Overpromise, Underdeliver, Underexplain

In investing, "information" remains the essential lifeblood. Even if you choose a contrarian route, you must still know what the conformists are doing to take the opposite path. Some claim they eliminate all external distractions and make decisions based on their self-tailored processes and preferences; however, you still need general market information to determine which direction to take. Research analysts, acutely aware of the value of information, are inherently inclined to always be listening. Curiosity about the perspectives of others helps educate us on market sentiment and facilitates the development of individual philosophies that can challenge or strengthen entrenched institutional views.

In every conversation I have with fellow investment researchers, allocators, and limited partners, I try to get a sense of what they are generally seeing in the market, what unique insights they may have, and what opportunities they find most appealing. These conversations can be extremely valuable when each party is willing to share perspectives and insights openly. Through years of conversations at dinners, conferences, annual meetings, reference calls, and more, I have developed a keen sense of what tends to irk investors the most about asset managers. Most LP gripes about managers fall under these three categories: "overpromising", "underdelivering," and "underexplaining." This is not an indiscriminate indictment of every GP but more of a cautionary guide for managers, particularly emerging ones, to be cognizant of.

- **Overpromising**: It is challenging to reprimand GPs too much for overpromising because LPs should expect managers to talk up their own book. Why would a manager ever admit that the strategy they are fundraising for and centering their careers on is out of favor? The onus of verifying the relevance and legitimacy of a proposed investment strategy should fall on those assessing it for a potential investment. However, there are times when it feels like managers go out of their way to put forth a way rosier picture about their strategy, investment space, ongoing deals, market dynamics, etc., than is necessary even from a pure marketing standpoint. I have written about many of these circumstances in the past, but as a reminder, when managers are complicit in putting out unrealistic return expectations, downplaying market risks, are predisposed to style drift, provide deceptive reporting, or are over reliant on lookback hypothesis testing, among others, are situations where LPs can legitimately feel misled. No one will fault a GP for being excited or passionate about their chosen endeavor, but when the flow of information shifts from expected marketing prose to a distorted reality, LPs cannot be blamed for feeling vexed.

- **Underdelivering**: Most LPs understand the general risks of investing and know that some of their GPs will inevitably underdeliver. In fact, the most elite GPs have learned their most valuable lessons from deals and investments that underdelivered compared to expectations. However, when underdelivering is indisputably tied to overpromising, LPs tend to be less forgiving. LPs are continuously gauging a manager's views about their portfolio, as the combination of current marks and the GP's realistic and thoughtful sentiments can indicate the portfolio's directional trajectory. When baseline sentiments are consistently skewed towards optimistic outcomes that fail to materialize, LPs note this in the negative column of a manager's report card. To be fair, no one expects managers to be soothsayers and know precisely where their investments will eventually land, but the delta between final marks at exit/disposition and what GPs subliminally or blatantly guided investors to expect is a vital datapoint when assessing future partnerships.

- **Underexplaining**: Underexplaining anything that logically requires a deeper explanation is generally a bad idea. This is no different in the world of investing. Narratives, strategies, value-add actions, tactical approaches, performance shortfalls/exceedances, etc., must always be clearly and thoroughly explained. For many investors, clear and complete communication of pursuits and happenings by a GP is an essential indicator to help determine their trustworthiness. When overpromising and underdelivering is followed by underexplaining, the likelihood of investors opting for more of this brain damage substantially reduces. When a manager takes the time to conduct a deep dive into what went wrong in their core (related to sector and size) deals and provides feedback on the issues and future actions to rectify them, LPs are less likely to feel that their committed capital is merely being used for experimentation.

Regarding "overpromising," I believe passionate marketing, still steeped in reality, is the way to go. Regarding "underdelivering," I think this is to be expected with any investment, but GPs should ensure that the underdelivery is not merely a function of overpromising or deception but the result of the risks inherent in normal-course-of-business investing. With "underexplaining", the opposite (overexplaining) is almost always a better course of action, particularly regarding unmet investment targets.

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