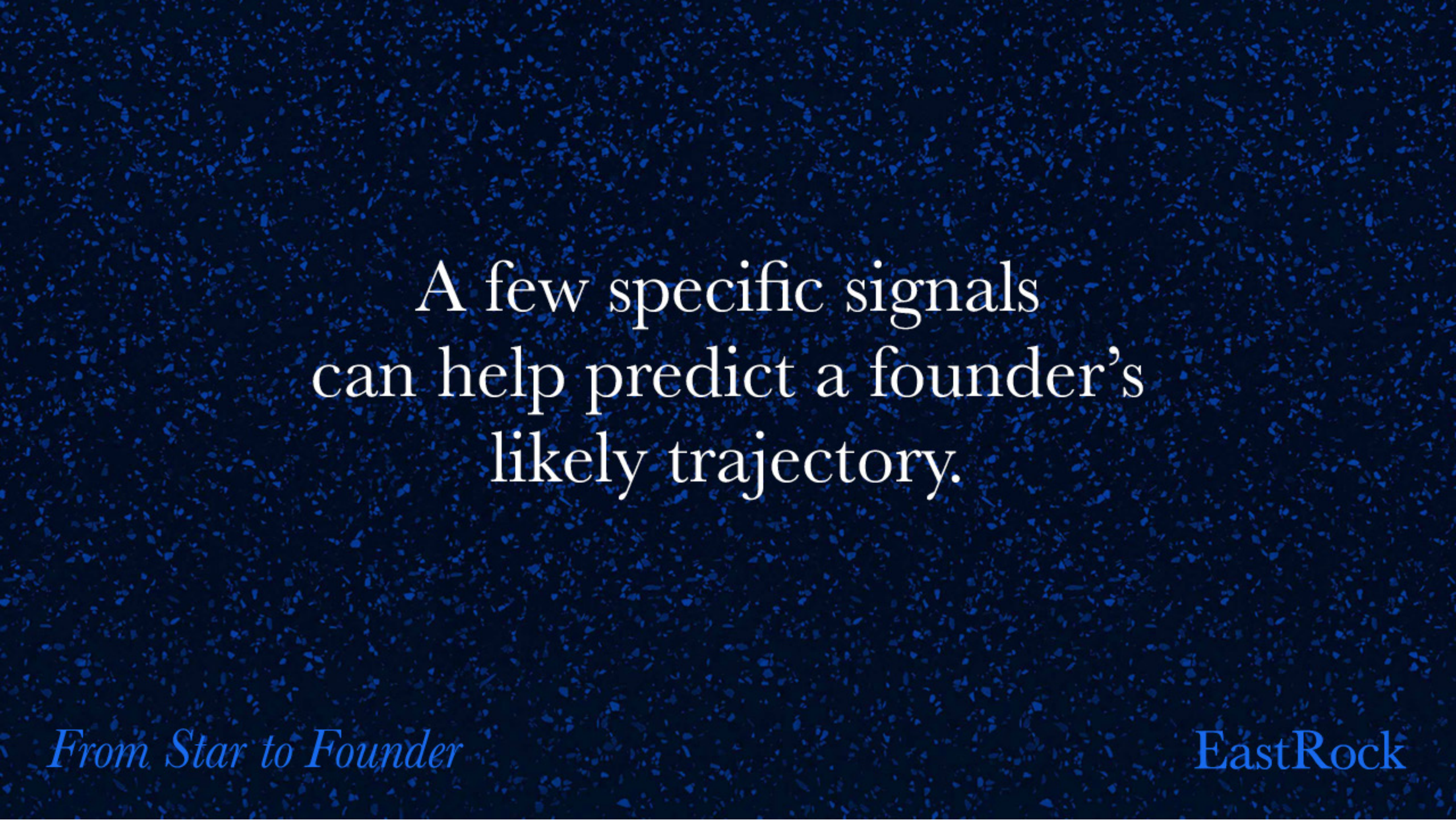


# When Stars Shine – and When They Don't: Part 2

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IN MY LAST POST, we explored why it is so challenging to assess whether star employees from top firms can achieve the same level of success on their own. While separating a person's individual contribution from the resources of their employer is difficult, certain signals can help predict a manager's likely trajectory.

For starters, there are two different ways in which founders can choose to leave their prior firms, and substantial signal value in the path they choose.

Some founders quietly take meetings with potential funding sources while still employed at their prior firms. They shop around to determine the availability of capital and other resources. Only when the picture looks sufficiently certain do they make the leap into their new ventures.

This type of risk mitigation is a reasonable strategy, of course, but it dilutes the signal value of the bet that these stars are making on themselves.

Other founders, by contrast, alert their employers earlier and bring their entrepreneurial plans out into the open before laying the groundwork for their new ventures. These founders are the ones we've tended to favor at East Rock because their choice to launch new firms without a safety net occurs only after deep reflection on the portability of their skill set. Our experience tells us that there is strong positive signal in choosing this direction, and it creates the opportunity for a longer and more meaningful period in which we can get to know these new founders.

Once a founder is open about their intentions, it is possible to engage in a deep dive into who they really are and what has made them successful. One of the places we like to start is by analyzing how they sourced investment opportunities. In our due diligence, we hope to find clarity that the sourcing capability is personal to the investment manager, rather than the result of having a big-name institution behind them.

In other words, we are looking for people with a large network of personal relationships that produce a flow of opportunities. We also want to see a track record of earning trust so that sensitive and potentially fleeting opportunities are shared with them. For investment managers who are focused on operationally intensive businesses, large personal networks of operating experts and sector-specific resources are also important.

Another vital quality is an intrinsic desire to hustle—to reject the things that are easily "on offer" and go find the things that are hidden. When I worked at Goldman Sachs, a common saying was that there were "inside the building" people who just picked up the phone when it rang, and "outside the building people" who hit the streets, turned over rocks, built new relationships, recruited talent, and grew their own businesses from that work. This desire to hustle and get outside the building was often the key to finding differentiated investments.

Finally, my first post for this newsletter series elicited several emails to me (feedback that I very much appreciated) along the lines of "don't forget to talk about grit and determination." To quote from two emails that stood out:

- "I would add that some demonstrated hardship element is important in manager selection. I've learned starting something is a super heavy lift. And while I've met some extremely talented analysts in my years, not all could deal with the hardships and BS of the real-life hustle required get this done when they don't have an @goldman email."

- "My two cents from my own experience is that resilience and a really deep desire to make it happen are two critical points. Not easy to ride this roller coaster. Easy to give up along the way if you are not 100% committed."

Predicting resilience is not a science, but the analysis can at least be broken down into two parts. There is the external—the way in which a manager's work life is sheltered, or not, by a stable family life, financial reserves, hobbies, and community. There is also the internal—a history of calm and productive decisions made while under pressure, a studious understanding of lessons from past mistakes (committed by themselves and by others), and motivating factors such as a difficult or less privileged childhood. There is no one mix of internal and external factors that predicts success, but in the course of the "deep dive" mentioned earlier, the full mosaic of these factors is one of the most important things to really dig into and understand.

In the end, many variables impact the success of a new founder. Our focus is to execute a thorough due diligence plan, establish the right alignment, and bring to the table a long history of pattern recognition. With those tools, we believe that the odds of identifying the people who can thrive in new environments (and the odds we can help those people identify themselves!) can be dramatically increased.

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NEWSLETTER
**From Star to Founder**
Insights from partnering with exceptional investment managers as they launch and build new firms

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