed that managers need to offer "proof" supporting their firm's case, but that managers need not send along extraneous content that doesn’t focus like a laser on what a particular consultant needs.

Anything else is unwanted noise.

Past performance is no guarantee…
Getting on an approved list is not easy; indeed, the entire process is designed to make it challenging.

As such, one of the most important questions consultants ask when looking at a manager for the first time is this:

Is a particular firm's strategy and organization set up in a way that is designed to stand the test of time?

Implicit here is the idea that it's not all about performance *(and as I've written before, performance is a poor differentiator)*. In fact, one of the consultants specifically noted that **relying on past performance to build a case for the future was rarely convincing**.

These consultants didn't particularly care about the past, in and of itself. What IS important is a firm's ability to **repeat** that performance in the future.

In other words, what are you going to do to ensure the good times keep rolling along?

But even in those circumstances where performance has been good, if a firm has encountered manager turnover, regulatory difficulties, and/or unsettled management at the administrative level, it raises serious red flags about the firm's future ability to continue to deliver on their promise.

Luckily it works both ways…

Because their responsibilities required a forward-looking posture, in practice this means requiring asset managers to account for both how they plan to sustain their *good* performance, as well as allowing them an opportunity to *explain poor past performance* as well.

Why did the investment portfolio underperform? Was it an aberration? Was it expected because of market/economic conditions?

The answer matters, because with the right explanation, the consultants said that overcoming poor performance actually isn't difficult. They said it's the *nature* of the underperformance that's important. If it's due to a factor tilt, for example, consultants are typically understanding and will make allowances.

So long as there are no regulatory issues, the portfolio management team has been stable, and the firm's leadership is of the highest quality, short-term performance issues won't have much of an effect on the strength of a consultant's conviction with a given investment manager.

Where difficulties become more pronounced is when a manger's stated approach doesn't seem to be working (*i.e.: they seek to provide portfolio alpha, but the approach has seen intermediate- to long-term returns erosion*).

Be clear, as in _crystal_ clear.
The consultants acknowledged that consistently great performance across every dip and run of the market cycle was both rare and suspicious.

As such, asset management firms that are honest and demonstrate a keen self-awareness about their performance numbers stand to be trusted more readily than those defensive or evasive about the reasons for their under- or over-performance.

Don't be too forward.
Establishing a solid relationship with a consultant is a not unlike dating: there is such a thing as TMI (*as in, too much information*) at the outset.

If a firm has a Mid Cap placement, don't also send along your Large Cap Growth, Small Cap Value, and International Growth pitchbooks – stick to what the consultant needs.

They get too much information as it is, so if you think you are just "covering all of your bases," it's self-defeating if you end up annoying the consultant by sending more than they need, *plus* the kitchen sink.

Mode
What is the ideal mode of communication? The consultants differed on this, though each acknowledged being inundated by marketing-related emails.

A short, to-the-point email that's courteous and helpful, followed by a quick call or voicemail seems to cover the bases.

One of the consultants said invitations to hear quarterly calls were certainly welcome, but their ability to dial in often had more to do with scheduling than disinterest.

It is important for investment managers to understand that if a consultant fails to attend, it shouldn't necessarily be interpreted as a vote of no confidence - especially if the relationship has been professional up to that point.

What's the appropriate role for content?
Similar to the quarterly conference calls noted above, a consultant's failure to read your latest 40-page white paper or extensive market commentary is usually a function of their schedule.

Many times, such items are moved from their inbox to a separate folder in their email client, where they pile up and can be easily lost. Understand it's nothing personal.

<u>This is why managers need to publish their work on their websites – it offers consultants a single place where they can readily find all of an investment manager's thought leadership.</u>

As such, managers need to adjust their expectations here. If an investment manager happens across an interesting piece of research that is RELEVANT to the relationship, managers should feel free to pass it along… but don't be surprised or insulted if it gets ignored. Again, consultants get tons of materials and there's only so much time in the day.

So make sure to send along only that which is most relevant.

Oh, and be aware that blind submissions are typically ignored.

80% of processes overlap
The consultants agreed that they generally all go about their business in a way that's qualitatively similar. The main differences are in their internal quantitative screening approaches.

One important issue they addressed was the effect an asset manager's compensation structure had on the rating process. Generally, they agreed that compensation needs to be aligned with client interests (*long-term focus, appropriate risk management, etc.*)

Specifically, incentive–based compensation, strongly aligned with performance was most highly desired. They uniformly disliked a manager's compensation to be tied to a firm's AUM (*i.e.: rewarded for asset gathering*).

Mistakes Consultants Make
Each of the consultants admitted that the biggest mistake they make is missing good managers.

Usually, it happens because of institutional inertia… in other words, they simply move too slowly. Organizations change, people move – it can make it tough for consultants to stay on top of things as well as they would ideally like.

Patience and persistence
While this should go without saying, always, always, always make sure your communications are polite, informative, and account for the consultant's requirements. That they felt the need to address this specifically tells me that too often communications from investment management firms fail on one or all of these accounts.

So be clear, be concise, & be consistent.

And be helpful!