



## What LPs Really Like About Their Favorite GPs

Allocator peers I have come to know well throughout my career have, at one point or another, strongly recommended or shamelessly professed their love for a particular manager. I am guilty of doing the same. Nerding out on managers with compatriots who share a similar passion for investing is actually the most fun part of being an allocator. The human side of investing becomes even more apparent during these times. There is always a customary request to brace yourself before the big revelation. The proudness and joy reminiscent of having deductively solved an ancient mystery is palpable. It takes a long time for an allocator to get to the singling-out-adoring phase for a particular GP – such proclamations come after being burned and learning lessons the hard way. An allocator is usually only ready to be overly bold about a manager after enduring (from other GPs) a lot of hurt, a lot of betrayed trust, a lot of soul searching, and has spent many years painfully shedding the scales of naivete.

I have categorized manager endorsements by true believers into the categories they most frequently fall into.

- **You're odd but you're my kind of odd:** Inevitably, when listening to a description of a favorite GP, you will hear a disclaimer or preface accentuating differentiation in comparison to widely accepted norms of what a GP typically looks like. The differences are usually around a manager's philosophy (investment and worldview), niche sector concentration, team members, reputation, geographical focus, etc. Statements such as "these folks operate in their own world", "they march to the beat of their own drum", "at face value if their deck fell on your desk, you would mistakenly pass on them because of x, y, and z", "they are extremely hard to categorize because of x, y and z", etc. Sometimes, the GP's unique feature is simply that they are very boring and that they execute expected functions more meticulously than everyone else. Regardless of how a favorite GP's odd characteristics are described, there is always explicit pride in the fact that the LP went against traditional market sentiment.
- **Certainty of personality (types of deals, integrity, fund/deal size, etc.):** Trust plays a huge role in LP/GP relationships. Of course, LPs are not in the trenches with GPs when these capital managers are executing day-to-day value-creation processes. Quintessentially, there is a clear division of responsibilities – LPs offer capital and some general guidance, while GPs use judgment and experience to deploy this capital. However, it is undeniable that GPs are the agents of LPs. GPs have the autonomy to select investments that they deem fit for a conveyed strategy, but LPs, although powerless in real-time, like it when they see a good connection between a GP's skillset and requirements for success in an executed deal. Endorsements of GPs tend to have a good amount of rhetoric around the GP's certainty of personality. This is usually expressed with positive statements and examples about how trustworthy a GP has been. Feeling a sense of intimate knowledge of how a GP will act in various scenarios amplifies the trust level. During "favorite GP" validation conversations, not worrying about ulterior motives or potential nefarious acts are key talking points.
- **Consistent story:** Although closely related to the above characteristic, I felt it appropriate to separate "consistency" from "certainty" because although they can be semantically lumped together, each carries unique points of differentiation. A consistent story inspires confidence that the goalposts have (or will) not be self-servingly moved to fit a narrative. For newer LPs who lack the benefits of many seasons of GP interaction, sanitized or altered narratives might be effective. However, such an approach is seldom



conducive to fostering long-term tribe building. Accounts of best-loved GPs inevitably touch upon a relentless consistency in what guides their actions and reactions. This does not mean that strategies are not tweaked from lessons learned, but rather that they don't footlessly blow in the direction of every market trend or fad.

- **Witnessed/experienced emergence from difficult moments:** Shared battle scars tend to bring people closer. Being committed (in real-time) to a fund that has gone through fundraising, deal-specific, transition- or succession-related, macro-induced, and/or act-of-God events, and has successfully emerged, builds a true bond. Although it does not fit the textbook definition of "trauma bonding" within psychology circles, there is an undeniable connection forged when parties successfully navigate difficulties together. Narrations of why a GP happens to be an LP's favorite will often include a chapter about how a GP proved their mettle by overcoming a traumatic event. These accounts also tend to stress the fickle actions of other LPs, such as panic, abandonment, short-term thinking, and crowd-following – in other words, the story shines a positive light on both the GP, for its resilience, and the reporting LP, for his/her loyalty and long-term thinking.
- **Edible returns:** Don't get it twisted; LPs are always taking scores. Flowery depictions of the greatness of a GP tend to be greatly discounted if there is no tangible way to prove that going against the grain tangibly paid off. Unfortunately, high unrealized returns don't count when tallying fan-favorite points. The mentioning of outsized realized returns is usually the crescendo of any folkloric story about a revered GP.

I believe there is a key lesson for up-and-coming managers in the points above. Your oddness can turn into your superpower. Your certainty of personality and consistency can build a loyal following. Taking on adversity with a persevering attitude can create lifelong partners. Also, never forget that despite all your great attributes, you still have to show and prove your value through strong financial returns. There is one common theme that runs through all of these - they require "time". The days add up to years and years to decades. Actions taken with short-term reasoning tend not to age well when recalled a decade later.

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