



Mistrust and/or Distrust Between LPs and GPs

I remember chuckling and nodding in agreement while listening to a comedian a few months ago who said, "What does it say about us as a society if so many people's idea of a good way to relax and wind down is turning on the ID channel and getting lost in true-life gruesome murder stories?" Embarrassingly but admittedly, and in absolute solidarity with the depravity the comedian was rightly bestowing on a wide swath of the population, I was knee-deep in an episode of "Evil Lives Here" a few days ago when I heard one of the interviewees say, "the community was reluctant to cooperate with authorities because people in the neighborhood mistrusted police." I immediately thought the use of "mistrusted" in that context was incorrect; I thought the correct word to use was "distrusted". I then jumped on trusty Google to look up the meanings and differences between the words "distrust" and "mistrust". Google stated: "While often used interchangeably, **distrust** implies a lack of faith based on specific negative experiences or evidence (e.g., a liar), while **mistrust** suggests a more general, intuitive suspicion or uneasiness, a cautious mindset without necessarily concrete proof (e.g., a gut feeling about a stranger). Think of distrust as evidence-based doubt and mistrust as intuition-based skepticism, though usage often blurs these lines." Hmm.

In true geek and content-creator fashion, my mind immediately went to the subtle nuance between the meanings of "mistrust" and "distrust" and how they apply to the dynamic relationship between LPs and GPs. Below are a few knee-jerk examples of how I believe mistrust and distrust show up in the interactions of these perennially intertwined parties.

Mistrust (intuition-based skepticism) between LPs and GPs

- **Does the story/narrative match the actual interaction with the people involved?:** Both LPs and GPs are inherently made up of people. Decks, narratives, intricate introductions, stated philosophies, and so on are all quite lovely, but how are the people in real life? Many GPs stress a high-touch, people-first, or human-oriented approach to doing business, but then come across as very cold and sterile in meetings (particularly on-site). Something is not adding up. On the other hand, a plethora of LPs, during initial GP engagement, define their method of due diligence as organic and people-centric, with a high emphasis on the motivations, integrity, and pragmatism of team members, but then launch into a very mechanical and mundane process of demanding large batches of ordinary information and asking pre-scripted, prosaic questions. These are some general examples that show that actions are always undefeated in volume when competing with words.
- **Arrogance always births skepticism:** Although most private assets investors are fully cognizant of the inherent risks of seeking high alpha returns, no logical LP willingly signs up to haphazardly incinerate capital. Thoughtful mousetraps, unique investment approaches, and contrarian strategies are all acceptable to different types of LPs, but there always has to be a sense of introspection regarding what could go wrong. LPs will take the risk, but they want to know that their chosen GP is not so arrogant that they believe they are absolutely insulated from all perils. Self-proclaimed bulletproof GPs will always attract LP skepticism. Flipping the script, GPs tend to be skeptical of LPs who show early signs of the urge to belittle and chide investment managers because they believe their investment capital buys them an imperishable (at least until the manager has distributed all capital back) "can-be-rude" card. I have heard many GPs, and LPs for that matter, say, "life is too short to work with toxic people".

- **The viability and integrity of historical claims:** Mistrust always multiplies when things seem fishy. When LPs and GPs first engage with each other, the most logical things to consider as rapport and trust are being built are the results of past actions, such as reputation and track record. Looking at GPs, any uncovered tangible or intangible details that mar a manager's reputation can swiftly inject distrust in the minds of prospective LPs. Delving into how history can affect how GPs view LPs, I have noticed that although GPs understand that there is a first time for everything, many of them tend to feel more at ease with LPs who have some knowledge of or prior experience with the asset class, sector, geographical region, etc., that they invest in. GPs are typically open to dedicating time to educating prospective investors about a particular space, but many have also come to realize that often times, the juice is not worth the squeeze. GPs have been known to be skeptical (not necessarily always in a hostile manner) of novice investors.

Distrust (evidence-based doubt) between LPs and GPs

- **Capital efficiency and funding behavior:** When all the docs are signed and the LP/GP partnership commences, the assessment metrics from both sides move from intuition-based to evidence-based. The sets of eyes and ears evaluating all actions take on a more fact-oriented demeanor. Some might think that post-partnership consummation is too late a time for any real toothy punitive actions, particularly for LPs. However, I think that is wrong because the longevity of relationships depends heavily on both parties fulfilling their part of the agreement. For example, regarding capital efficiency and funding behavior, diligent LPs will pay close attention to fund pacing, the thoughtfulness of capital call timing, adherence to stated strategy, etc. At the same time, GPs will observe the timeliness of how LPs meet capital calls, as well as any hints of potential secondary sales of commitments.
- **Liquidity expectations:** Related to the above point, both GPs and LPs closely scrutinize various liquidity aspects of the investment vehicle at hand. LPs will seek to understand how the manager balances investment multiple with IRR, how the manager behaves when carried interest timing (usually the option to sell early to hit a carry threshold) and maximum investment value are at odds, and how continuation vehicles are proposed to be used. On the other hand, GPs will monitor how LPs tolerate j-curves and illiquidity during challenging market conditions and the degree of pressure they receive from investors to sell strongly performing holdings early.
- **Key people and decision-making:** Evidence-based doubt at its core is really just the comparison of what was initially mentioned to be the case versus what actually transpires. During due diligence, some individuals may be described as the key people and main decision-makers within a fund, but once the vehicle is up and running, the picture can be very different. The wider the gap between what the manager initially stated and what is discovered in reality, the deeper an LP's distrust can become. On the other side of the table, as GPs interact more with LPs in an official sense rather than a courting sense, the manager learns certain things about the investor, such as their internal politics, the internal clout of their main point of contact, odd incentives/motivations, etc., that can easily breed distrust.

In the dynamic relationship between LPs and GPs, both intuition-based mistrust and evidence-based distrust play significant roles in shaping interactions and long-term partnerships. The subtle distinction between these forms of skepticism surfaces in how both parties evaluate narratives, behaviors, and historical claims, and later, in how they



scrutinize real-world actions and outcomes. Ultimately, the success of these partnerships hinges on both sides' ability to foster genuine transparency, align expectations, and address concerns proactively as they arise. By acknowledging and navigating both intuitive and factual doubts, LPs and GPs can strengthen trust and lay the groundwork for mutually beneficial outcomes.

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December 21st, 2025