The Pain of Starting Work on Another GP

From the outset, the explicit goal of my writings was to remove or partially lift the cloak of mystery surrounding the internal workings of most LPs (institutional investors). Although most GPs are relatively certain they understand their LPs, over my 20+ year career as an investment manager researcher, I have come to believe that what GPs describe as the processes their LPs follow to reach a commitment decision is, in fact, a description of the black-box effect. Applying the black-box theory to GP/LP relationships is a shockingly elementary exercise – inputs (decks, data rooms, references, track records, meetings, etc.) go into an LP, and outputs (commitments, rejections, postponed decisions, excuses, etc.) come back to the GP. However, what actually happens between the input and output points is subject to a wide variety of interpretations depending on which GP you ask.

I attempted to broach this subject head-on in one of my earliest posts, which was an appeal to GPs to appreciate the internal processes of LPs titled "**Allocator Empathy (Nurture Your Champion)**." I want to expand on this sentiment by illuminating the psychological anguish many investment analysts experience before they begin deep work on a manager they have never analyzed before. Capital, portfolio needs, and even time may all be readily available, but choosing to perform a deep dive into a manager is more personal than many realize. I must add a caveat here: I am not referring to the impulses of junior-level analysts who have no say and are typically assigned a manager to assess; rather, I am referring to analysts who have some autonomy over how and where to spend their time within the framework of organizational mandates. Most GPs don't allocate enough resources to understand what motivates investors, who have myriad investment options, to dedicate time to exploring specific strategies. Many GPs assume that investment analysts' obligations to their job requirements, and the desire to continuously find a home for investible capital, are sufficient incentives to keep these prospective investors enthusiastically engaged in the perennial due diligence rat race. It goes without saying that human beings require more than "obligation" and "tangential or third-party desire" to feel inspired and fully engaged in any endeavor.

Every analyst can relate to the personal psyching that's needed before embarking on due diligence with a new manager. The mountain of documents in the data room that must be read and analyzed, the number of people on the org chart who must be met, the prioritization of on- and off-list references, the patching together of a coherent firm history, the deciphering of the firm's culture, the mapping of a means to develop constructive rapport with the fund's principals, and so on, can be so daunting that many investors prefer not to repeat this exercise regularly. So how can GPs ease the inhibiting burden on prospective LPs and entice them to enthusiastically dive deeper into their strategy? I am quite sure specific answers will vary by respondent, but I believe there are a few universal tenets GPs can follow to grease the wheels of LP exuberance.

- **Harness the analysts' curiosity, inquisitiveness, and desire to learn**: As I have said many times, analysts tend to be information junkies with an insatiable craving to learn and understand new things. Analysts can quickly steel their resolve when they believe the journey at hand will be filled with juicy morsels of useful facts and data that will lead to greater enlightenment. GPs can capitalize on analysts' yearning and ignite passion by creating atmospheres of non-condescending education and intellectual debate.

- **Accelerate familiarity with early and consistent transparency:** During due diligence, prospective LPs are trying to find the quickest and most efficient way to get to know a manager. Of course, true familiarity takes time to develop, so unless the LP chooses to wait out an entire fundraising cycle and participate in the next, time is typically limited. However, because "familiarity" is just code for "trust", if a GP can find ways to foster faith early in a relationship, the time to familiarity could be effectively shortened. In my view, the most tried-and-true way to inspire confidence and, consequently, build trust is to exhibit unwavering transparency.

- **Exude a sense of something bigger**: As humans, we like to be part of something that feels bigger than us. The monotony of an analyst's job makes the desire to work on something unique, groundbreaking, or in tune with cultural or global dynamics burn deep. I am not advocating funds to portray themselves as something they are not just to lure analysts in, but I am saying that if true passion exists for what the GP is doing, that passion can deftly be passed on to analysts who typically want to be in the vicinity of inspirational people who have intensity and fervor for what they do.

Initiating due diligence on a new GP is often fraught with psychological hurdles and requires more than just professional obligation on the part of investment analysts. GPs commonly underestimate the complexity and personal nature of an analyst's decision to engage deeply with a manager. To foster genuine interest and enthusiasm, GPs should prioritize transparency, cultivate environments that encourage intellectual curiosity, and communicate authentic passion for their strategies. By doing so, GPs can ease the burdens analysts face and build stronger, trust-based relationships with LPs. Ultimately, recognizing and addressing the human element is essential for driving successful GP-LP engagements.

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