Fund Managers Missed Opportunities

I can vividly recall arriving 30 years ago in suburban Millersville Pennsylvania as a young African kid, ignorant as ever, ready to begin my undergraduate studies. Many things were foreign to me. I was clueless as to what other kids were into, and the racial lopsidedness (which had not factored into any of my selection criteria due to sheer ignorance) was an added curve ball. Fortunately, I was not alone; many other international students faced the same obstacles. The international students club became a place where coping mechanisms were shared, feelings were acknowledged, and useful information was distributed. I remain friends with many of my cohorts from this group. Among the steepest climbs an international student must face in a new environment is "effective assimilation".

There is a tendency to interpret the term "assimilation" negatively, as it could imply that one is shedding one's identity to be accepted by the majority, or pretending to be something other than who you are to fit in. Contrary to the aforementioned negative connotations, I believe one can effectively learn the ins and outs of a new social currency without losing one's identity. It is important to remember to “listen”, “observe”, and “respect the way things are” when entering a new environment with confusing norms, unfamiliar social cues, and unclear rules. My fourth recommendation would have been to “refrain from judgment”, but that would be foolhardy advice since judgment will always exist. If nothing nefarious is occurring in your new ecosystem, your primary objective should be to learn how things work so that you can function efficiently within it.

The verbose set-up above is my untactful way of emphasizing the point that when attempting to assimilate into a new society, certain facilitative opportunities inevitably arise that must be exploited. For my fish-out-of-water initial college experience, these opportunities appeared in the form of accepting invitations to join an American student’s family for Thanksgiving, making an effort to understand what aspects of bands like The Smashing Pumpkins and The Cranberries captivated the student body so much, as well as paying keen attention of the prevailing societal slang words, amongst others. In their attempts to make inroads with prospective investors, fund managers also have obvious or subtle openings to demonstrate capital worthiness, but too often, these opportunities are fumbled. These opportunities appear as infrequent shy and fleeting gifts, so when missed, bashfulness increases, and their reoccurrence potential reduces. I list a few below.

- **Understanding what made you win**: Often, I ask managers I am reviewing for potential investments or those who merely ask for a critical evaluation of their investment approach, what about their investment approach resonates most with investors. In almost all cases, this question is met with long pauses, and the eventual answer is typically a simple regurgitation of the manager's strengths listed in the pitchbook. If you are an emerging manager raising your maiden fund (and have not yet had a close), it is understandable not to have an answer to this question because no capital has come in yet. But, if you have raised any form of capital, or if a prospect is at the brink of closing, there are precious data points to be mined. Generally, it is acceptable to ask for feedback after being rejected but very few people do so after receiving a positive outcome. It is true that when you receive a commitment from a prospective investor, the very understandable assumption is that your whole strategy is positive. However, GPs often forget that most LPs invest in managers because the assessed positives exceed the assessed concerns on their selectivity scale. It is important for GPs to blatantly ask confirmed investors, “What about our strategy resonated most with you despite your concerns?” Granular feedback from questions like this provides GPs with tangible information to emphasize during ongoing prospect pitches as well as credible points that need honing.

- **Transparency, transparency, transparency**: Indeed, I have beaten the corpse of this horse to an unrecognizable pulp, but the importance of transparency cannot be overstated. The lack of transparency in a GP's spoken statements, fund materials, and/or online presence will forever be a red flag. When a fund manager exhibits any hint of murkiness, an analyst's decision whether or not to proceed with due diligence is made much easier, especially given their workload – the decision will be "NO". Why make it so easy for potential investors to drop you? Well, if you have something to hide, that is a whole different discussion. However, ignorance or a lack of proper research regarding what most potential investors want to know should never be the reason for ambiguous or missing/withheld information. The opportunity to be transparent as early and as much as possible is extremely fleeting. Once a potential investor gets a whiff of this, the relationship door shuts quite quickly, and it may never be reopened.

- **Admitting mistakes and introspection**: Related to the above point, this is another equine that I plead guilty to desecration of a corpse – wow, that sounds way darker than intended. LPs are generally accepting of mistakes since seasoned investors recognize that this is part of the risk they are taking. Ideally, fund managers learn a grow from past mistakes. But to learn and grow, past mistakes have to be acknowledged and admitted to. Fund managers who embrace the opportunity to be vulnerable and express past missteps and how their processes, thinking, and management style have been improved and evolved because of this are likely to garner more LP interest than those who stubbornly blame all past gaffes on economic cycles, acts of God, and other people.

- **Owning your expertise**: A prospective LP is usually interested in meeting with a fund manager because something about the manager's investment strategy, sector focus, market approach, etc., piques their interest. GPs need to own their expertise at these meetings. You are the subject matter expert, and your knowledge of what you do is more than most people in the world. Yes, there are pleasantries and power dynamics that have to be adhered to, but for the most part, this is your stage to shine. You have hopefully thought about what you invest in more than the prospective LPs interviewing you, and that must be shown in a confident EQ-aware manner. Every time I speak to emerging GPs, the conversation starts with a description of their past accomplishments (personally, academically, career-wise, etc.) before embarking on the fundraising journey – it is almost always awe-inspiring. But there seems to be a mental block when it comes to translating these amazing achievements into a coherent fundraising narrative. My advice to them is that fundraising success is both an opportunity and a challenge that requires you to tap into the same resourcefulness, ingenuity, and brilliance that led you to this moment.

Convincing investors to hand over capital is hard enough without unforced errors, so low-hanging fruit opportunities to put your best foot forward should never be wasted. In the increasingly rough and tumble world of capital raising, you frequently have to create your own luck. And quoting the stoic philosopher Lucius Annaeus Seneca "Luck is what happens when preparation meets opportunity".

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