My 2024 Anti List

Keeping with the sometimes-annoying tradition of a plethora of "lists" at the close of the year, I want to put forth my own, but with a little twist. I want to talk about "**six**" things I wish to see less of in 2024. This list could be much longer as I have pages upon pages of things that I would like GPs/marketers/fundraisers to refrain from doing, but "six" seems like a good enough number to hold attention spans and keep from being too much of a Grinch. I am not claiming or pretending to be the arbiter of all things private-investment-related, but I do believe that these opinions hold weight in the investor community and some level of adherence could be accretive to those seeking investment capital.

1. **Incoherent pitch decks:** The investment manager's pitch deck is a universally accepted introductory tool that sets the groundwork for potential future interaction. The pitch deck can either induce a follow-up meeting or prompt an easy rejection. It always amazes me how so many of the most resourceful and intelligent investment managers misfire when putting their best foot forward in pitch decks. A go-to excuse from investment managers when the shortcomings of decks have been shared is something along the lines of "We are not marketers, we are investors". That is all well and good but why would you knowingly or ignorantly put yourself in a position that limits your chances of getting capital from potential investors? In my view, a pitch deck does not have to be glossy or over the top, it just needs to succinctly provide relevant information to entice a future meeting. The most important factors to include are – who you are, what you are good at, why you are good at that thing, how your strengths in that thing are better than or distinct from others, and some tangible proof that you are good at said thing. Everything else is just fluff.

2. **Unclear track records**: I have spoken about this in a prior piece but it is difficult to overstate the importance and magnitude of a clear track record. Private investors want a transparent and concise depiction of an investment manager's past performance. Attributable performance, with gross and net returns, stated explicitly on a deal-by-deal basis (if possible) and as a whole, goes a long way in building trust and goodwill with potential investors. Additionally, putting forth relevant details (geography, size, sector, debt levels, etc.) of prior investments helps potential investors with their benchmarking exercises and also likely speeds up the overall due diligence process.

3. **Listing aggregate years of experience**: Maybe this one shows a little of my Grinch-like side, but it is a pet peeve that I needed to mention. Also, other LPs in my network have expressed similar irritation with this seemingly innocuous practice. Adding up the years of experience of your investment team (and/or operations team) to state a large number like "323" years does nothing to persuade a potential investor. This number does not consider the size of the team and simply posits that many years of experience equals a good fund. This large number portrayal comes across as a cheap ploy or just meaningless "clickbait". A far more effective approach to illustrate an experienced investment team is to state the number of investment professionals, their individual years of experience, and then the average of the whole team – this is more forthright and takes shenanigans out of the equation.

4. **Misleading portrayal of competitive landscapes**: This tactic can be defined as self-serving marketing that in reality is quite easy to refute. There is usually a page in all marketing decks that is meant to illustrate who the investment manager competes with or is similar to in the ecosystem. Of course, no two

investment managers are exactly alike, but we are all aware that funds tend to fall into broad categories in terms of preferred sectors/geographies/deal sizes/etc., and that in a capitalist market, most deals have a competitive (seeking the best fit monetarily or otherwise) element to them. Showing a competitor grid/matrix, with the investment manager all alone in one corner always calls for a double take, although it is quite common. As potential LPs, we are not asking GPs or marketers to scour the entire universe and show every entity that could be a competitor, however, we do expect a little respect especially given that we assess investment options for a living. Blatantly stating exclusiveness when it is not so, could be a strike against you.

5. **Guileful mentions of wow-factor LPs**: The mention of past or present marquee investors has become an interesting ploy to lure new investors or at least solicit curiosity as to why such well-known or respected entities/individuals committed to the fund. This is usually done without any useful framing. I am not insinuating that getting money from illustrious investors is not a feat to be proud of, but I am imploring GPs to add some context to reduce the frail pageantry effect. Receiving capital from esteemed investors is worthy of celebration but the cachet is immensely diminished if an investor is notorious for spraying small checks at multiple GPs. Most research analysts are aware of the identity of these magnanimous LPs so flaunting them without true context could produce contrary outcomes. Transparency should drive all marketing techniques – depending on the reality of the situation, something as straightforward as stating that the investor made a "small" commitment or just acknowledging that the investment made by the wow-factor investor is part of their emerging manager program goes a long way in showing integrity.

6. **Using adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) without proper context:** EBITDA has become broadly accepted as a measure of a company's operational efficiency related to profit generation. Unadulterated EBITDA, although harboring its own litany of critiques, has become a widely used metric in understanding the valuations of private companies – it is particularly prevalent in assessing entry and exit valuations which tend to be presented in terms of multiples of EBITDA. Adjusted EBITDA is a modified form of the EBITDA metric that attempts to normalize the output by removing/adjusting irregular gains, losses, and other items. I am not the first nor will be the last person to voice caution around the use of adjusted EBITDA. In theory and even in practice, there is nothing blatantly alarming about using adjusted EBITDA when depicting company metrics. However, there is a lack of standardization of how adjusted EBITDAs are presented in fund material. This makes it challenging for potential investors to execute an apples-to-apples comparison of a GP's discipline or efficiency when it comes to acquiring, improving, or disposing of companies. Some sort of plainly specified protocol around why adjusted EBITDA was used, what items were added or excluded, and whether these adjustments improved or worsened multiples would help in removing the stigma of distorted profitability, overvaluation, and nebulousness.

Here's to a peaceful and fruitful 2024 with health, progress, and prosperity for all. Happy New Year!

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