The Sales Cycle

Unlike the sales cycle for buying a pair of shoes, a car, or even a house, the sales cycle for an institutional investment could drag on for more than a year.

The decision-making process is a drawn-out one generally because of the sums of money involved. Typically, we are dealing with investment allocations that range from a few million dollars upwards to several hundred million dollars.

Couple this with the fact the funds are often part of a retirement plan, an endowment that helps to keep a university running, are used to pay for a foundation's grant programs and the reasons start to become a bit clearer.

Given the stakes involved, decision makers need to be sure they have fully vetted the manager, they fully understand the risks and benefits of a strategy, and can make a clear determination on the appropriateness of the investment.

Also, consider how many parties are involved in the decision-making process. With each one needing to sign off on the investment you can understand why a final decision takes so long.

Layers of Decision Making

The first step in the process is usually a recommendation. Either the Plan's consultant or the investment committee may recommend a change. The recommendation will likely be to either invest in a new asset class or investment strategy or to replace an existing manager in the current line-up.

When recommendation is to add a new asset class or strategy, it is often accompanied by some type of education. The Plan's consultant will help the Plan to understand the risks and benefits of a strategy as well as the reasons for including it in the overall asset allocation.

Sometimes the decision to include a new investment requires a change to the Plan's investment policy statement. If necessary, such a requirement could lengthen the sales cycle significantly. At a minimum, the Plan will need to amend its asset allocation targets to include the new investment, which may also take some time to get approved.

Replacement searches can happen for several reasons but the most common ones include:

- persistent underperformance versus a benchmark and/or a peer group
- organizational changes, like a merger or acquisition, or change in senior management
- departure of a key member of the investment team

Once it is determined that a search will occur, the consultant will work with the Plan to determine a list of minimum requirements for participation. This list is created for two purposes. The first is to ensure that managers who participate or win the search can adhere to the Plan's investment policy. The second is to reduce the number of potential managers under consideration down to a manageable level.

Some examples of typical minimum requirements may include:

- Minimum level of assets under management in the strategy and/or managed by the firm
- Performance
    - Minimum length of performance track record
    - Strategy outperforms the appropriate benchmark by a stated percentage
    - GIPs compliance or verification required
- Registration with the SEC

- Maintenance of certain insurance policies
- Minimum relevant experience of strategy portfolio managers
- Client requirements in strategy
    - Must have at least three clients in strategy
    - Must have at least 1 client that is Tax-Exempt
    - Must have an institutional client
    - Must have a specific type of investor – Public Fund, Endowment or Foundation, etc.

Once these requirements are determined, it will then be decided whether the search will be a public or private one. Ten years ago, most searches were open to the public. The rationale was that searches should be inclusionary and should be available to the public in case someone wanted to review the results. Given this, the search process was extremely long. It was not unusual for a search to generate more than 100 responses which included hundreds of pages of narrative, statistics, charts and graph and appendices. Can you imagine?

Today, however, most Plans have decided to conduct private searches. In a private search, a consultant will run the Plan's minimum criteria versus a database of information, supplied by the investment management community. Using quantitative tools, a consultant can narrow the field of potential managers from a universe of several hundred to a short list of 7-8 firms in a matter of minutes. The advantages are obvious for the plan and the consultant, but this approach also benefits the managers who no longer must take weeks to craft their response to an RFP.

What was nice about the old search process was that we always knew when a search was being conducted. This allowed us to be proactive in trying to get our manager clients noticed. Now, we hardly ever know when a search is being conducted unless we see the results published in one the industry rags. At that point, though we have already missed the boat. Given this, Tessera tries to be more vigilant in ensuring the databases we submit our information to properly reflects the firm and its investment capabilities at any given time.

Once the search list is narrowed down to 7-8 potential candidates, the consultant will put together a search book for the Plan to review. The search book contains profiles of each firm selected, highlighting their strengths and weaknesses. The Plan will review this information and together with the consultant, come up with a list of 2-3 finalist they want to meet.

A final's presentation will then take place. Over the years, I have seen several different types of finals presentations.

The traditional format has each firm presenting to the Plan's Board, in person, at the Plan's location. Firms are typically given 20 minutes to discuss their approach. The remainder of time is used by the Board to ask questions. At this stage, any of the finalist can really do a fine job managing assets for the Plan. So, the main decision usually comes down to chemistry – who the Plan thinks it can work best with.

I have also been at a final's presentations that are at the opposite end of the spectrum. Once such presentation was more of a due diligence review of the manager. The meeting was held at the manager's office and took more than 6 hours. It included a tour of the office, meetings with key decision makers on the investment team, client service, operations and compliance, as well as members of senior management. In this instance, while a consultant helped determine the list of finalist, the meeting was held by the staff of the entity itself and the consultant was not even in attendance at the meeting.

Most final's presentations probably fall somewhere in between the two diverse examples given above.

Despite this, we have had some manager clients that were awarded mandates without ever presenting or even meeting the end investor. This is sometimes the case when the allocation is on the smaller side, the plan is small or when the consultant is making a final recommendation to the Plan.

Regardless of which route a search takes, once a manager is selected, contract negotiation begins. This could be extremely easy and fast or could be contentious and drag out.

Once the paperwork is agreed upon and signed, the account is then funded and our manager client begins what we hope will be a long relationship with the investor.

Given my tenure in this business, I try help a manager through this process. While it is not always quick and easy, as with everything else in life, you need to work hard to win. We spend a lot of time working the end stages in the process, trying to tip the scales in our favor and nudge out the competitors.

What's in It for us?

You might wonder: why does a 3PM care about making sure these relationships last for the long term?

Well it comes down to compensation. 3PMs are typically paid a percentage of the fee our manager client earns for managing an investor's capital over a specified period. The longer the relationship lasts, the greater the benefit to our firm.

In the end…

Growing an investment management business isn't just about having great investment performance and a differentiated business model: it's about marketing and it's about sales. It's about understanding the types of clients you want, and how best to position yourself to attract assets. All things a 3PM can do!

Simply put, too many investment managers need help doing this . . . and that's where firms like Tessera come in.

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Tessera Capital Partners. LLC ("Tessera") is an independent third-party marketing firm providing outsourced investment management sales and marketing to a select group of traditional and alternative investment management firms.

Donna DiMaria is the Managing Principal, Chief Executive Officer and Chief Compliance Officer of Tessera. She also serves as a Relationship Manager working closely with Tessera's investment manager clients.

Throughout her career, Ms. DiMaria has raised more than $4 billion in AuM for investment managers. She is also well versed in variety of products and asset classes having worked with both traditional and alternative investment strategies. She also has direct experience working in and leading teams in marketing support functions, which is a true benefit to Tessera and its clients.

Ms. DiMaria's compliance background is also notable and was garnered from her nearly 28 years of experience in the investment industry. It is with this backdrop that she is able to serve as a resource for her firm, others on Tessera's platform, members of the Third Party Marketing Association ("3PM"), Regulators and the industry at large.