



## Assessment of a GP's Values

While mulling over multiple ideas for my next piece, I received inspiration from an unexpected source. I was delighted to have stumbled upon a topic that falls in the gray area of GP/LP dynamics that is seldom discussed. The light bulb moment happened during a reference call with a trusted GP-led secondary manager who had executed a continuation vehicle transaction with a fund I am currently analyzing for a potential primary commitment. A revealing comment the secondary manager provided about the fund under consideration was, "Their skillset is high, but their values are also high – it is hard to find managers who have a strong combination of high skillsets and high values." I immediately understood what he meant. We riffed on this topic for some time, jointly underscoring the importance of this latently observed qualitative characteristic of GPs. When you have been in the private investing game for a while, you quickly realize how brittle "values" can be.

Below are some of the sentiments we discussed, as well as others that I believe fall into the "values" classification when LPs assess GPs.

- **How do LPs define GP values?** Answers to this question have wide-ranging implications. To cut to the chase, GP values are fiduciary actions one would expect from a steward of long-term (illiquid) capital. This would include alignment of interests, general transparency, clear communication with a reasonable cadence, seeking the highest and most appropriate avenue and value for exits, appreciation for LP capital regardless of size or recency, fair fee/incentive structures, ethical conduct, etc. When LPs can trust a GP to uphold the aforementioned attributes with unwavering loyalty, that GP scores high marks on the values scale.
- **High skillset but uncertainty around values:** LPs will inevitably have within their portfolio some GPs who are excellent at what they do, but there still exists some uncertainty around whether the partnership is pure. A lack of full transparency, explicit or implicit arrogance, and a profit-first (for itself) mentality are a few signs of distorted values. Many of these unfavorable traits are tolerable when things (performance) are going well, but when things get shaky, LPs quickly reassess the partnership and break free (in the form of not re-upping or selling on the secondary market).
- **Performance and values matrix:** When a GP generates mediocre returns but is also known to be low on the values scale, no one really loses any sleep over that because it is an easy "no-go". When a GP has high values but weak performance, it is still a "no-go," although the high values are appreciated. Things get fuzzy when assessing a manager with historically high performance but with questionable values. In this scenario, some LPs will find a way to justify an investment, while others will stand on principles and reject engagement. As insinuated above, the trickiest scenario is being invested in a fund or deal where performance has been exceptional, and values seem to be in place. However, strong performance tends to breed ego (which is far from lacking in the private investing world). Consequently, a burgeoning ego sometimes comes with actions or statements that inject tangible doubt around the measure of a GP's values.
- **Why are LPs so worried about GPs changing?:** This is a constant fear that every LP harbors about their GPs. It is a big part of due diligence. How likely is this GP to change on me? What factors are most likely to cause this GP to change on me? This fear is not a secret to both LPs and GPs. In initial and ongoing pitches,



GPs will try to assure LPs that they will never get too big for their britches. To alleviate LP concerns about greed, GPs usually emphasize moderate future fund sizes, downplay future growth from product proliferation, and vocalize restrained wealth aspirations. But we all know how this story goes. All it takes is one really successful deal or fund for all the beautiful promises to get chunked out the window. Such is life. LPs are worried about GPs changing because human nature has taught us that people tend to change with success. It is a double-edged sword. LPs want to find GPs who will be successful, but with this success comes an inflated ego and the temptation of more capital. It's possible that LPs are projecting their own inclinations (if they were ever to become that successful) onto GPs. Nevertheless, LPs worry because alignment, transparency, humility, and returns have historically been diminished as GPs become more successful. This is the change that LPs fear.

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