



## THE GOLDEN RULES OF LP-GP RELATIONSHIPS

I was disheartened to read a recent line in a trade column which said: "Fundraising is fast becoming a modified version of Cloak and Dagger, pitting GP's vs. LP's..." The phrase "cloak and dagger" conjures images of spies, deception and assassins. How did relationships founded in the concept of trust fall into such language of distrust?

As fundraising has become more challenging, more of our clients have elected to create or enhance their focus on improving relationships with their existing and prospective LP's. The demand for Investor Relations professionals has been growing dramatically and we have been developing these roles with many clients concerned with their short and long term fundraising success. Not too long ago, I attended a panel discussion on How to Improve LP/GP Relationships. At the time, I wondered how this panel discussion could possibly last longer than a couple of minutes. In my mind the answer was, "Be nice to the people who give you money" and "Be nice to the people who make you money". It seemed like an easy open-and-shut kind of session.

To paraphrase the opening lines from the movie, *Casino*, Robert DeNiro says; "When you trust someone, there is no other way. You give them the keys to everything that's yours, otherwise what's the point". For me, those words sum up a lifetime of relationships for the very essence of any relationship is quite simply, trust.

Having been helpful to a number of private equity and venture capital firms in staffing their existing or newly formed Investor Relations teams, here are some tips for how to improve those relationships.

### 7 TIPS ON IMPROVING YOUR LP RELATIONSHIPS

- 1. Start Over.** One of the best ways to improve relationships with your Limited Partners is to change the way you communicate with them. Before you can improve your relationship, you must first determine whether you have a relationship to improve. How do you communicate with them? Do you actually talk with them or is it simply a reporting function and you only actually speak with them when you need their renewed investment for the next fund? A great tool is to let down your guard, ask each LP what you could do to build a relationship of trust, really listen with interest and then commit to do what they have asked.
- 2. Commit Your Time and Effort.** Just as you work on relationships with your portfolio companies, set aside regular time to build relationships with your LP's. The care and feeding of LP's requires effort if you want them to feel like you value more than their checkbook. Above and beyond the required reporting and annual meeting, informal communication with your LP's makes them feel part of the effort and invests them with you for the duration. A crucial aspect for the

success and the longevity of this relationship is that both sides bring more to the partnership than just the obvious. LP's, besides their financial commitments to GP's, can play a key role as an advisory board to the fund manager, often having an extra view on overall economic developments, adding significantly to the complete picture. Moreover, LP's contribute their own network and experience to the partnership, which can be an important added value for the GP. Of course this requires GP's to be open to a more active involvement of investors and is exactly what you want your portfolio companies to offer you.

3. **Be Honest and Forthright.** Don't play hide the ball or sugarcoat bad news or pretend things are not as they are or that you are someone you are not. Early warning will help to defuse the ticking time bomb that can damage your relationship beyond repair. Every LP identifies dishonesty, half-truths and covering up as the worst destroyer of trust. Your mother told you, it's bad if you break the lamp, but it's worse if you cover it up or lie about it. Above all, be honest and treat your Limited Partner as a partner. You can rebound from bad news but only with transparency.
4. **Offer Sincere Appreciation.** Limited Partners do have a choice where to invest their funds. Even if your fund **IS** a top performer and you think they should be grateful that you “let” them invest in you, their confidence and willingness to invest with you deserves your sincere appreciation and gratitude. Say “Thank You” often and remember how you feel when a portfolio company you invested in appreciates your investment, guidance and confidence. No one likes to be taken for granted. Genuine and heartfelt appreciation builds relationships.
5. **The Grass is NOT Greener.** While there are always other LP's to turn to, raising your next fund is substantially easier if your existing investors return to you. Cultivating new relationships, in advance of your next fundraise, is one of the critical aspects of the Investor Relations role, but retaining and strengthening existing relationships is the first objective. Don't neglect your existing investors while you recruit new ones. Your existing investors are your best references.
6. **The Buck Stops Here.** Every failed investment can be explained away with a myriad of excuses. Humility and self-reflection goes a very long way in an industry filled with uber-confidence and differentiates you from the blame-layers. Your LP's chose you because they believed you could hit a home run for them. They have to answer for their investment in your fund. If things go wrong, say you are sorry. Explain what happened, but do not make excuses – there is a difference. Investors trust partners who accept responsibility as well as praise.
7. **Flexibility is Survival.** Limited Partners want you to succeed. Your success is their success. An essential part of any relationship is a sense of aligned interests. This is a long term relationship that means more than simply squeezing out the last dime like in a used car transaction. Put yourself in their

shoes by imagining your response if a prospective portfolio company asked for those terms. Essentially, your role with your LP is likened to that you play with your portfolio companies. Flexible relationships with mutually aligned interests are the ones that survive in all conditions.

**The Only Rule That Counts ... Do Unto Others ...** This rule is easily the best and first rule to improve your relationship with your Limited Partners.

A solid Investor Relations program builds and strengthens real relationships and makes the critical difference in your firm’s fundraising success. For a copy of our Whitepaper on designing an effective IR program “**Authentic Investor Relations = Big Money**” email me at [dpalmieri@pinnaclegroup.com](mailto:dpalmieri@pinnaclegroup.com).

Denise Palmieri  
Director of Client Relations  
480.488.4490 x106  
586.770.3329 (cell)

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*Denise Palmieri follows The Golden Rule as the Director of Client Relations for Pinnacle Group International, an executive recruiting firm specializing in recruiting investment and investor relations professionals for the private equity and alternative investment community.*