Bombastic GP Statements That Draw More Attention Than Needed

Consultants of all kinds have long understood that the fastest way to incur client displeasure is by making absolute statements. Human beings are wired to gravitate towards certainty, so promises or assertions of sureness from those in "expert" positions will generally attract attention, and with attention always comes increased scrutiny. It would be impressive if the aforementioned perspective were a hot take, but it is merely something that anyone of legal drinking age knows or should already know.

The world tends to be gray regarding almost all aspects, hence the consultant-perfected "it depends" as an answer to almost every direct client question. However, it is still common to hear fund managers make bold, absolute claims that, in my opinion, unnecessarily create opportunities for refutation. I understand it is extremely difficult to stand out among numerous investment options that all promise a unique path to exceptional returns. However, turning to easily checkable and refutable assertions is not a wise way to gain attention. Most LPs spend most of their time listening to manager pitches, so any GP who thinks they are astonishing these folks with grandiose statements is sadly mistaken. LPs have heard and seen almost every stripe of GP strategy, process, excuse, gimmick, persona, regimen, etc. out there – seasoned LPs are not easily impressed and tend to negatively react to their intelligence being blatantly insulted.

Below are a few summarized examples of emphatic GP statements that, in my opinion, pose more jeopardy than appeal.

- **Claiming to possess systems and/or processes that guarantee performance over and above competition**: On the surface, I understand this may seem like an unfair statement, as how else are investment managers expected to demonstrate confidence and promote themselves? Also, the strategic placement of the word "guarantee" gives me some protective wriggle room. Regardless, the point I want to make is that by linking systems/processes directly to outsized performance, a GP opens itself to an expectation of peer outperformance regardless of circumstance. Such linkages open up every line item of your prior track record to an added layer of scrutiny. Even stating something seemingly innocuous like "we have a proprietary tool that ensures we identify every suitable investment target in the universe, allows us to quickly evaluate desirable deal attributes, and ensures our proprietary deal flow" can create an unwinnable testing game where LPs rattle through past deals your competitors executed that you missed or mention live companies that should be in your tool but aren't. I think the wise approach for GPs is to talk about their perceived strengths in clear but relative terms without relinquishing the right to plead fallibility. Nuanced statements like "our proprietary tool helps us to be proactive in the market" or "our honed processes have helped reduce our loss ratios with time" are more effective and defendable when fundraising.

- **Claiming to be all-weather or recession-proof**: Some strategies undoubtedly have more downside protection than others. Since most investors regard lower returns as a reasonable exchange for relative safety, generally, the greater the degree of a strategy's downside protection, the lower its expected returns. However, I have met several managers who project consistently high returns through all market conditions, including recessions. These claims are made using the sectors (consumer staples, critical services, the picks and shovels of long-term theses, etc.) they focus on as justification. To be honest, many of these managers' rationales make sense on the surface – some GPs even have proof of successful recession navigation in their track record. The problem with promoting strategies as all-weather or recession-resistant is the implied assertion that the strategy has been tested through every market condition or that all recessions are created similarly. Once an LP has been burned by a manager who promised market/recession-proof returns and failed to deliver, any other manager who asserts the same is looked upon with increased skepticism and sometimes relegated straight to the doghouse without further investigation.

- **Claiming uncorrelated returns**: This point relates to the previous one, but its essence arises from managers comparing the inviolability of their past or projected returns with other private asset classes or the public market. Sometimes the "uncorrelated returns" claim is used as a subliminal pseudonym for "reduced risk". Many of the newer alternative asset classes, including litigation finance, music royalties, art, digital infrastructure, etc., have "uncorrelated returns" in their tagline, which is pivotal in attracting investors. I am not questioning the attributes of these investment options, but I am tugging at the memory strings to remind people of times when correlations of nearly everything approached 1 (a perfect positive linear relationship between variables). Also, it is good to remember that private markets tend to lag public markets, so the correlation effects may be delayed. Some managers use the "uncorrelated returns" hook to prey on less sophisticated investors or investors new to private assets investing – I think this is a poor way to initiate a relationship because as these folks get more knowledgeable and seasoned, the relationship will quickly deteriorate. I believe it is important for GPs to respect the intellect of all investors, regardless of their specific sophistication with an asset class or sector, and to explain, even in simple terms, the nuanced positive and negative attributes of their investment strategies.

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