



## What Temperature Do LPs Want Their Bad News Served?

I am willing to bet a good amount of stablecoin that almost every LP is familiar with that dreaded email or voicemail from a GP requesting their availability for a brief phone or virtual call. The words in the communication are always mundane but also eerily ominous. A novice LP would naively see or hear the message as just a diligent GP checking in, but any LP who has been around the block once or twice will immediately experience a stomach drop, accompanied by swirling monkey brain thoughts about the most doomsday-ish scenarios. These messages also always seem to land at an off-cycle time (like a random Tuesday in the middle of a relatively calm quarter) when the proverbial coast is clear and there isn't necessarily a need for a manager update. Most LPs, suspecting the gravity of a relatively unassuming scheduling request, try to get a meeting on the books as soon as possible to sedate that mental primate.

When I catch a whiff of potential bad news from a manager, based on prior experience, a carousel of thoughts typically rotates in my mind. I then do these four things. First, I visit the manager's website or review their most recent deck to refresh my knowledge of the key individuals running the firm. Next, I examine the manager's portfolio to gain a current sense of holdings, performance by portfolio company, and the amount of capital that has been drawn down to date. Then, I conduct a quick Google search of the firm's name and key individuals to see if any news (disturbing or otherwise) has hit the airwaves. Lastly, I contact the most connected members of my network, as well as any known co-LPs with whom I have a good rapport, to inquire if they have a sense of what the manager might want to discuss. This seems like a lot to do, but no one ever said keeping sanity as an LP is an easy endeavor. These sanity checks are helpful in mentally preparing for the main categories that unexpected off-cycle manager meeting requests tend to fall into: 1) Unexpected key staff member departures, 2) Fund or portfolio company lawsuits, 3) A massive write-down or a total write-off of a consequential portfolio company, 4) The unforeseen raising of a subsequent fund or some sister vehicle, 5) An alteration of critical fund terms, 6) Preparation for a continuation vehicle, 7) Cross fund portfolio company transfers, etc.

There is no over-the-counter prescription readily available to help LPs deal with any of the scenarios highlighted above; they are typically addressed on a case-by-case basis. However, I have some preferred ways I like to receive "bad" news from GPs, which I think will resonate with other LPs.

- **Be early with communication:** There are few things worse than hearing something negative about a manager you are invested in from a third party before the GP has directly informed you. This fosters a sense of distrust and unimportance that will be hard to overcome. Understandably, GPs usually share major fund news with their largest and most important LPs first, but I believe a concerted effort to disseminate critical information to the entire LP base promptly, while still maintaining a personal touch, should be the primary goal in bad news situations.
- **Be direct and transparent with the facts:** The time of the actual phone or virtual call is not the time to beat around the bush. LP anticipation and anxiety are already at a zenith, and the only things desired at that point are truths, facts, and transparency. Pleasantries are okay, and backstories can be helpful, but LPs just want the meat and potatoes of the situation. Please tell us what exactly happened, what are the current and potential future ramifications for the fund and its LPs, and what has been learned from this.

- **Underscore internal thought processes and thinking around the matter:** It is always essential for LPs to understand the decision-making processes around GP decisions. Any color that can be provided around the internal handling of the occurrence and the decision to (and the manner of how to) disclose it shows true and tangible character. A depiction of a thorough assessment of the matter, the options considered as solutions, the contingencies in place to prevent this situation, and the plan to inform LPs can demonstrate qualities of a well-functioning organization.
- **Be measured with the “spin”:** Many of us are predisposed to trying to see the silver lining of things, and we sometimes, with help, or on our own, find it. However, when conveying bad news, GPs who try too hard to highlight the “hidden positives” can come across as condescending, tone-deaf, and totally lacking accountability. Some things do not need a positive spin. Let the news simmer a little. A “lesson’s learned” demeanor is a lot easier to stomach than a “look on the bright side” attitude.
- **Provide clear timelines for communicating progress or outcomes:** Subsequent radio silence about a communicated serious matter for long periods does very little to build confidence in a GP. GPs who don’t let serious incidents fade into the ether, or those who don’t require a prompt for updates, demonstrate qualities that sustain long-term partnerships. Providing LPs with a clear timeline for updates and keeping the investor base generally informed about the matter’s evolution goes a long way in strengthening a GP’s integrity in the minds of its investors. GPs must remember that the collective memories of LPs are longer and more vivid than those of the most eidetic elephants. Trust me, what you think has been forgotten is not!
- **Reassert the value of LP capital and the partnership:** LPs understand the risk implications of investing in private asset funds, but that doesn’t mean they are unaware of the value of their capital. Although these acts can arguably be viewed as just ceremonial, appreciation expressed by GPs for committed capital and ongoing partnership significantly influences LPs’ future trust in whom they choose to invest with. At annual meetings, quarterly update calls, and even when the reason for the GP/LP interaction is to convey something unpleasant, a GP’s assertion of its privileged position to manage our money shows that they remain grounded and unjaded.

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