

Excess Returns

Monthly insights for investment marketing and sales professionals



January 2012

Volume 2 | Number 1

According to the dictates of their nature — not to mention commonly accepted best practices and, in some cases, the law — investment companies are compelled to audit everything. There are third-party compliance reviews and on-site due diligence visits and the annual GIPS verification, to name just a few of many required processes and procedures. Our first 2012 newsletter puts forward a different kind of due diligence not often formally practiced yet vital in running a successful investment business.

With best wishes,

Liz Hecht

Founder, Principal and Director of Research

In This Issue

A Different Kind of Due Diligence

Red Flags

A Hundred Little Things

Alpha Partners is an investment marketing firm specializing in research and presentation strategy. Our goal is to create alpha (excess returns) by helping investment firms win, keep and diversify assets under management.

Alpha Partners LLC

435.615.6862

alphainvestmentmarketing.com

A Different Kind of Due Diligence

It is more than a decade ago and I am in a meeting with the CEO of Company X, an investment firm that wants to hire Alpha Partners for a sizable custom research project. His team's numbers, he tells me, are "literally off the charts" and yet the consultant community "does not understand our investment process."

The proposal we later submit is accepted and off we go, keen on developing research insights that will help this company turn performance into asset growth. We schedule interviews with clients, consultants and former new business prospects and start reading everything we can about the firm, its asset class and its competitors. There is just one rather significant problem, I realize a week or two after we get started: we are working on the wrong project. Market research is not required to understand why this firm's lead product has no traction. The source of the problem is all too apparent without the benefit of in-depth interviews: the company's marketing literature is, well ... no wonder consultants do not understand the investment process.

Things to Consider in Conducting a Marketing Audit

Let's assume then that your investment company is being considered by a consultant, manager of managers or fund of funds with a well-defined marketing due diligence process. (In my perfect world, all consultants and multi-manager funds would have such a process. But even if they don't, you will benefit by acting as if they do.) You want

to pass the audit with flying colors so you conduct your own internal audit and/or ask a knowledgeable outsider to help. After all, it's a new year, so what better time for a fresh, comprehensive look at your marketing literature? Here are some of the things you need to consider:

Reality. Does the marketing communicate what your firm really does and your true competitive advantages? Sometimes, we have found, a firm's marketing documents and website do not tell a consistent story because there is no consistent story. There may be internal conflict. There may be disagreement regarding the best way to tell the story. Or certain aspects of the story may have become stale with the passage of time. In any case, you should fix the underlying problem — i.e., decide what story you want to tell — before you even consider changes to your marketing literature.

Quality. Do all of your materials exude quality in even the smallest details? This is important whether you are a start-up or first-time fund or a mainstream global firm with hundreds of billions in assets under management. Your marketing should convey respect for every little nuance that defines how an outsider experiences your firm — the [hundred little things](#) that add up to a client or consultant wanting to come back again and again.

Consistent Content. Is the story the same within and across all media — the website, RFP response or PPM and presentation book? Is content aligned across other documents such as client reports, quarterly commentary, press releases, newsletters and white papers? If you are a multiproduct firm that operates globally, are there perhaps inconsistencies that should be resolved across borders and product lines? And are there perhaps even inconsistencies within the same document — a Portfolio Overview on Page 22, for example, that conflicts with the Portfolio Construction Guidelines on Page 12?



Because product consistency is important, investment professionals often focus on avoiding portfolio dispersion. But they also should focus on avoiding marketing literature dispersion.

Wayne Thiebaud
Pies, Pies, Pies, 1961.
Oil on canvas.
Crocker Art Museum, Sacramento
photo © rocor

Consistent Design. Consistent content counts for little if the overall look is inconsistent. I frequently conduct reviews where a firm looks inconsistent not only from one document to the next but also from one page to the next within the same document.

Personality. The highest-quality documents sometimes lack this vital ingredient. In looking at the website for a start-up firm the other day, I was struck by the clarity and vitality of the language and imagery. I know the portfolio

manager for this company's lead product from another life; he is a star, and I can sense his personality in the distinctive look and feel of the site. The site opens with one arresting message that immediately makes me want to learn more.

Proof. Are claims made in the marketing materials largely unsubstantiated? Or are the materials rich with proof in the form of examples, research validation, performance attribution and performance history?

Integrity. Finally, does the integrated sum of the parts translate into one greater whole? Do the quality, consistency, personality and proof provided by your marketing materials make people want to get to know you better and ultimately work with you?

When completed, our research for Company X did indeed point to a critical need for improved marketing materials. One consultant in particular commented heatedly and at length on the shortcomings of the presentation book. And while it was beyond the scope of our assignment, I personally issued a plea to the CEO for improved materials. "Your RFP responses are curt to the point of rudeness and certain key information in the presentation book not only is confusing but also flat-out inconsistent," I told him. After the meeting, he thanked me, in a decidedly lukewarm fashion, for my time. That's the last I ever saw this gentleman and the firm no longer exists. His company may not have learned anything from this experience, but we did. We never accept assignments now without at least a preliminary review of a company's marketing literature. By conducting our own marketing due diligence up front, we are in a better position to define what is truly required.

Red Flags

While working on this article, I ran some ideas by one of our fund-of-funds clients. "Does your team formally evaluate a fund's marketing literature as part of due diligence?" I asked him. "Not formally," he said, "but of course it is considered. We view good materials as a prerequisite. Will bad materials disqualify a fund? No, but bad materials are definitely a red flag. We had a meeting with a fund last week, for example, and our researcher said his impression was that the firm was 'not pulled together.' This fund's team had a difficult time communicating the highlights. We probably will schedule another meeting with them, but we feel a bit frustrated that we couldn't accomplish what we needed during the first meeting. If their presentation had been better, we might already be considering the next level of due diligence."

A Hundred Little Things

Marketing expert Seth Godin shares our love of a Park City restaurant, El Chubasco. His [blogpost](#) about one of our favorite local eateries dramatizes why all the small details matter when running a business. When I stay up late editing a document for the third time to be sure that it is free of typos and wholly consistent with a related document, I sometimes now think of Mr. Godin's comments about El Chubasco and feel less like a nerd and more like a successful businessperson serving other successful businesspeople.