Have You Seen This Before? – The Paradox Of Familiarity

Recently, I've been reflecting on how someone can age gracefully in a career. With AI incessantly and intimidatingly banging at everyone's intellectual door, it is impossible not to think about one's own vulnerabilities. It is natural to ponder what weaknesses can be found in the intentional and happenstance fortress of skills we have individually developed over the years. Admittedly, some intellectual garrisons are more armored than others, but time waits for no one. For example, although many years of experience certainly carry weight, is 22 years of experience significantly more valuable than, say, 14 years of experience? In finance, we tend to defend long in the tooth players using the "cycles" tactic that goes something like, "well, he/she has navigated more market cycles, so he/she is more seasoned and therefore better than that other person who has only been through one market cycle". Word? Really? I am not trying to promote or endorse ageism, but there comes a point when an audit of critical skill sets is necessary in everyone's life.

I realized a few years ago that my many years of experience as a private markets analyst was primarily being used as a temperature checker for anything that appeared different on the surface. In addition to conducting customary due diligence on investment opportunities, most of my time was/is spent answering questions from colleagues and clients, such as, "Have you seen this before?" or "This seems weird, right?" or "Is this typical behavior for GPs?" Some comfort can be gained from the fact that others value your experience enough to use you as a gauge for anomalies, but I think there is a deeper box to be unpacked here. Is there a subliminal belief that "weird" or "different" equals "bad"? Do the askers of the temperature-check questions just want your opinion on what differences are acceptable or not? Is all this just a safety-seeking CYA endeavor that serves as an "I double checked with so and so" insurance policy? I might be overthinking this whole thing, but I believe there are ramifications around the pursuit or avoidance of familiarity that ripple through the private investing ecosystem. I try to iron out my crumpled thoughts below.

- **From a GP's perspective, what is the appropriate level of differentiation from the norm?** Clearly depicting "differentiation" has long been frustratingly elusive for GPs, haunting almost every prospective-LP pitch. GPs continually refine their articulation of diverse approaches and perspectives concerning their funds' preferred deal criteria, data crunching, decision-making, deal sourcing, value creation, exit avenues, and so on, to develop sound narratives. On the other side, you have LPs looking for managers who do something that truly, or at least aesthetically, stands out from the crowd. GPs have to navigate the tightrope of either being or sounding different merely for the sake of being different, aka a gimmick; being so different that every pitch is akin to a dissertation; merely being run-of-the-mill; or being the right amount of different that their uniqueness is both practical and tangible. In my experience, I have found that, although it has a small group of pioneering supporters, complex differentiation that requires extensive explanation generally receives limited traction. My advice to GPs struggling to find their place in the ecosystem is to strictly maintain authenticity and have a basic understanding of what competitors claim to be doing. Authenticity enables GPs to express actions clearly without needing to depend on memory for punchlines. For example, a GP's differentiation might not stem from their sector focus or the methods they use to add value to investments; it may simply arise from having developed processes that are more discerning, efficient, and effective than those of competitors. Although a GP's uniqueness is often described as something that should shine brightly like an amber light, managers can feel confident that diligent allocators with appropriate industry experience can quickly discern nuances, even the very subtle ones.

- **The role "familiarity" plays in the psyche of investors**: Whether explicitly expressed or not, it's undeniable that familiarity is a safe haven for investors. Familiarity acts as a foundation or standard for distinguishing what is known from what is, or could be, different. Simply put, divergence from the known, tends to be classified as "risk". We are all aware of the engrained teachings of the relationship between risk and reward. However, the extent to which one goes out on a limb in the pursuit of higher or expected returns is a complex dilemma for LPs. Furthermore, as I have emphasized before, LP decisions to invest in a fund are not individual endeavors; they require convincing numerous people (such as investment committees, peers, designated devil's advocates, etc.). Therefore, a significant amount of earned trust, goodwill, and intellectual currency will likely be expended by whoever decides to lead the championing of something that is very different. As a result, many investors opt for a safe approach to preserve their organizational status and minimize disruption. Generally, I think that when LPs talk about their efforts to differentiate GPs, what many of them are truly asking is, "Can you provide me with something that has a good number of features I'm accustomed to, but also includes some traits that can be interpreted as innovative, since I'm really not trying to change the world?" To be fair, I have encountered some truly brave LPs willing to primarily invest in novel opportunities – these folks tend to be confident in their due diligence skills and genuinely understand that taking leaps is essential when aspiring to attain outsized returns. I have also encountered others who take a more measured approach by mixing traditional/familiar opportunities with nontraditional/unfamiliar ones.

- **Is embracing "familiarity" in private assets investing sustainable in the long run?**: The private assets class squarely falls in a category of investing called "alternatives". The term "alternatives" within the investment lexicon can be defined as things that are different from the norm. If investors have long acknowledged the benefits of adding something different (alternative) to their portfolios for various reasons, such as diversification and differing correlations, it logically follows that there is a widespread agreement that deviating from the norm or introducing some variation to it can ultimately be advantageous. Currently, there is broad and growing awareness of the benefits of integrating private holdings into portfolios that have primarily consisted of public investments. I have believed for some time that investing in private assets represents the highest form of active investing, as portfolio holdings are actively managed to enhance value. In public investing, managers who claim to be "active" (actively trading securities to outperform the market/benchmark) but then, after further scrutiny, are found to closely hug benchmarks, are looked upon with disdain. So if you've already taken the leap of faith and embraced something new, why would you now oppose pursuing alternatives within the alternative asset class? As the private asset class becomes more efficient, overcrowded areas within it will experience a decline in returns. Therefore, I believe the allure and true benefits of private assets investing can only be preserved by embracing the unfamiliar and unconventional.

While familiarity offers comfort and security, it should not overshadow the potential gains from embracing new and unconventional approaches within private assets investing. The balance between risk and reward must be carefully navigated, and innovation should be welcomed as a means to stay ahead in an evolving market.

Anthony Kwesi Hagan
Founder and Head of Research, Freedomization™
March 16th, 2025