Repeatability

Analysts often use the concept of "repeatability" to support an investment thesis and demonstrate conviction in an investment opportunity. By believing that "repeatability" exists, you can feign protection (or create a sense of security) against the greatest investment threat, the "unknown future". Despite being incessantly reminded of the golden investment CYA rule that states "past performance does not guarantee future results", we always somehow seem to look for exceptions. What is the thing that this sponsor possesses, does, operates within, or has mastered that makes them likely to be continually successful in the future? In my opinion, “repeatability”, like the term “differentiation”, although steeped in righteous purpose, has an amorphous identity.

While trying my best to conceal a “Captain Obvious” cape and emblem, it is still worth underscoring that the “repeatability” argument can be strengthened (or weakened) in several ways - below is my attempt at listing a few.

- **People**: It is logical to make the case for repeatability if the same people are executing a historically successful investment strategy. With a strong past track record as a basis, GPs who can show continuity and longevity of team members through organizational progression have a great chance of convincing investors of the repeatability of prior results.

- **Process**: Almost contrary to the previous point, the prominence of a manager’s investment process sometimes negates the need to underscore the longevity/continuity of its staff. Justification of a high potential for repeatability can be declared on the shoulders of a strong underlying process. Some managers have time-tested successful processes so well ingrained in their strategy that it provides them with the flexibility to de-emphasize the individuals at the helm. This is not to say that the strategy could be run by Neanderthals, but it allows for less scrambling and crisis mode actions when a senior member leaves. Of course, processes need to be tweaked, honed, and maintained by capable people, but keeping a machine well-oiled is very different from one person (or a few people) being proclaimed as the goose that lays golden eggs.

- **Operational Value-Add**: Directly connected to the “process” point above, all value-adding actions, particularly the ones related to operational improvements, if upholdable as repeatable, are the most cherished by prospective investors. Consistent free cash flow increases, debt reductions, multiple expansions, leasing improvements, recurring revenue enhancements, follow-on syndicate formations, yield augmentations, synergy findings, early loss cuttings, exit multiple uplifts, etc. have an uncanny way of deservedly endearing prospective LPs to fundraising GPs. The key here is for a manager to state a consistent value-add narrative and possess transparent data to demonstrate this prowess.

- **Philosophy/Mentality**: An unshakeable belief in an organization’s investment philosophy creates an internal mentality that paves a long-term road for repeatability. If the core tenets of a manager’s investment approach have led to historical success, and if all team members wholeheartedly subscribe to these philosophies, then it is rational to presume repeatability of results. I have found that with this particular (philosophy/mentality) determinant of repeatability, the broadcast of the North Star must be believingly and consistently embodied, exhibited, and emphasized by the people at the top of the organization.

- **Adaptability to Market Conditions**: A GP can earn a "repeatability" badge from prospective LPs by proving its ability to adapt to various market conditions. Frankly, the perceptive skills accredited to the generation of relatively consistent returns through various market cycles is a unicorn-like ability that draws more skepticism than acclaim. However, if this superpower can be articulated with verifiable data points and humility, and without soothsayer-esque infallibility, prospective LPs will almost always be willing to engage and peel back the strategy's layers.

- **Unique Insights**: "Unique insights", as a standalone point, may seem very qualitative and even sound like an "honorable mention," but it is quite tangible in practice. Any analyst who spends large swathes of their time speaking to sponsors will attest to the point that finding a manager with truly unique market insights that have led to historical investment success, strengthens that manager's case for unique-insights-based repeatability. This does not mean that every contrarian strategy will attract interest just because of its opposing (compared to the majority) viewpoints, but it does highlight a general appetite for historically successful differentiated thinking.

- **What Should New Managers Do?**: The concept of repeatability is a sore point for emerging managers because what does one base it on? The whole premise of repeatability requires showing a successful past, explaining what attributed to the success, and then rationalizing why the contributors to the success can be recurrent in the future. New/emerging managers typically don't have enough of an institutional past for repeatability to hold material credence. Furthermore, some new/emerging managers' past success came as part of a larger unit, making verifiable attribution difficult and the promise of repeatability hollow-ish. I believe new/emerging managers should at least aspire to earn a score (regardless of grade) in the "repeatability" column of a prospective LP's assessment sheet by laying out indisputable past personal successes and then making a compelling case that they have the requisite skills and experience needed to replicate or even surpass these successes in the new fund.

Finding reasons to believe that the future will unfold as it did in the past is comforting. However, the assessment of "repeatability" only serves to ensure that educated/informed decisions are being made based on hindsight's accurate (but not always reliable) lessons. The buying and selling of "repeatability" between LPs and GPs must always be transacted with the pessimism of a realist.

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