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Managing Investor Relationships

When setting up a fund, Fund Managers know it takes time to come up with the initial concept, the investment strategy, the target market, the structure of the fund, the domicile and so on. Once these ideas are down on paper, the long registration process begins to obtain regulatory authorization and approval.

Along the way, there will be many legal and compliance issues to consider and resolve. Also, the Fund Manager needs to carefully identify the service providers and associates like the Depository, Fund Administrator, Prime Broker, Auditor, and others.

All the above are serious matters that Fund Managers consider during the establishment of a new fund. Simultaneously, they need to start thinking about attracting investors, raising money, promoting the fund, and more.

Another very important function of the Fund Manager is the ability to manage investor relationships once the fund is up and running.

1. Setting and Managing Expectations

From early on, Fund Managers need to be **clear about the performance expectations** and the possible performance scenarios under certain market conditions.

If investor expectations are not managed properly then investor confidence will suffer. Nurturing investor relationships takes time and continuous effort and may be lost quickly if promises are not delivered.

Presenting complicated investment strategies to investors is also challenging. Fund Managers should **keep it simple and have a clear story**. Complex portfolio methodologies should be broken down into more simple and comprehensible investment concepts.

Some Fund Managers also come up with funds/investment products that may be trendy at the time. However, the more successful Fund Managers come up with funds/investment products that **offer solutions within their capabilities** and better meet the expectations of their clients.

During periods of underperformance Fund Managers need to provide reassurance as well as additional information to investors who express concern. It should be clear from the start what the fund's investment strategy is, what is its investment style and its goals. **Clarity helps investors to build trust** towards the Fund Manager.

2. Consistency

In addition to setting and managing investor expectations, another important aspect in investor relationships is **consistency**. This is achieved by adhering to the fund's investment philosophy, following the initial plan, and communicating this to investors. It is better not to deviate from the investment style that attracted investors in the first place. Along the way, no matter how tough your message may be, don't try to avoid it.

Consistency does not mean the Fund Manager needs to sacrifice flexibility. The investment landscape is constantly changing. Fund Managers should seek to **capture new opportunities and adapt to market conditions** within the parameters of the fund's offering documents. Being able to adapt in an era of disruption is key to the success of every Fund Manager.

3. Transparency and Communication

A **commitment to ongoing transparency and communication** is another ingredient of successful management of investor relationships. In addition to providing regular reporting and data, Fund Managers need to respond swiftly to ad-hoc queries from investors. Different Fund Managers respond differently to investor questions.

Some Fund Managers offer **direct access to key individuals** (such as portfolio managers, analysts, etc.) sharing their expertise and proving they have nothing to hide. Employees who possess a deep understanding of the fund's investment processes and operational framework usually provide the best responses to clients.

To further enhance client communication, Fund Managers are using technology to offer investors **online access** to the performance data of their funds, NAVs, portfolio composition, periodic reports, and more. In an age where everyone is using smart phones and everything is just a click away, a new generation of investors prefers using online access to view and manage their investments.

Another useful tool is the **use of CRM** (Customer Relationship Management) systems. Fund Managers can administer their interactions with clients and prospects using a CRM system. These platforms are used to record everything about each client. CRM systems are vital in: 1) scheduling and sending reports and marketing material to clients, 2) tracking all client interactions, 3) identifying leads and client preferences, 4) following up with client requests, 5) catering to specific client needs and 6) identifying clients for new funds and other investment products. Overall, the use of a CRM system adds value to client interactions and client communication.

4. Alignment of Interests

The ultimate goal of successful relationship management is to achieve an alignment between the interests of Fund Managers and investors. This is reinforced with concepts like the high watermark, a peak value above which performance fees are paid. Such concepts (in addition to the regulatory framework) have helped propel the fund industry's growth.

Building an ethical culture and recruiting the right people is also key. The cost of compliance has gotten very high, but it reinforces the effort to show to all investors that their interests are a priority.

Conclusion

Managing investor relations is an ongoing effort. It takes commitment, transparency, proper management of expectations, frequent communication and continuous nurturing of relationships.

At LEON MFO Investments Limited, managing investor relationships is among our top priorities. Being an AIFM managing a number of funds and launching new funds as well, we have adopted these practices and systems as part of our ongoing effort to manage and nurture our relationships with our clients.

In addition to managing investor relations, Fund Managers need to be prepared to adapt to other challenges such as technological disruption, regulatory changes, ESG issues, political and macroeconomic shifts and other factors that are transforming the financial world. After all, these changes will eventually be communicated to investors.