

The Walking Wounded

This past weekend, my wife and I caught consecutive television programs detailing the “WeWork” and “Theranos” sagas by pure happenstance. Before watching these shows, I was already fairly aware of the reports regarding events that transpired within these companies, how seemingly astute investors were drawn to the key individuals at the helm, and the general investor expectations of generating astronomical returns from ownership positions in these companies. My wife's questions from a layperson's perspective highlighted the work and plight of investment analysts. Although her questions had a “hindsight is always 20/20” advantage to them, I could not help but think how profound they were in their simplicity and how effortless they were in their prudence. She asked questions like “Why didn’t people ask for proof?”, “Why didn’t anyone confirm those statements?”, “Why were they given so much money without checking what it would be used for?”, “Did anyone ask for and validate an ongoing report card?”, and so on. Of course, I had to do my best to defend the virtues of the investment world, but my answers to her questions were less than lacking. The core fact is that the “WeWork” and “Theranos” situations are extreme examples of what happens when many things are overlooked, and capitalism is allowed to run uninhibitedly rampant.

Putting the extreme examples of “WeWork” and “Theranos” aside, there are many other instances (small and big) that, from a crystal clear hindsight view, cause allocators to tremble from sheer PTSD. Every time an investor gets burned by a GP, an extra layer of armor is engineered for future GP assessments. As the years pass, the armor gets thicker and thicker, and some parts even calcify forever. This is what well-intentioned GPs encounter when they innocently approach the broad investor pool to fundraise for investment vehicles that promise to uphold the sanctity of GP/LP partnerships and to always act as fiduciaries. The truth is that all fundraising GPs face a pool of “walking wounded” - the LPs you seek have been beaten, bruised, and scarred, and are bringing all their past trauma to any interactions you have with them. This is not unlike the dating world, where the sins of past ones weigh down new relationships. It is not the fairest or healthiest of situations, but it is the way of our existence, and from all indications, this will persist for some time to come. All the due diligence tools, probing questions, bottomless data requests, and queries sometimes perceived as unfair are all reactive means by prospective LPs to ensure that old wounds will not be reopened. Additionally, battle testaments and scars from networks, colleagues, news articles, and podcasts are all valid sources of information for LPs when projecting collective trauma onto fundraising GPs.

I have come to respect and empathize with the plight of diligent [placement agents](#) and [internal investor](#) relations teams even more as I have come to realize that their tasks don’t only include herding cats during fundraising, being effective translation liaisons between GPs and LPs, and skillfully informing managers about the state of affairs in the broader investment management ecosystem, they also have to be patient relationship counselors and psychologists. I believe that fundraising GPs must immerse themselves and become well-versed in the trauma baggage most LPs are hauling around. I am not saying that this is a foolproof way to hit your target fund size because other factors undoubtedly play a part, but making concerted efforts to show that you are an evolved potential partner can help reduce the length of the song and dance. Below are a few categories of where most of my trauma as an LP resides:

- **Renegade:** LPs are prone to eventually starting to believe their own hype and forging new paths that go against the grain. I have a checkered track record with this because some of my trailblazing ways have led to great success, but others have crashed and burned. My success rate with this is probably less than 50%.



These days, when I am confronted with an investment opportunity that gives off an overly contrarian sentiment, I take a pause that sometimes borders on paralysis.

- **Too good to be true:** This is related in some ways to the point mentioned above. Sometimes investment opportunities appear that stroke your ego rather than tingle your sense of skepticism. You tell yourself, “I am discerning and have such good networks that these fantastic opportunities keep orbiting around me,” rather than asking, “Why am I so lucky to be seeing this so early with so few other potential investors around?” Human nature is a true marvel! These days, I approach “too good to be true” scenarios with skepticism akin to me listening to a blind person explaining the complex hues of recently fallen autumn leaves.
- **Wisdom in crowds:** The other side of being a renegade is believing that a cluster of seemingly intelligent people equates to a guarantee of quality. It takes getting burned once or twice with a cohort of other “brilliant” investors for a person to ditch that way of thinking like expired milk. The fact is that all investors are different. You have no idea about the other investors’ risk tolerances, portfolio construction parameters, ulterior motives for investing, historical hit rate, internal politics, side letters, etc., so assuming that all parties have gathered under the same auspices is naïve. These days, when I see other renowned investors on an LP list, I merely take it as another data point that is not consequential for any decisions.
- **LP caste hierarchy:** I have written about this one before, and it is most likely a “me” problem rather than one others are equally as sensitive about. Since a large part of my career involved investing capital from a group of charitable institutions (endowments and foundations), I have naturally become more sensitive to how capital and the LPs who invested that capital are treated, regardless of, when the capital was invested, the pedigree of subsequent investors, and the magnitude of others’ commitments compared to mine (the charitable institutions). Not being “seen” by a GP because you are not in their latest fund or your committed amount is less than others, is a feeling few would want to relive. These days, when I see any sign of elitist LP segregation during the courting period, I run the other way like I’m escaping a tidal wave.
- **Intimidatory behavior:** I have a question for all LPs – have you ever met with a GP where you consciously had to remind yourself that you were in charge of your investment decisions and not the manager? It is incredible how this can happen. The situation usually involves ultra-alpha personalities who seem to believe they are doing you a favor by dismissing your questions or rephrasing them to ones they feel are more appropriate for a GP of their caliber. Before you know it, the meeting is hijacked, and you only talk about things the GP has prepared answers for. A lack of transparency in all other fund areas almost always accompanies a manager who behaves so cleverly dismissively. I fell victim to such behavior as a young analyst. I was never intimidated enough to invest in a product, but the time lost from such encounters still bothers me. These days, I am triggered by any intimidating behavior and will shut a meeting down if it starts veering anywhere near that territory.

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May 19th, 2025