



## Power Dynamics

A complex, sometimes abstract system of changing/evolving power dynamics lies beneath the consequential high-stakes interactions between LPs and GPs. In GP/LP exchanges, the human element, at points, can convincingly obscure business realities, but power flexing at critical stages of engagement inevitably reveals the harsh truth. My first career experience with this reality made me feel like I had to grow up quickly. The moment you realize you are not in a game or popularity contest, but in a real business transaction, with real numbers, and consequences that go far beyond polite gestures, you almost feel betrayed.

“I want to do business with people I like or someone I can grab a beer and watch a game with” – statements like this run rampant in the industry, subliminally luring you to rank EQ and decency above pure ruthless profits. But over time, you begin to realize that individual allegiances always seem to take precedence over built rapport. Admittedly, my words here are spiked with a good amount of cynicism, but a balanced dose of skepticism is always a good defense when dealing with counterparties who are primarily self-serving. I still maintain that emotional intelligence (EQ) and respect for others (anywhere in life) are the basis of long-term relationships, but I still always prepare myself for the jarring whiplash that occurs when true allegiance jackknives into the equation. Regardless of your field of endeavor, it's important to remember that "people aren't really against you; they're just more for themselves".

There are moments during LP/GP interactions when you can unequivocally see power shifts. Sometimes it follows a ping-pong cadence, and sometimes it stays with one party throughout or moves from one party to another permanently. While most of the reasons behind power oscillation make sense, some of the tone changes and cordiality erosion accompanying power possession have room for improvement.

Here are a few instances where I have witnessed power shifts and ways in which I think both LPs and GPs can reduce the negative long-term effects.

- **Beginning of Engagement:** Armed with the ego-stroking fortitude of being pursued by numerous capital-seeking sponsors, the power predominantly resides with the prospective LP when an initial engagement occurs (particularly when the GP is the initiator). This clear possession of power causes some prospective LPs to be unresponsive, terse, vague, or even rude. However, with great power comes great responsibility, and it can never be forgotten that most power pendulums have elephant-like memories. Despite the [unarguable plight](#) of an allocator receiving (and trying to wade through) mindboggling amounts of [inbound solicitations](#), an organized system of responsive feedback (even if brief) goes a long way to appease solicitors, some of whom will inevitably become the blue-chip managers of the future. It is also advisable for the soliciting GPs to, regardless of the customary hat-in-hand demeanor that comes with capital seeking, be confident in the value of their strategy, and not resort to over-pandering.
- **First Close:** In the pursuit of the [first close](#), GPs (especially those feverishly trying to stitch together viable traction) are completely at the mercy of LPs. To get LPs over the line, a menu of incentives, blatant flattery, and indiscreet nudges are all fair game. This is a very tricky period for GPs because if their proposed incentives aren't viewed by LPs as consequential and if there is limited fear of being squeezed out of subsequent closes, there is little reason to be among the first to take the plunge. Despite the clear imbalance of power, it is difficult for GPs to cry foul, because LPs are not necessarily abusing their power,

they are merely exercising their right to use more time to get their ducks in a row. However, one could make an argument against LPs that if all their IDD (investment due diligence) and ODD (operational due diligence) work is complete, why wait? The truth is that people tend to respond accordingly to urgency, so if there is no real punitive deadline, available time will be utilized. I have seen some allocators use this period of GP vulnerability to squeeze hard on fund terms and request other non-traditional allowances. Although this approach might provide some genuine benefits to an LP, I don't think it's suitable for those who don't want to be forever known by a new last name, "Throat" (first name "Cut"). For GPs, the first-close-seeking period is a time to use "soft power", no matter how little of it they may have - appealing to the human sensibilities (long-term relationship building, loyalty, tribe membership, thought leadership, etc.) of the prospective LP can prove effective enticements for [leap-taking](#).

- **More Clout Shows Up:** Power darts firmly back into a GP's hands when a renowned investor known for astute investing, thorough due diligence, and/or past successes in talent identification commits capital (usually a large amount) to its fund. I have seen this happen on multiple occasions and it is not pretty. "Regular Joe" investors are left feeling like chopped cheese because our firepower from a commitment amount and clout standpoint cannot match the regal new dollars that just arrived. I urge caution to GPs in these scenarios and also prescribe thorough reflection around the keyword here which is "dollars". Although the magnitude of commitment dollars by an investor should understandably carry the requisite reverence, it is also important to be mindful that each dollar is worth the same, smaller dollars from a small LP could carry greater conviction/loyalty, and the hidden expectations that could be embedded in larger commitments.
- **Oversubscribed:** Funds that have demonstrated consistently strong outsized returns or those that happen to be in the right market segment at the right time with the right personnel to take advantage of opportunities may find themselves in the enviable position of being oversubscribed. LPs should put to bed any illusions of power harboring when a fund receives indisputable proof that it is oversubscribed. With their eyes closed, even the most clueless stranger could tell who is in charge during conversations between an oversubscribed GP and prospective LPs. The tone is just different. Oversubscribed GPs tend to talk at or through you – long gone are the days when they talked to or with you. The sight of wings growing seemingly out of nowhere is remarkable. At that point, LPs take on a feeble, almost beggary demeanor, emitting subtle hints of "You remember what I did for you when you were not this popular" and "I am happy for you but don't forget the little guys". Such is life, but in these circumstances, I found comfort in the fact that, despite the GP's positive momentum, and the very real possibility of my commitment being shut out completely or stingingly downsized, economic cycles tend to be the great equalizer eventually. Also, there are always more fish in the sea. Of course, some managers honor their loyal patrons and maintain respect even during their popular phases, but from experience, I would say the odds of that are 50/50.
- **Legal Review:** Not to demonize lawyers, but when legal folks enter the fray, any power equilibrium established between the LP and GP is very prone to disruption. It is frightening how little the context of how a relationship was formed matters when negotiating legal terms. There are some obvious cases, such as when a fund is vastly oversubscribed, or when an LP is a large first-mover anchor, that could render the respective legal cavalries less powerful, but for the most part (and maybe by design), lawyers introduce a cold splash of reality that interrupts any rapport-induced slumber. To reduce disorientation



during legal reviews, I have found it best to engage/update legal team members (even if just through periodic briefings) with ongoing proceedings as early as possible.

- **Subsequent Fund Raised:** I had to throw this in because it is one of my biggest pet peeves. It does not signify a power shift from an LP to a GP, but rather the taking away (or the noticeable reduction) of power from old LPs to newer LPs. An LP might refrain from patronizing a manager's subsequent fund for a variety of reasons (understandable to the GP or not). Investors are free to commit their capital as they see fit, so choosing not to re-up in a GP's next fund should not be a ticket to second-class citizenship. I like newer and "apparently" shinier objects just as much as the next person, and I also understand the provision of some level of prioritization of LPs who have exhibited loyalty with ongoing dollars, but I don't think my past invested/committed capital should lose significance just because a new fund is raised.

The GP/LP relationship continuum is a microcosm of most relationships in life where power flutters back and forth between counterparties depending on time and circumstance. Further and similarly, decisions are better made, and actions are better taken when devoid of too much emotion or sensitivity. A wise rule of thumb is to keep intentions as pure as possible while fully acknowledging the impossibility of making everyone happy all the time and recognizing that most people will consistently act in their own interests and the interests of those they represent.

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