

A Systems Based Framework for Long-Term Investing

In his 1975 book *Systemantics*, theorist John Gall put forward a deceptively simple idea: **a complex system that works is invariably found to have evolved from a simple system that worked.** Conversely, a complex system designed from scratch never works and cannot be patched into working order.

I've found this to be one of the most useful mental models for thinking about businesses and for generating investment ideas.

Businesses that endure, compound, and grow stronger over time are often solving complex problems. But critically, they did not begin that way. They started by solving a small, simple problem, and through years of iteration, learning, and constraint, evolved into something far more complex and difficult to replicate. The moat, therefore, is not the complexity itself, but the path taken to reach it.

Amazon is the most widely recognized example. What began as a simple online bookstore evolved step by step into a global logistics network, a data-rich retail control point, and eventually a high-margin infrastructure business in AWS. None of this could have been designed upfront. Each layer only became possible because the prior system worked, generated feedback, and forced learning.

Seen through this lens, the most important question is not what problem a business claims to solve, but what kind of problem it is actually built to handle.

Broadly speaking, businesses are attempting to solve two types of problems: tractable and intractable. Tractable problems can be solved within practical limits. They can be decomposed, standardized, and addressed with enough capital, talent, or time. Inventory management within a warehouse, employee scheduling, or implementing a CRM system all fall into this category.

Intractable problems are different. They are highly interconnected, path-dependent, and resistant to linear solutions. They often require approximation rather than optimization. Global supply chains, last-mile logistics at scale, or coordinating millions of independent economic actors in real time are examples. Intractable problems are never solved once and for all. They can only be worked through, gradually, with cumulative learning.

This is where John Gall's insight becomes so powerful. A complex system that works is evidence of evolutionary success. It has survived trial and error, real-world selection pressures, and constraint. A competitor starting today, even with abundant capital, cannot simply replicate the end state, because they lack the learning embedded in the system.

I feel the same way about investment firms. If you can survive managing a small amount of capital, you develop habits, constraints, and discipline that become enduring advantages later. Funds that require scale on day one often optimize for fundraising rather than decision quality. As with businesses, these paths are not reversible. When a firm's identity, incentives, and cost structure are built around scale, losing capital doesn't suddenly create discipline, it exposes fragility.

Capital plays a critical and underappreciated role in this process. Capital is not neutral. It shapes behavior. Large amounts of early capital are well suited for solving tractable problems in winner-take-most markets. But in the presence of intractable problems, constraint is often an advantage. Being forced to survive on limited resources drives discipline, simplicity, and learning that cannot be purchased later.

Many of the best, and most durable businesses were constrained for long periods early in their lives. They learned to operate efficiently, to prioritize what mattered, and to absorb complexity without passing it on to the customer. Over time, the organization becomes internally complex but externally simple, another hallmark of a business solving intractable problems.

I've noticed this dynamic is often invisible in financial statements. Two businesses may show similar revenue growth on the surface, but one is merely selling more widgets, while the other is strengthening control points, gathering data, simplifying interactions, lowering unit costs, and expanding optionality with every transaction. The former exhibits only surface growth while the latter compounds its advantage.

Amazon growing 20% in a given year during its ascent to retail dominance was largely uninformative, revealing very little about the system Amazon was becoming. What mattered was that every transaction tightened the feedback loop between customer behavior, logistics, data, and cost structure. Furthermore, AWS was not an act of corporate imagination birthed during a strategy meeting. It was an inevitability following decades of solving intractable problems at scale.

This concept extends naturally to investing. Businesses solving only tractable problems can be outcompeted. Businesses solving intractable problems, where learning compounds and capital alone does not confer advantage, occupy a far more defensible position. This distinction explains why some advantages persist while others erode under competition.

When evaluating a business, the most important question is not whether a moat is present, but whether learning compounds as the business grows. Businesses that solve intractable problems tend to accumulate knowledge, simplify the customer experience, and deepen control points with each unit sold. Over time, this learning becomes embedded in the system itself, making the business increasingly difficult to replicate.

When investors talk about a moat getting stronger over time, this is often what they mean.

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