

Guest Column

Investment Advisory: Growth Strategies For Your Firm

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Great performance tends to attract new investors, but performance alone is not enough to win or keep institutional-quality investors. Institutional standards should be your goal whether or not this is your target market, and regardless of whether you are new or established, small or large. If you want investors that stay with you through out-of-favor and down-market cycles, your firm needs to demonstrate qualities that are the foundation of sustainability, capacity, longevity and growth.

Here are several recommendations for deploying your firm's limited resources to create a foundation for growth.

1. Investors care about the quality of your organization at whatever stage of growth you are at. They won't hire you unless every aspect of your firm has been carefully structured.

- You need to provide significant amounts of information about your product, process, risk and business structure. Get comfortable with transparency—it is essential to attracting and retaining investors. Have an NDA ready for serious prospects.

- There needs to be a rational reason for the team you've put together, whether you're a sole practitioner or a larger group. If you've never worked together at a prior firm, you need to explain whose historical performance drives the new firm's capabilities and how you intend to repeat that performance with strangers. What is the value-add of each contributor? If you've hired research or tech people overseas, you need to explain who they are, their talent, their input and why this is a good decision, not just an affordable one. Investors need to trust the entire team, whatever that may be.

- Your service providers need to be recognized and respected names in the industry. Their expertise helps you to be a better practitioner. In the last decade, many firms have made resource commitments and want to work with newly-formed firms.

- Don't just offer probabilities about the expected return and risk of your product—show investors how you think and what you've achieved. Your process includes a point of view about markets and their behavior that guides

portfolio construction and trading. Show clients examples of decisions that worked, as well as decisions that failed, and what you did about it. It demonstrates your firm's resilience and capabilities.

- You need to have risk models that guide decision-making and you need policies and procedures that specify how they are deployed. In a small firm, people wear many hats and the potential for conflicts of interest arise. This is all the more reason for carefully spelled out rules of engagement that investors can rely on.

- Last, but not least, there are ways to demonstrate performance when you have no history or a short history. It won't be GIPS compliant, but depending on your team's prior history, and a well-structured process and organization, you may be able to demonstrate to clients that you can repeat your success.

2. Exemplary client service sustains relationships through time. It builds trust with investors, who will be more likely to stick with you through market cycles. Fail to do this and they will fire you as soon as they can.

- A well-structured client service program makes it possible to achieve more with less: better relationships with fewer firm resources. Create a foundation of communication that does some of the work for you.

- Know how you fit into your client's or prospect's portfolio. Your product has specific utility toward achieving their portfolio-level returns, risk and future benefits. Customize materials to demonstrate that you understand their goals and how your product contributes to that end.

- Provide performance materials that demonstrate your skill, conviction and honesty. Beyond standard monthly or quarterly reports, provide detailed explanations of portfolio attribution, buy/sell decisions, structuring and management decisions.

- Educate your clients with custom education sessions that explain your product and process, a particular event or market environment, or a subject that is important to them. This demonstrates value.

- Give your clients multiple ways to reach

your firm. Communicate effectively: be sure you are reaching decision-makers, and getting information to them in the ways they want to receive it. Use your website to post returns (if possible), or news about your product's returns. Use your website to post original market insights, not someone else's content, which says nothing about your capabilities, just someone else's. Consider using your website for webinars, video conferences, or communications pieces. All of these provide touch points for your clients and prospects.

- Be consistent in all your communications. Your DDQs, RFPs, pitch books, marketing materials and website all need to be clear and consistent. Competing for business can drain resources. Establish your message, carry it across channels, and this process becomes part of your firm's culture.

3. Make client service part of your culture.

- You need to create firm-level standards for client service and communications in which everyone participates.

- Every client has its own agenda. One-off client requests often create a fire drill within a firm (even larger ones). Who does the work; who vets quality and accuracy; how fast can it be done—all challenges within a firm whose resources are siloed or dedicated in ways that can harm firm output. Firm resources need to be flexible to meet customized requests.

- You're missing an opportunity to improve client relationships if the customized request of one client isn't used to the benefit of others. Moreover, you don't want to recreate the wheel when it already exists. Get in the habit of requiring regular all-hands-on-deck meetings where real information is shared. Senior leadership needs to feel that it can interact independently, but it also must engage with the firm's policies. Everyone needs to understand that they are part of and benefit by contributing to the firm at large.

Take the time to determine what issues may be keeping you from growing. Setting your sites on institutional standards may help you to prioritize strategies that can have the greatest impact on your firm's growth.