Allocator Empathy (Nurture Your Champion)

GPs face an uphill battle when attempting to secure capital for their latest vehicle. Then VOILA!, one-day things start to change - your efforts finally begin to pay off after hours and hours of plotting, pitching, meetings, and invasive scrutiny. The questions from the prospective LP begin to tilt in a different direction – they start to lean more towards the details about pipeline deals and the timing of fund closes, and less towards the confirmation of integrity and alignment. Something good is happening. Of course, this good thing's pace could probably be outrun by molasses, but despite its stride, it is happening. On the other side of the curtain, the prospective LP side, someone is carrying the mantle. This individual is going to bat for you. This person is putting his/her reputation and social currency (within their organization) at risk for you. As a GP, you are doing all you can to make sure this person looks as good as possible from his/her decision to represent you. If your strategy gets approved and committed to, strong eventual returns will be the ultimate thanks, but that takes time. Congrats GP (or placement agent)! - you have an internal "champion". This relationship must be nurtured because regardless of the outcome, your champion is now a valuable part of your network.

To underscore the irrefutable truth that getting to a "Yes" on an investment is a feat with more roundabouts than France, I'd like to shed some light on what your champion deals with daily within his/her organization. I aim to invite empathy for the analyst and assure GPs that a "No" is not always a "permanent limbo" judgment. Understanding some of the factors at play within allocator organizations can help neutralize disappointment and encourage a long-term mindset in dealing with prospective investors.

- **Large number of inbounds**: Generally speaking (and as I have touched on in the past), allocators receive somewhere between 20 and 50 inbounds per week. My average throughout the years has been about 25 inbounds a week. The sheer volume of inbounds that must be reviewed should trigger some GP empathy, especially when it comes to GPs doing their best to be as succinct and transparent as possible in conveying their value proposition. If you are a GP who makes it past this part of the funnel, you are already winning.

- **Legacy portfolio**: Unless the propositioned allocator is starting a brand new program, the organization likely already has a legacy portfolio made up of several past investments. These legacy investments carry with them several ongoing tasks. Update meetings, annual meetings, quarterly calls, LPAC meetings, capital calls, capital distributions, cash flow analysis, quarterly letter reviews, audited financial statement reviews, write-off/down investigations, etc., are examples of time-consuming Dracula that persistently suck valuable hours away. If you think allocators are sitting around just waiting for your knight-in-shining-armor strategy to show up cold in their inbox and save the life of their portfolio, you are wrong.

- **Portfolio construction ramifications**: Most investors have some sort of portfolio construction parameters they try to adhere to. There are percentage allocation bands of underlying strategies that dictate placement, so if let's say the allocator has hit the upper band of its credit investments, no matter how perfectly a new inbound credit strategy fits its ethos, the likelihood of deep engagement will be low (at that moment). Even allocators who employ an opportunistic approach to investing might turn down a strategy that checks all their boxes because their last three commitments were in the same space/sector as the new inbound one. With the abundance of prudence as a guide, most allocators try to diversify by strategy, industry, sector, geography, vintage year, etc. as much as possible. This is not an easy exercise, and it leads to a lot of difficult conversations with and consternation from rejected GPs, but it is a realistic part of the balancing act of investing.

- **Budget constraints**: There are internal realities to the availability of investible capital that allocators have to consider on an ongoing basis. Allocators usually invest capital that is donated, raised, distributed (from past investments), generated from balance sheets, etc. Disruptions to these sources of capital can radically raise the selectivity bar for new commitments or halt deployment altogether. Analysts within these organizations are constantly navigating the best use of the available capital. In environments such as the current one where distributions are at a virtual standstill, and interest rates have remained stubbornly high, most GPs are getting accustomed to hearing more “Nos” than “Yeses”. The analysts doling out these “Nos” are not frivolously doing so, there is usually an intricate process of weighing options (relationships, potential returns, future implications, etc.) going on behind the scenes, and it is not fun. I have spent many restless days and nights trying to quantitatively and qualitatively assess the best use of limited dollars. Like with the “portfolio construction ramifications” point above, stating “budget constraints” as a reason to pass on an investment, sometimes comes off as lazy or dismissive excuses. Perhaps allocators need to add more specificity to reasons for rejection, but the practical truth is that quick umbrella responses tend to be the most efficient, given the volume of inbound proposals received.

- **Stakeholder/internal politics**: In most workplaces, internal dynamics/politics dominate the pace, amount, type, flexibility, and acceptance of new ideas. Certain powerful factions within the firm might despise private assets altogether. Certain influential people within the organization might prefer certain types of funds or investment strategies above others. Some important decision-makers might question a particular analyst's depth of due diligence. Additionally, if the organization oversees non-discretionary capital, strategies must be approved internally and then re-approved by the underlying clients. All these factors can subvert investment timing (creating detrimental delays) or vastly weaken the enthusiasm of the supporting analyst (your champion). These hoops that must be jumped through, although excruciating at times, are not all necessarily bad because they ensure the utmost conviction in the pursued names. My main point here is that, regardless of the eventual “go” or “no go” outcome, this running of the gauntlet by the “champion” analyst should warrant some degree of empathy and gratitude.

If you are a GP who has successfully found a champion of your strategy within an allocator organization, cherish him or her, and always keep a long-term relationship-building approach as your North Star. These relationships are worth their weight in gold. These champions can act as important references, make critical introductions, help you better position your strategy for the market, and potentially invest now or in the future. No successful entity succeeds as an island - we all need someone to believe in our endeavors, and when we find those who do, let us celebrate them.

Anthony Kwesi Hagan
Founder and Head of Research, Freedomization™
May 12th, 2024.