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EPISODE 102:

Private Equity Deals

with Ted Seides of Capital Allocators

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, and other industry leaders to help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our Dakota Live content, please check out our website at dakota.com. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time, and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today. Well, I am thrilled to introduce our audience today to Ted Seides. Ted Seides hosts the Capital Allocators Podcast. He cohosts Capital Allocators summits and Capital Allocators University. He also writes a blog called What Ted's Thinking and advises asset managers and allocators. In his most recent book, Private Equity Deals, Ted shares an insight to the conversations that typically happen behind the closed doors of institutional investors and private equity managers. Through a series of case studies across different types of private equity transactions, Private Equity Deals shares the dynamics of deal making companies and ownership that make private equity a force in the world. Ted, welcome to the Dakota Live Podcast. Thank you for being here.

Ted Seides: Thanks, Robert. Great to be back.

Robert Morier: Yeah, I very much appreciate it. This is the first time we get to speak together, so I am happy for that. In full disclosure, I am standing on your shoulders very comfortably after watching your podcast for a very long time. Much of what I modeled was based on what you had achieved in the years prior. So, thank you for being an inspiration to me and the motivation to help me feel a little bit more confident getting behind the microphone.

Ted Seides: Thanks, Robert. I really appreciate that.

Robert Morier: We have a lot of questions to ask you, but before I do, I want to quickly share your background with our audience. Ted Seides hosts the Capital Allocators Podcast, cohosts Capital Allocators summits, and Capital Allocators University. He writes a blog called What Ted's Thinking and advises asset managers and allocators. The Capital Allocators Podcast reaches a weekly audience of more than 50,000, with over 20 million downloads since its inception in 2017. Previously, Ted was a founder and served as president and co-chief investment officer of Protégé Partners, where he spent 14 years leading the multibillion-dollar alternative investment firm that invested in and seeded hedge funds. Ted began his career in 1992 under the tutelage of David Swensen at the Yale University Investments Office. He spent a summer job and two years after business school investing directly at three of Yale's managers. Ted holds a BA, cum laude, from Yale University and an MBA from Harvard Business School. Ted, it's a pleasure to have you here today. We're excited to dive into your insights. And congratulations on all your success.

Ted Seides: Thanks, Robert. Let's do it.

Robert Morier: As you know from doing these podcasts now for several years, it's a marathon. Week after week, you've got to put a new episode out, keeping one foot or one episode in front of the other. So, what motivates you to keep it going? And what have you learned in building it?

Ted Seides: I think what motivates me is just how fascinating the business is. So, it's probably a combination of curiosity and just loving having conversations about what's going on in markets. And that's something I've been doing in different forms for 30 years. So, part of that hasn't changed at all. The format's different from being in the seat of an allocator, which I was for a long time. And I think the part of it that I enjoy the most now is the ability to share these conversations broadly, because for 25 years I had all these conversations. They were just inside an office somewhere. And it's just really fun to have that opportunity to have… people have a different reason why they want to have the conversation. Usually, they want to have… if it's a manager, they want to have a conversation because they want to get capital from you. If it's an allocator, they're looking for an investment opportunity, all of which has great value. This is just a different use case, and it's been really, really fun.

Robert Morier: Well, what did you learn building it along the way? It really is an entrepreneurial endeavor. So, it's a startup as far as I'm concerned, from what I've seen, from what you've done, from that first episode through what the business is today. So, what are some of those lessons learned in the building process?

Ted Seides: Yeah, there are a lot of classic entrepreneurial lessons, but they're quite different from when you think about a Silicon Valley entrepreneur because this started as a side project. I was trying to figure out exactly what I was going to do next. I had a bunch of consulting-type projects figuring that out, and I started this on the side, and after a couple of years, it became its own thing. So, I didn't go into it thinking, oh, I have an idea. I have this great business; I'll start a podcast and make all this money doing it. I just did it because I thought it would be fun. There’re different forms of entrepreneurship. Some people say you have that idea, and people just go after it. And this is almost just like life came to me. I didn't really go at it as a business. And then, staging it incrementally was just important. I'm not looking at this like, how do we take this to be the next $100 billion business in five years or whatever it is? It's just what's working? What's creating value? What gives me and my team energy, and then trying to figure out what the next thing will be along the way. So, it's been a really fun journey. I would say the last four years, it's been a business, and the first three, it was just a side project.

Robert Morier: Unlike most of our guests, who have a couple LinkedIn posts, maybe a few white papers, they're pretty easy to research in advance of these conversations. You have quite a catalog of information, whether it's books, podcasts, interviews. So, I was trying to figure out how to come at this question, and I just thought, maybe it's just a memorable guest or someone who's been on the show who's impacted your perspective on investing. We meet a lot of interesting people. But someone that left that memorable mark as it related to what you thought investing was or how it should be approached.

Ted Seides: Yeah, my second book was about that. So, it was a bunch of… there are so many. I think if there was one or two that I would point to, the first was Annie Duke when she came on the first time. And that really was about decision making when she wrote the book Thinking In Bets. And the reason it really transformed how I thought was I was very well versed in all of the behavioral economics work, Kahneman and Tversky, and love that stuff. My father's a psychiatrist, so the combination of psychology and public market investing was always really interesting to me. The problem with it is all of that work just told you what you do wrong. There was nothing prescriptive about what might you be able to do to get a little bit better. You can't change the wiring of your brain. And Annie's book, that really applied lessons she had in poker, did that. And it started that type of exploration. So that was certainly one. And then within investing disciplines, everyone's always asking what's next? You had the Yale model, what's the next asset class? What's the next structure? And when I interviewed Ralph Arndt, who's the CEO of the Australia Future Fund… and this goes back several years… he talked about what's become known as the total portfolio approach. And it's not radically different, but it is a modern twist on a way of structuring a portfolio that has a different mindset to it and is refreshing because it's worked. And that was another kind of, wow, this is something that is a completely different way of thinking about the same type of problem. Those don't come around every day. So, I think most of the lessons are small, incremental lessons that every single guest shares something, and you go, oh, that's kind of interesting. I hadn't thought of that before.

Robert Morier: Interesting. We're going to talk more about the total portfolio approach in a little while. I'm glad you brought it up, but it's a good reminder. I did want to bring up one guest in addition. Last week on the podcast you featured Brad Briner. He's a candidate for the treasurer of North Carolina. By the time this episode airs, we're going to know the results of the election, so I'm not asking for any calls. But I am really interested as to the genesis of that podcast. And specifically, what do you think are the challenges and opportunities for a state treasurer in today's economic and political environment, but maybe a little bit more economic, particularly coming from a state like North Carolina?

Ted Seides: So just quick background. I've known Brad for about 10 years. He was the co-CIO at Willett Advisors, which is Michael Bloomberg's family office, one of the largest in the world, and a terrifically talented investor and a great, great guy. So, he's running… he left to run for this office. And this is one of those things that you just shake your head. The role of state treasurer primarily is to manage the pension fund for the state. And I don't the exact size, but it's probably $100 billion, $150 billion, something like that. It's a huge pool of capital. And he is running against someone who doesn't even understand finance. And that's very, very common. These are not high-paid or prestigious roles. And the state of North Carolina's pension fund, as it turned out, is finished 50th out of 50 in performance for 3 and 5 years and in the mid to high 40s for 20 years. So, you scratch your head and say, well, Michael Mauboussin says this is a game of luck as much as skill, meaning it should be as hard to mess up as it is to do really well because there's a lot of luck involved. Well, it turns out that, for reasons of history, for reasons because it was a relatively wealthy state that had a sufficient pension fund, they had 60% in fixed income all the way through bonds earning zero. That's just not basic finance. No, you won't lose money, but there's a huge opportunity cost. And so, I asked Brad if he would come on just to see… well, first I called him to say, is there any way I could help? I don't live in North Carolina. Hey, would you want to do this? And it was really interesting because he said, it's not like there are a lot of North Carolina voters that are incremental votes that will necessarily come from the podcast, but hopefully he'll win. And if he does, the first thing he has to do is build a team. And so, he was really interested in telling that story so that, in the event he does win, that'll give him a little bit of a leg up and I'm sure will help share any job specs that he has. So that's his story and what's happening in North Carolina. Generally speaking, you have an incentive problem in the public pensions in the US. These are incredibly important roles, given how much money they manage and how much incremental returns can benefit the states and the employees. But they're treated like public employees. So, they're very, very low wage earners. There's often tremendous bureaucracy in getting decisions made. And it's been a real problem in the country for a long time. There are only a small number of states, Wisconsin, Florida, Washington, to some extent, Wyoming… I might be missing one or two that really do have their pensions managed quite well. But for the most part, it's kind of a mess.

Robert Morier: Well, thank you for sharing that. I found it very interesting. I do completely understand and see the rationale as it relates to understanding the financial principles of bringing in asset and liability into matching as it relates to a public pension fund. So, thanks for sharing that. Getting back to the business, you've introduced several verticals into the company. And it sounds like mostly in the last four years, from investor summits to Capital Allocators University, so we maybe even using Brad as an example, thinking about neutrality in your role. How do you think about that role that you play in between all of these different groups within the industry?

Ted Seides: On the one hand, it's kind of easy because I'm not asking anybody for anything. I'm not raising money, and I don't have a board or clients that I'm serving. So that's easy to stay neutral. On the other hand, I would say I'm not neutral at all in the sense that whoever I choose to invite to come on the podcast is entirely based on my judgment of what I think will be good. And it's not… you don't have to have as sharp of a pencil as if you're managing a portfolio because in your portfolio you might have 50 managers, and I'm having 50 guests a year. But there is a thought process that comes out of my experience and things I think are interesting and people that I know who refer me to people they think are interesting, who I then met. And I then meet and determine on my own if I think they'll make an interesting guest. But in some sense, there's a huge amount of judgment that goes into who comes on the podcast. So, I'm not sure if that's neutral. It is neutral in the sense I'm not telling anybody anything. But it's not in the sense of, oh, I'll just… it's egalitarian, and anybody can come on.

Robert Morier: Yeah, that makes a lot of sense, particularly the first point. One of the things I joke about often is that what I do on the podcast is exactly what I did for all of those years on the road. I just don't have to ask anybody for money. So, it's a much easier conversation. And generally speaking, people are more willing to have it as a result. Yeah, the neutrality is interesting. So how did you then go about building your initial lineup of guests? What were you looking for originally then, if you think back to the heart of what the podcast was going to be? And it's grown so much. But when you think about that lack of neutrality, you wanted people on the podcast for a very specific reason. What was the reason, let's say, those first 100 episodes?

Ted Seides: Well, the original concept was the capital allocator. So that could be a CIO of a good pool of capital. But I also had the idea that it would also be their favorite money managers. And the nice thing about when I started was it came after being in the business for 20 something years. So, of the first 50 guests, I think 48 were people I had known. So that part wasn't… It. Was asking for favors, kind of like, hey, I'm thinking of doing this. And my friends would say, oh, that's cute. Sure, I'll have a conversation with you. And then over time, it took on legs of its own. But there's always a balance between the allocator side and the manager side. And then I'll throw in things that I think are interesting and help those people in their roles that are from outside the industry.

Robert Morier: Well, one of the people… or one of the groups, I should say, in the industry that you decided to focus on was investment management operations. Why operations? We know how important it is from being inside the industry. But from an outsider's perspective, what were your thoughts in launching that particular podcast?

Ted Seides: There's a fun nonbusiness aspect of everything we do. So, one of those things… I would always joke that podcast is we're going to have a conversation and share it for free. That doesn't sound like a very good business, particularly… this isn't a mass media. So, you can't assume you're going to have millions of downloads one day and then get advertising. So, my partner Hank, who's now the CEO of the business, had this idea of featuring people in operations. And I had said to him, that's kind of interesting. It's an even smaller audience, and it's generally thought of as a cost center. I really like it because no one's going to touch that. And a wonderful guy named Scott McDonald came to us. Scott had been the longtime COO at HighVista, an outsourced CIO. And he's… I wouldn't say he's in between. He's not retired, but he's taking time and thinking what he wants to do and said, hey, what do you think about this? So, Hank had thrown the idea my way. Scott was interested in hosting it, and we just connected and did it. So, Scott runs that podcast, and Hank and he get guests and our whole community you're able to get guests. And it's great. It's a classic 1,000 true fans. So, it's not as big of an audience as Capital Allocators, but the audience it has are incredibly loyal. There's probably a few thousand people that listen. And it's the lawyers, the accountants, the operations team, some of the business development people. It's everything but investing, and it's been great. Scott's fantastic at it. He's got a wonderful way about him. And we've been able to get really good guests come on.

Robert Morier: I've been a listener. It's a great podcast, and I support what you're saying. There aren't going to be many viral moments on these podcasts. I'm hoping your dog walks in, or maybe a kid interrupts this to try to boost up the ratings, Ted. I'm not going to lie to you. Well, I'm pivoting over to investments. One of the areas that never ceases to surprise me is how important governance is with our allocators. It's usually one of the topics that we spend a lot of time on, particularly for institutional investors. So how do you think about… based on everything you've heard in the conversations over the years… how do you think about the role of governance in the investment process? And how has it evolved maybe since you've left the industry and what you've seen from or heard from guests?

Ted Seides: Well, one of the things you find, particularly in people on the business development side, is they go, and they present to a group of people an investment office. And they hope those people like what they're presenting. And they hope that they give the money. But they really don't see what happens between there and when a decision gets made to allocate capital. And that's effectively the governance structure. How does a decision get made? Most pools of capital have some type of board that may have full decision authority or an advisory decision authority. And then somewhere along the way, someone ultimately is making a decision. And so, the challenge of governance is, on the other side, who's responsible for what? Who's making the decision? Who does the research? How smoothly does that work? How is the communication? And then what are the incentives involved, which is things like compensation, employee rewards? And it's a huge challenge. There aren't many organizations where that's a smooth process. And so, you can have a spectrum from, think of a family office. Well, governance might be pretty straightforward. If the patriarch of the family is the person making the decisions, you have one person making the decision. Then you have, say, endowments and foundations, where you often have sophisticated investment committees. Doesn't mean it's smooth because anytime you have a committee, things can get rocky if those committees aren't run well. But for the most part, you have sophisticated people involved in making decisions. You go to the other end of the spectrum, a public pension fund, you might have classic policemen, firemen, teachers on the board ultimately making investment decisions that aren't knowledgeable about investing. And so, someone like Chris Ailman, who lasted at CalSTRS for decades, described his role as just constant education and reeducation because his board would change every few years, and you'd have new people come in. And you'd have to go back to the basics of investing over and over and over and over again. And so that's the challenge of governance is, if you are on the investment team, so you're presenting to that investment team, how do they get a decision that they want made? So, you've presented. They like it. How does that get done? And that's the challenge of governance.

Robert Morier: Well, you touched on the total portfolio approach earlier in the conversation. And what I was thinking, reading about it, listening to your podcast, and just being familiar with it as a talking point now on the conference circuit. It's starting to come up much more often. I can't help but ask myself is whether it can be applied to smaller institutions, like family offices, small endowments, even small corporate and pension plans. Or do you believe it's reserved for the largest allocators?

Ted Seides: The concept can be applied anywhere. I think, in practice, what's challenging is that it requires a lot of data and information. So just to give a general concept, if you think of the Swenson asset allocation model as you'll create a few buckets, US equities, international equities, private equity, hedge funds. You'll have allocations to those buckets. You'll run some mathematical mean variance optimizer to try to help you decide what your allocations should be. And then roughly speaking, you're going to stick to those allocations. What's on top of that is some sense of risk. So, if you were Dave Swenson, he said Yale has really long-duration time horizon. They're going to be very equity oriented. And Yale's construct is probably like a 90/10 equity fixed income. But if you just start with that, everybody kind of understands equity fixed income risk, 60/40, 70/30, 80/20. Then the question is, when you have this asset allocation, how does that map to the risk? And the answer is, well but imprecisely. So, if you have a portfolio of, say, long-only managers, do they have some cash? And if you have $100 invested in long-only, is it 100? Is it 95? If you're in a hedge fund portfolio, how much risk… how much market risk is in there? It's hard to calibrate. And when you just have it as a single bucket, it's imprecise. What the total portfolio approach has done is you start with that same… let's say you're at a 70/30, and that's easy to index. So, there's some return. You start with a passive portfolio. And every time you want to make an active investment, you fund the risk out of the equity and fixed income. So, every individual investment might have, oh, this is an equity investment. Great, we're going to take 5 points out of our 70/30. We're going to make it 65/30 and 5 to this particular manager because that's the risk. Now, if that manager changes you say, oh, no, that's now 4, and it changes our risk construct. So, to get that right you have to know exactly what managers own. And you have to be able to aggregate a lot of data. And then on top of it, what it allows you to do is make a different type of assessment of managers because each individual one gets funded out of the same competition for capital as the whole portfolio, which is why they called it the total portfolio approach. If you know you're going to have 20% in US equities, you're looking for a US equity manager to fill… a series of US equity managers to fill that bucket. Total portfolio approach, you might have no US equities. It's a question of is the US equity manager a better fit than the private equity manager for the same unit of risk? Or an arbitrage manager or a venture capital manager? And so, it's a very different lens that has much more competition for capital. The challenge for a smaller pool is conceptually you can do that. But if you're really trying to calibrate it to risk, which is where the portfolio starts, you need to know a lot about what's available. And the reason it works today, and it didn't 20 years ago, is the availability of that information.

Robert Morier: As you're answering the question, I'm thinking about it from the asset manager's perspective. It sounds like it will certainly complicate your understanding of where you may fit in an asset allocation model. So, if you're going into that meeting and you're trying to understand, where am I going to fit in this puzzle, how do you think you should-- well, maybe taking a step back, we're going to talk a little bit about the work you're doing with asset managers and business development professionals. But maybe getting ahead of that a little bit, what type of advice should you give to asset managers who are trying to better understand the total portfolio approach in the context of where they're going to fit into the model?

Ted Seides: There's an easy answer to that, which is something that is shockingly not practiced well at all. You need to ask.

Robert Morier: Great point.

Ted Seides: In our most recent summit, one of the sessions we had is on the investor relations role. And we were asking questions about what are best practices? And what are worst practices? And there's this general belief in the LP community that managers do not ask-- don't understand what they do. And they don't ask them, how are they thinking about that particular investment? So, there's a tremendous amount of information across the table from you. And it's always different. You can't just say, oh, it's total portfolio approach. Therefore, you fit here. People can do that in, oh, it's US equities. They have a US equity allocation. But you don't know exactly how they're thinking and what's changing unless you ask the question.

Robert Morier: Especially when you sit down with an investor for the first time. I think a lot of maybe older guard salespeople were trained to ask about the audience. Who are you? What do you do? What are you looking to accomplish in this portfolio? And maybe that art has been lost a little bit. So, thank you for reminding us. I appreciate that. I am curious, too, about trends. One of the things that we'll typically ask allocators is, what are they seeing? Where are they working? What do the next 6 to 12 months look like? But you have such an interesting perspective. I was curious about the trends that have been taken too far by asset owners. What has gotten a little long in the tooth? What doesn't work as well in today's environment as maybe it did three years ago, five years ago, or more?

Ted Seides: I think the answer to that is always tied to where capital has flown recently. Private credit is an obvious area to think about. I don't know if it's been taken too far. I think that is much more tied to the quality of underwriting than it necessarily is the volume because a lot of capital has come in. Initially, that wave replaced loans that banks had been making that were more difficult for banks to make. It's pretty clear that the private credit asset management subsector is much larger than what the banks used to do today. And it's grown alongside of demand from private equity for loans. So, these two things are attached at the hip. I don't know if it's too far in the sense that it's just we don't know yet until we're through a cycle of what those underwriting standards look like and whether these, particularly the large, half a dozen lenders, have the chops to conduct workouts that help the company. I'm sure they can extend loans. That's not an issue. The question will be, is there anything there if things really go wrong to be able to take over the keys and either liquidate en masse. So, we don't really know yet. But that's one place to watch for sure.

Robert Morier: What are you seeing or watching as it relates to sustainable investing, sustainability? Whether it's in your books or past episodes with guests, there was more discussion around sustainability, ESG, ESG factor implementation. And it seems like it's softened, not just with people who are making the allocation decisions, but asset managers as well. It's not as prominent on the website anymore. It's not as prominent in the RFP. Do you see this as a long-term shift or something more cyclical?

Ted Seides: I wrote a blog a couple of years ago called… I think it was called ESG, What's in the Name? It was pretty clear to me at the time that the ESG movement was going to fizzle because the label was just terrible. And it just encompassed too many different things at the same time. And that piece of that… two things have happened. One is that just confused people and products, and Wall Street created products. It was unclear what those products were serving. But more importantly, when the war started in Ukraine, particularly Germany, who had gotten dependent on Russian oil, started to realize that you can't have this energy transition without fossil fuels. What you haven't seen since that time is, I don't want to say a single one because I think there was one that I know of, but basically not a single institution has announced a divestiture. So, there was a wave of we will no longer invest in fossil fuels, and then it stopped on a dime. So, you do have this split of E, S, and G. And I think the sustainable investing as people think about it now has more to do with the environment. And there's sensitivity to the environment. People do want to invest in ways that will improve the environment. But it's harder. Now there is some bid for just traditional oil and gas because it's needed, and people recognize that. So, I will say I think it's a secular move. There will be continued secular interest to addressing the environment in different ways. You see it in venture capital. You see it in the carbon trading markets. You see it in different private equity strategies. But I think you're right that there was this surge of, oh, my God, everything has to happen now. That's softened. I think it's too bad that it's softened because it's not like the environment and carbon emissions slowed down. Therefore, we can stop addressing it. I think it's a pretty important existential problem. But it's not the leading edge of what people are considering. It hasn't gone away. It's just not necessarily the driver.

Robert Morier: We'll dig up that vlog or blog and share it with everyone. Interesting that you spotted it back then. I think that acronym has been troubling for a lot of investors. So, we'll see where it evolves to. You mentioned Brad Briner having to build a team being one of the more interesting attributes of his role. And you talk a lot about the teams and roles and responsibilities with your allocation allocator guests. I'm curious, if you were a CIO for a new LP, maybe a family office someday, Ted, how would you design your team?

Ted Seides: The first thing you have to do is understand what resources you have. So, a lot of that's going to be a function of how big is the asset pool? And how much are you willing to spend on a team? And then you have to consider how you want to structure the team based on that. So, if you were normalizing it and saying it was a couple billion-dollar pool of capital, very institutional in size, I particularly like the hybrid between a generalist and a specialist model. People go back and forth on which they prefer. It's tricky because at a senior level you do need breadth, but you also, in many areas, need depth in order to get access and understanding of what you're doing. And so, you see a lot of that, where the most senior people in an organization are generalists. And then mid-level and sometimes junior level tend to specialize. And you get the best of both worlds. So that's how I would think about it.

Robert Morier: Yeah, that makes sense. How about the other side of the table? When you look at asset managers and you speak with asset managers, whether it's public markets or private markets, what do you see are consistently the most challenged parts of those business? What needs the most work when you speak to these asset managers week in, week out? Are there certain areas that it just seems like the asset management community is having a hard time nailing down?

Ted Seides: There's a few that… it's always the case that people would have trouble raising capital if you're not Blackstone. So, there's always that. And within that, I think there's often a big gap in knowledge for most managers about what the allocators are thinking generally and thinking of them. And that's something we try to help bridge those gaps. That's one for sure. Managing a team is hard. And in particular, when a firm starts, it's actually easier. Everyone's focused in a certain way. You're trying to get out of the box. You have a relatively small team, but each five years of success brings on a different set of challenges. And so, I was at an annual meeting last week with a bunch of GPs, and they were at slightly different stages, and it was pretty interesting to see someone talking… someone was, say, seven or eight years in, and they were doing well. And they're still pretty focused. And somebody else who'd been in it for 20 years is kind of laughing at them because they said, well, here's what's about to happen to you. And then somebody else would say, yeah, but after that, this is what's going to happen to them. And you can imagine what those things are. You're growing. You have success. The junior people you hired are now a little more senior. They want more responsibility. How do you create that for them? Do you create it within your product? Do you extend a new product? How do you communicate that with your clients? Then when you get to the later stages, and what we're seeing now and across the industry, is there's a degree of consolidation happening. And a lot of that… I like to say that, in order for a manager to have really exceptional long-term performance, they have to be around for the long term. And that has all kinds of implications for the business.

Robert Morier: We get a lot of RIAs and wealth managers on the show who are talking about private assets more and more. So, what are your thoughts on the democratization of private asset strategies for retail investors?

Ted Seides: The good news is, this time around, and I would say that compared to when that started for hedge funds 15 or so years ago, the products getting put forth for that community are good. So, if Blackstone is creating a BCRED or a BREIT or whatever they might do in private equity, it's just a slice of what they do. So that's a good thing. In the hedge fund world, it was very, very watered down what first got brought to that market. The challenge is you have to ask, is this the right time? And these businesses are cyclical. Sometimes the cycles are long, but they're cyclical. And we're at… we're closer to a part in the cycle where it's hard to expect very high returns. Valuations have been high. Rates are coming up a little bit. The economy's been strong for a long time. And when you look out those precedent conditions don't necessarily lend itself to significant absolute returns. So, it's a tough one because if you were saying, oh, is this when you want to go jump into private equity, particularly the large scale, which is the larger deals, which is where I think most of the democratization move of private wealth goes to, yeah, I'm not sure it's the best time to get started. And then what happens is if five years from now those returns don't look so good and everybody leaves, that's the first challenge. The second challenge, which I scratch my head about, is age, which is that if you're not talking about the ultra-high net worth world, just sort of high net worth, most people, when they get to the point where they have sufficient wealth that they should be looking at some of these strategies, they might be like me. They might be in their mid 50s or their 60s. And then you have to ask the question, do you want to lock up your money for 15 years? And I think there's only a short window where that may be five or 10-year window where that might make sense. So, I don't have that all plays out over a longer period of time.

Robert Morier: I'm thinking about that age factor, particularly with the way the demographics are going. So, an interesting point, Ted. Thank you for sharing that. But within private markets, I am curious where you see maybe a little bit more granularly some of the areas of opportunities in the next few years ahead. You mentioned private credit, but private credit is a catch-all for a lot of underlying asset classes that can be quite interesting. So just curious what you see as some of the opportunities that allocators should be paying more attention to or paying attention to in general.

Ted Seides: Well, you're always looking for incremental areas of inefficiency, and there's a lot more efficiency in those markets than there used to be. So, I think the areas that probably are more of interest are in the smaller range. So, you can think of middle market or below middle market deals, definitely firms that bring operational expertise because if the three main levers of returns are your purchase multiple compared to your exit multiple, leverage, and then what you do with the operations, I don't think you can bank on continued increase in multiples. Leverage is a little more expensive and a little less available, particularly when you're paying higher multiples. So, what you're left with is operational improvements.

Robert Morier: You mentioned Annie Duke earlier in the conversation. You've made some bets in your career, as well, including the podcast. So, what did that experience teach you about confidence and the confidence to make a decision in something? And you mentioned the right time. I couldn't help. I had my father in the back of my head telling me it's never the right time, so just do it because it's difficult to time the markets. So, it takes a little bit of confidence, a little bit of guts to make that decision. So, what did that experience making those bets help you in terms of bringing that confidence to bear?

Ted Seides: Well, I think there's just an understanding that you never know. And confidence comes and goes, just like cycles of markets comes and goes. There have been times when what we were doing, I was like, this is amazing. And everyone's going to love this next thing we're doing. And then other times you realize, oh, maybe we weren't right about that. So, for us, treating things as a series of experiments really helps. No matter how big or small that experiment may be, you don't get too wedded to success. You manage your expectations appropriately, but then go at it with everything you've got.

Robert Morier: Well, you've got a Capital Allocators University coming up for investor relations and business development professionals in December, which we've also touched on. Maybe just a couple bullet points, some crib notes as to what you're going to be sharing with those IR professionals as it relates to the current environment. As you mentioned, it seems like BlackRock is the only one having an easy time raising money. It is probably more difficult than I've at least ever heard anecdotally from my peers in the industry, who I've been doing it with for quite some time. So curious some of those bullet points that might be on that first slide.

Ted Seides: If I have a conversation more commonly about one thing than anything else, it's managers trying to understand where money might flow and when. And I advise a few, and it seems like every time I talk to them, I'm saying things that sound like common sense to me. But their eyes light up. And one of them about a year ago said, do you ever think about teaching this kind of stuff? And so, my partner Rahul and I said, yeah, maybe. We walked out and said, OK, we need to do this now. So, it will be a combination of peer networking and some seminars. So, I'm going to be teaching one seminar on the allocator's perspective. So, you go into that meeting. What's happening on the other side of the table? Rahul, who's been one of the most successful fundraisers in the business, is going to probably talk about the power of relationships and how to think quite differently, particularly in an environment like this, where you just can't expect that you're going to get a check when you walk out the door. Our good friend Jen Prosek, who runs Prosek Partners, is going to talk about branding. Ron Biscardi, who runs iConnections, along with Jen's partner Katie O'Reilly, who used to work at Milken, are going to talk about how you manage conferences. And then we're going to have a panel of CIOs who tell people what not to do.

Robert Morier: My students at Drexel University are required to listen and watch these podcasts, so I appreciate you being here. For their benefit, what is some advice that you would share with them as it relates to those early years in their careers, so just first getting out of school? You mentioned the power of relationships. One thing, just anecdotally, that I hear from my students quite often is how difficult it is to build relationships in today's world, particularly with everything being online. It seems like it should be easier, but it doesn't seem to be the case.

Ted Seides: I don't think I'm an expert in any way, shape, or form. The only thing I could say is that people need to go at this as best suits them, the word authenticity or something like that. And one of the things that always helps is in every conversation to try to understand what's that person's objective? How can you help someone achieve what their objective is? And not think about it as, oh, I'm networking, or I'm building a relationship. But it's a puzzle. You're just trying to understand someone and understand, how can you help them. And that's harder when you're right out of school, but sometimes people want to help younger people find their way. The other thing I say that always goes… I'll have people reach out to me who I don't know and ask for different ranges of help. And if you turn that around, you can say, well, if I have a lot of people asking me for help, am I able to help someone I don't know because, in some sense, that's my… if I'm going to introduce you to someone, I better know you because I'm trying to help somebody else who's looking for someone like you. And so, what I tell people is you have to start close in. Everyone grew up. They have friends. Their parents have friends. You have to start with who are the people around you that you know, and then learn about them in ways you probably didn't in the past. And that, by the way, is not something I did when I was at a college. And there are funny stories of missed opportunities because I didn't even know to ask. My wife constantly jokes with me about, how did you not ask that person for a summer job given this is who you were, and this is who they were? But I didn't. I didn't to do that. So that's the best advice I can broadly give.

Robert Morier: Yeah, same advice you gave to asset management professionals. Just ask the question.

Ted Seides: Yeah.

Robert Morier: So that makes… great. Thank you for sharing that. Just one more question for you, Ted. We greatly appreciate your time and your thoughts on the market. You mentioned recently that you've been reading several books about storytelling. Are there any stories from those books that have resonated with you and that you're applying now to your business?

Ted Seides: There are a few. Well, let me highlight the two things that most resonate. So, there's a book called Ted Talks by the guy who created the Ted Talk that is a fabulous book on how to give presentations. And I gave a presentation at the beginning of our summits, and mine dramatically improved by thinking about it through the lens of really the beginning of a presentation and the end of the presentation that came out of that. There's another one that was recently on The Knowledge Project, Shane Parrish's podcast with Matthew Dicks. So, I don't know him. I've just bought his book, but it's about storytelling, and it's just remarkable. And his take on it is that anyone can get better at telling stories. There's a plan to it. There's a way of going about it. I'm in the beginning processes of learning that for myself. But any time you're able to get exposure to someone who's thought about it in a way that they can explain, you can really learn and try to get better.

Robert Morier: We have a couple minutes left. I'm going to ask you one more question just to squeeze it in. You have interviewed a number of people over the years. Do you still have a wish list somewhere on your desk of someone that you still haven't been able to nail down, that you would love to?

Ted Seides: Yeah, the answer to that, interestingly is, no, but I'll explain why. The most interesting guest for me is a money manager or a CIO who I don't know that other people say, oh my God, you need to interview this person. They're so amazing. And that does come up. I had a call from a friend two days ago just of that ilk. And I get super excited. So, the desired guests are actually the ones I don't know. This podcast isn't one that lends itself so much to stars. They're just people that are exceptional at what they do. They don't necessarily… the world-renowned investors are perfectly fine to have on the show. But people have heard what Howard Marks has to say. People have heard what Bill Ackman has to say, and they're very public. So, it's not like you have to go somewhere to do it. I prefer to find those people that if you're in the now you know, but you wouldn't otherwise.

Robert Morier: Yeah, absolutely. I would agree 100%. I think getting someone on the show, who hasn't been on a podcast before, who generally will stay, maybe in conferences, write white papers, but stays behind the scenes. When you get them in front of a microphone, in front of a camera, it's amazing how much you can learn from them. And yeah, I couldn't agree more. So, thank you for sharing. Ted, thank you so much for your time today. Congratulations on all your success. We wish you nothing but future success as well in all of your endeavors.

Ted Seides: Thanks, Robert. Really appreciate it.

Robert Morier: If you want to learn more about Ted and Capital Allocators, please visit his website at www.capitalallocators.com. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We are also available on YouTube if you prefer to watch while you listen. If you'd like to catch up on past episodes, check out our website at dakota.com. Finally, if you like what you're seeing and hearing, please be sure to like, follow, share these episodes. We welcome your feedback as well. Ted, thank you again for being here. Best of luck with your new book. And to our audience, thank you for investing your time with Dakota.