

# Minimum Viable Due Diligence

What do I need to know before considering an LP investment?



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Happy Friday!

I got a ton of positive feedback on the “Minimum Viable” series this year, so I decided to run it back! Prior articles include:

1. [Minimum Viable Deck](#)
2. [Minimum Viable Reporting Package](#)
3. [Minimum Viable Capital Call](#)

Today we’ll deep dive on the **minimal amount of due diligence** you need to do before **considering an LP investment**.



Not meant to be a political meme... forgive me, it was too perfect :D

### Announcements (article continued below):

1. Last premium post: [Great Investors ≠ Great Marketers](#) - a deep conversation with an LP who has invested for years across 25 LP investments
2. GP-LP Match registration is live and at 800 users! If you're an LP or GP [join here](#) in under a minute

### First, a disclaimer:

- What follows isn't enough to decide whether you should invest or not

- Rather, it's the point at which you've at least done the **minimal** amount of work
- Let me say it again:
  - what follows is a list of the minimum amount you should know about a deal rather than the correct amount to write an actual check

“Why are you writing about the minimal amount of due diligence if that's not enough to invest, Aleksey?!”

Great question, with two answers:

1. In my experience the vast majority of LP investments are made without meeting the list below ... so let's start with the basics first
2. If you want a longer list, I'd recommend these two articles as a fun weekend read (happy early new year!):
  - a. [26 questions to ask your GP](#)
  - b. [Top 15 Syndication Mistakes](#)

## Minimum Viable Due Diligence

As a reminder, if [any of these 6 items are present](#), you should put down the deck immediately and move on with your day. The below will assume those items are “in the clear.” 😊

1. Are you talking to the GP or an intermediary?
  - a. This may sound obvious, but I can't tell you how many people got caught with this.
  - b. Always be mindful of the “too many cooks in the kitchen” issue, a common denominator in many defaults
  - c. More details in question 4/5 of [26 questions to ask your GP](#) and [Investor Beware: Feeder Funds](#)

## 2. What is the single largest catalyst that can take your investment to zero?

- a. This requires a deeper understanding of your downside, the importance of which I discuss in [don't lose your money, seriously](#)
- b. Ideally you should have 3, not one
- c. I am *\*not\** talking about all the legalese you read in the PPM, and I'm also *\*not\** talking about another COVID happening
- d. There's a nonzero chance of every LP investment going to 0 - if you can't find the most likely cause(s) it might be (read: is) a good idea to find them asap

## 3. Execution

- a. Has the GP bought **and** sold **similar** properties successfully?
  - i. the **"and"** is important because although buying many properties is great, it doesn't tell you so much about how the investments have performed
  - ii. the **"similar"** is important because all experience is helpful, but not all experience is created equal
  - iii. Examine the [track record carefully](#) and look out for some common gray areas
- b. Please, for the love of your savings, do a simple Google search on the principals and the firm (separately) together with "lawsuit" and "sued"
  - i. Just this week I heard from someone who's likely to lose massive amount of capital with a GP who has been indicted by the SEC in the past - don't make this mistake
  - ii. PS it's true that people might change, but there are way too many opportunities to invest in for you to test this thesis in my humble opinion

## 4. Alignment of Interests

- a. It should be **abundantly** clear (i.e. not vague or "not sure I'll tell you later") what the coinvest, pref and split are on the deal

- i. As [I've described before](#), I do think you can analyze one without there other and they have an [intricate relationship](#)
- ii. As a reminder the baseline should be:
  - 1. Coinvest 5% of equity (don't forget to compare to acq fee in dollars - [see #4 here](#))
  - 2. 80/20 LP/GP split with a 8% pref is a good place to start in your head terms of the split and pref
    - a. If one gets less favorable to you, the other should get more favorable
    - b. Recommend [reading the introduction here](#) to understand that there is a market at the end of the day - there will be many deals that you might not be comfortable investing in that still raise capital!
- b. All fees should be abundantly clear as well (at purchase, investment period, and sale/exit)

## 5. [Property](#)

- a. Notice how the property itself is last! That's not by accident but rather by design as I explain in the introduction [here](#)
- b. Look out for a few things here:
  - i. [Cap rate compression](#)
  - ii. Debt terms (maturity, fixed vs floating) as well [refinance assumptions](#)
  - iii. Last, but not least, make sure the PPM you're signing doesn't allow the from inserting another capital partners without your consent before close (e.g. if you expected simple debt and equity, you don't want to be surprised post close with a mezzanine debt or preferred equity piece in there)
- c. Don't budge on sale and rent comps
  - i. Generally speaking, if you're the best comp in the table (i.e. lowest for sale comps and highest for rent comps) you're **probably** not seeing the entire

picture...

1. what you want to see ideally is that a GP shows you the full picture, but then justifies why some of them are less comparable
- d. Spend time looking at the proforma
- i. It's not uncommon for me to see GPs assume NOI margins that they've never been able to achieve .. there are edge cases where this is ok, but it typically not a conservative way to look at an investment
  - ii. Familiarize yourself with the basic assumptions of the model - you might get stuck there, happens to me all the time
  - iii. Add up some numbers and make sure the math is "mathing" - you'd be surprised how often it doesn't

Wishing you all a wonderful 2025!

I advise LPs on existing and potential positions and write articles here weekly on what I see in the marketplace that could help you invest better. You can find me on [LinkedIn](#) or [Twitter](#).

Whether you're an LP, want to learn to become one, or affiliated with LPs (GPs, Attorneys, CPAs, Financial Advisors) I hope you'll consider subscribing and sharing this post to help others make more informed investment decisions.

When you're ready, I could help you in 3 ways - simply reply to this email if one is of interest:

- **Limited Partners:**

- **Potential positions** - you're considering investing and need an independent opinion
- **Existing positions** - there's a lack of communication, you're concerned about fraud, or perhaps you got a capital call request and you're not sure how to proceed. I have also helped LPs with a "post-mortem" analysis on deals that didn't work out - it's important to learn these lessons as opposed to just blaming the GP.
- **LP Course** - review 4 separate memos in 4 weeks together with me and other LPs to learn how to find good LP investments.
- **LP Topics Seminar** - an ongoing biweekly 1 hour meeting with other LPs where we'll go over investment decks, capital calls, distressed situations, and modeling. This is meant to provide a deeper look into existing LP investments. Please reply to this email if you're interested.
- **LP Community** - free [2,500+ member LP Investor community](#) on Twitter
- **Find GPs** in unique asset classes/geographies on my [monthly intro post](#) (see [LinkedIn's post](#) as well for more)
- **General Partners:**
  - **Deck review** - I'll look over your marketing materials from the perspective of an LP and provide slide by slide commentary to improve your pitch
  - **Investment review** - I'll provide independent feedback on an opportunity you are pursuing
  - **Capital call advisory** - you suspect that you'll need to make a capital call, but aren't sure how to proceed or communicate the message.
  - **Other** - anything from waterfall/fee advisory to disagreements between co-GPs on the proper path given a set of circumstances
- **General Consulting:** modeling, strategic advisory, underwriting training, etc.

If you'd like to speak on the phone, you can reach me at [aleksey@hey.com](mailto:aleksey@hey.com).

## Discussion about this post

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Restacks



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