Lessons Learned – Mere Hyperbole or Useful Assessment Exercise?

More often than not, the term “lessons learned” is used to imply some degree of intellectual honesty. In the world of finance, this phrase is a valuable shape-shifter. It can be used to show introspection when an investment manager embarks on a subsequent fundraise. It can also be used as a probing question to measure the self-examination of an investment analyst (LP), GP, or deal team. Further, it is a powerful tool to determine how the teachings of past market cycles inform future actions. There are many more connotations of how the “lessons learned” concept can strengthen investment actions. However, its gist will always reside within, or in the vicinity of, using past mistakes, misses, or naivete, for future preparedness.

Since the beginning of my analyst career, I have been intrigued by the multi-pronged potency embedded in the seemingly simple term - “lessons learned”. Although it can be argued that the tangibility of the phrase (and its execution as a worthwhile exercise) loses some luster due to its fungible/qualitative nature and its vulnerability to manipulation (when used as legal tender for lip service), several counterpoints provide credibility for its application. For one, there should be concrete proof of the “lessons”, and credible evidence of actions currently being taken to show that something was “learned”. Secondly, although “fighting the last war” is a real risk when one is overly backward-looking, analyzing past missteps creates a general appreciation and mindset around the transient nature of gilded moments and the need to have contingency plans for when things inevitably go sideways.

Listed below are how I (and I believe many other investment analysts) utilize and interpret "lessons learned" inquiries. I contextualize my thoughts by categorizing them according to the faction of entities to whom the question is being asked.

- **Emerging Managers/Sponsors:** The “lessons learned” question is typically a hard (and somewhat unfair) one for emerging managers/sponsors because the place their answers are harvested from is not as rich or immediately visible to the prober. Sometimes there is insufficient direct/individual history to generate a confirmable answer. However, it is still a worthwhile question for analysts to ask because it forces the respondent to mentally dig for past circumstances that have informed their current approach to life and investing. Learning or course correcting does not always have to be instigated by things that directly happened to you. There are many lessons to be learned from what others went through. Assessment of thoroughness of thinking and readiness to handle other people's capital (and the varied responsibilities and heartaches that come with this) is a big part of what analysts are trying to uncover when evaluating managers with short capital management histories. Prospective LPs typically prefer emerging managers who have made the effort to understand market cycles, market trends, peers, and competitive landscapes over those who lack this initiative.

- **More Established Managers/Sponsors:** With managers/sponsors who have successfully navigated through the “emerging” stage, and have become more established, the “lessons learned” question should be a fruitful conversation starter - prospective LPs will typically expect thoughtful banter with a higher degree of tangible proof points. Hiring practices (a sense of ideal cultural fits), LP-type preferences, unique/niche sector prowess, deal types, deal structures, capital call formats/timing, service providers, operating partners, market cycles, carry/incentive splits, LP communication forums/mediums, etc. are all fertile areas from where GPs/sponsors can exhibit growth and a honing of approaches. In my experience,

the ”lessons learned” conversation with established GPs/sponsors inevitably and predominantly focuses on four areas: 1) Past failed deals, 2) Team/people skirmishes, 3) Deal structuring, and 4) Macro whiplash. It is always informative to gauge how much responsibility is taken for past mishaps. Some managers tend to thoroughly explain their mode of thinking when failed decisions were made, some tend to blame others who are usually no longer part of the organization, while some just scapegoat the economy, nature, or other uncontrollable forces. I have found that the “lessons learned” topic is most effective and believable when there is a clear depiction of what went wrong and then concrete evidence of the cessation or alteration of actions/processes to avoid the repetition of past wrongs.

- **Portfolio Companies:** During the referencing stage of due diligence, it is highly advised that investment analysts speak to the past and/or present portfolio companies of the manager being assessed. These are tricky conversations because having received a capital investment from the manager, the portfolio company is inherently biased and likely to have only good things to say. However, there are ways that mentally agile analysts can coax useful information out of seemingly biased portfolio companies. Pre-anchoring a question while allowing room for accretive critique is an elegant way to ease discomfort. A question like “You were likely very thorough in picking a capital partner but looking back, are there characteristics (minor or major) you wish were prerequisites for partner selection that you feel are currently lacking?” It may not look like it on the surface, but this is a veiled “lessons learned” query - it is a tactful way to open up critical dialogue without throwing anyone under the proverbial bus.

- **Investment Analysts (LPs):** It would be disingenuous for an analyst to disseminate theories about “lessons learned” without self-introspection. This is a painful exercise that vividly reminds you that regardless of experience and savviness, we are all prone to mistakes that seem rudimentarily avoidable in hindsight. Looking back, my biggest mistakes (and I am sure those of other analysts) have been qualitative in nature. Incorrectly assessing alignment and hunger, subconsciously falling in love with managers who share some of my relatively unconventional views on capital management, and a penchant for being early in niche managers/sectors, have been the reasons for both my biggest burns and most memorable successes. Like in elite sports, a short memory and an unwavering desire to be better in the future is the best prescription for sanity going forward. However, given the duration of private investing, this is easier said than done when your missteps can stare you in the face for a decade plus.

Although there is arguably some degree of intellectual elitism that comes with openly evangelizing “lessons learned”, I believe this exercise will continue to be an important tool in assessing the mental, procedural, and material evolution of those who need to show comprehensive growth to attract trust and capital.

Anthony Kwesi Hagan
Founder and Head of Research, Freedomization™
January 19th, 2025