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EPISODE 100:

The Importance of Portfolio Innovation

with Partners Capital



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 Alex Band, Chief Investment Officer of Partner's Capital. Alex, welcome to the show.

Alex Band: Thank you for having me on.

Robert Morier: Well, it's great to see you. We're very excited about this conversation today. We have a lot of questions to ask you. But before we do, I'm going to read your background for our audience.

Alex Band joined Partner's Capital in 2013 and is a partner and chief investment officer. Previously, Alex was head of public equities, covering long, only and long short strategies. He is a member of the global investment committee. Prior to joining Partner's Capital, Alex was at Bain Capital, located in Boston and New York. He was part of the global private equity group responsible for investment due diligence, deal execution, and portfolio management. Previously, Alex was a consultant at Bain and Company in San Francisco. Alex holds an MBA from Harvard Business School. He graduated from Harvard with a BA in biochemical sciences. Well, Alex, congratulations, again, you've had quite a career and we're very excited to hear how it's all come together at Partners. Before we do, though, we always like to start at the beginning. We have a number of students and educators who tune in to the show and they're always interested in how they can make that pivot into financial services. And you did it from biochemical sciences, of all things. So, if you wouldn't mind sharing with us what that decision making process looked like.

Alex Band: So, I was drawn to biochemical sciences really for a few different elements. One is just curiosity. There was a lot going on in the field, there were big questions to address. The second is inquiry, this mindset of having a thesis and being able to test the thesis with an experiment and get to an answer. And then the third was expanding knowledge and being very data-driven in terms of how you do that intellectually honest with it. And as I progressed and got a little more exposure to business to investing, I found like I could get all three of those elements but in an environment which was much more fast paced and dynamic and also much more collaborative and people-oriented, which for me were very important. And so that's what really initially drew me to business, drew me to the investing world, and it's really honestly what's kept me there to this day.

Robert Morier: Well, what were some of those early lessons that you took from Bain Capital's private equity group? So, when you think about the skills that you develop those first five plus years, what were the fundamentals that really helped you hone those key skills that you were looking for in the undergraduate years?

Alex Band: So, I almost split this into two parts. One is, what are the skills I learned? And then even at that stage in my career, you start to learn lessons about what works and what doesn't work as you go through the investing journey. So, on the skill side, the Bain Capital experience was incredibly foundational in terms of evaluating a company, evaluating market and doing that very fundamentally in terms of what the drivers are, what the risks are, what the outlook is for those areas. The second piece was really learning about the importance of structure and valuation of the investment that you're making into the company. It's not just whether the company succeeds, but is your investment actually set up to drive a good return outcome? And then the third piece that, again, I use to this day is thinking not just about one scenario but thinking about a fan of outcomes in the investments that we're making. How might the company do, or the investment do if things go well? What's the upside that we have? But also, how will it protect us and how will it perform in a more challenging environment? So, in terms of skills, those were a few, again, great set of individuals and people and mentors that I had at Bain Capital, and I'm incredibly thankful for that experience. On the lesson side, two that I would call out and I feel like I still see echoes of those today. One is, if you miss something that is big in terms of the investment, that might be a shift in the market, that might be a challenge with the management team capability or integrity, it doesn't matter if you got all the little things right and did all your analysis correctly, it's still going to challenge the investment. And so just the focus on the big items that are going to drive the investment, trying to make the best decisions you can on those items. And then the second piece is a little bit around risk appetite. And there were certain situations, and at the time, it was understandable, where we missed opportunities because we were maybe too cautious in an environment really called for you to lean in and to take some risk into the unknown. And again, it's always easy to say those in hindsight. You've got to be a little

bit aware of the environment and aware of the opportunities that you have to go a little outside your comfort zone.

Robert Morier: Well, you made a big decision to join Partner's Capital. I'm sure there was a risk management assessment that went through that thought process when you were making the move. So how did your experience at Bain shape your contributions initially in terms of those first few years of Partners?

Alex Band: The transition to Partners was incredibly exciting for me. And a few elements, just stepping back of why I made that decision to transition were the broader investment mandate was exciting, dynamic opportunities that we had a flexible approach to how we attacked the different opportunities in front of us. It was also an entrepreneurial opportunity for me to help build an investment platform, build a team, and help drive together with some really incredible people the success of the organization. And that was the third thing, is just a really high-quality group of people, just like what I had at Bain that I could work with for the next phase of my career. In terms of the lessons and what I brought, I felt like a lot of the fundamental investment analysis as I just walked through is very consistent stepping from just focused on private equity investing to investing across asset classes and also partnering with asset managers in order of executing the investments. So, a lot of that carried forward that thesis-driven mentality, that really digging in and asking the why, understanding the fundamentals, thinking about risk and return in different scenarios. I thought that was very consistent, there was a lot to learn too. And so, I'm very thankful at a Partner's Capital that had the opportunity to take on a lot of different areas and go up that learning curve.

Robert Morier: Can you help us set the stage by giving us an overview of Partner's Capital in the context of the role of an outsourced CIO?

Alex Band: So, at the end of the day, what we do is we manage the full investment portfolios for mid-sized endowments, foundations, and family offices. And we do that in a way that's customized to each client situation. So, we know that each organization is different and requires a different solution and is full service. So, we do everything from helping the institution think about their overall investment policy and targets to doing the operational execution of the actual investment. So, it's a very full-service offering, and that's what we do. And over the 23 years that we've been doing this, 11 of which have been along on this journey, we've grown to be a global leader in this area with \$60 billion of assets a little over that today. And what that's enabled us to do is reinvest back into the team, having a best in-class team, and add important capabilities that we think can drive to better returns and outcomes for our clients.

Robert Morier: You mentioned in a recent white paper advancing the endowment model, which I highly recommend to our listeners, that your investment program centers on five

key elements. And I was hoping we could walk through those, starting with the first of which is having the right building blocks. So, creating that roadmap for investment opportunities, another way to say it is the asset allocation map. Could you share what are the key components of your investment portfolio and what role each of those play?

Alex Band: We've basically taken what I'd term a classic endowment style approach long-term oriented, seeking opportunities across asset classes, leveraging top external asset managers. But we've looked to evolve it to reflect the current investment landscape opportunities, the challenges that are there. And some of those adaptations are things like being more dynamic in terms of the strategies and the opportunities that we're investing at any point in time, including niche managers. Passive exposure is OK in certain situations. We look for direct opportunities to put capital to work where it makes sense. We're a little more rigorous on the risk management. So that's really been the journey for us, is taking what we think is a really good fundamental approach to investing for the long-term and continuing to improve it in order to get to better results. When we look at the portfolio, we have four different components that we think are important. The first is the safety net assets, what will provide stable liquid cash plus returns to your portfolios in most scenarios. And the core of that for us is a set of absolute return hedge fund strategies that we think are quite diversified and quite idiosyncratic in terms of the risks that they're taking. We have some smaller component in fixed income and other traditional safety net assets, but we don't want that to dominate the portfolio because then you're subject to essentially a higher rate risk across that entire piece of your book. So that's the first element. The second is, we have a significant allocation to public equities. We think that is a core area of the portfolio that gives you global growth exposure, innovation exposure, and has been highly return generative over, frankly, any time period that you look at that's significant. And so there, we're really focused on where do we actively manage that and how, where do we get passive exposure and how do we build a robust portfolio in that area? The third here is on credit, and particularly, on privates. And this is where we get more into the private part of our investment portfolio. We think it's an important return generator and credit piece is where we can get excess return, but very downside protected by taking some of the liquidity, by taking some complexity, et cetera. And then the fourth piece is the private equity, the venture, the real estate. This is the high octane, high returning part of the portfolio that we think can drive best long-term returns.

Robert Morier: Thanks, Alex. Well, none of this can be done without people. So, looking back to those building blocks and you had mentioned a best in-class team, building that out internally. How do you approach talent acquisition, ensuring your team have the skills to be able to cover these various asset classes, particularly when you're presenting an a la carte menu? It sounds like you're allowing your portfolio to go anywhere. So how do you think about roles and responsibilities in the context of the team that you've been building?

Alex Band: And that's a great observation and is absolutely true and it does feed into the talent that we need to attract. So, when we hire people in, the mindset is just as important as the expertise is the way I explain it. And so, we're focused on people who have curiosity, are creative, are data-driven, are hardworking, are collaborative, I think these are some of the components that are really important to success in our environment. And we also cast a pretty broad net in terms of where that talent comes in. Everything from our undergraduate hiring program, which has been great, we've got exceptional people through that to more lateral senior opportunities where we see a need and developing that talent internally. And at the end of the day, what we're trying to do is find people who are going to build a true expertise in the area they're investing in, who are going to exercise good judgment, that's fundamentally important to us and who are going to be innovative and really push the needle in terms of what they can do.

Dan DiDomenico: Alex, this has been great. Thank you so much for your time and all the insights that you're providing. You laid out very nicely the framework for investing. We know that a key component to that is finding the right managers to execute what it is that you're looking to express within your portfolios. And I'm sure this involves a very rigorous sourcing and due diligence process. Could you spend a minute just walk us through what that manager underwriting process entails at Partners Capital and any unique criteria that you may apply?

Alex Band: Absolutely. And this is absolutely critical to what we do and to driving returns. And let me just explain first off, maybe it's obvious to the listeners here why it's so important, which is if you look within key asset classes and strategy areas, the dispersion between investing in an average manager and in a top quartile manager is significant. In some asset classes, it can be 6%, 7%, 8% incremental return from being able to do that. And so, our ability to try to do that and do that consistently is a big driver of our value proposition of the returns that we generate. How do we do that? I think a few things are really important to our approach. One is, we're very thesis driven. So, when we look at a strategy area, we're trying to say in order to do buyouts or early-stage venture or direct lending, what does a manager need to be successful in that area? And then we can evaluate individual managers and see whether they have those components that are required for success. So, it's not a one-size-fits-all, I'll give you an example. In some strategy areas, like in buyouts, we tend to favor smaller, earlier stage managers investing in the lower end of the market where we think there's more opportunity to add value to companies and to drive good return outcomes. In areas like direct lending and credit, there can be actually a lot of advantages to the platform, to the scale, to having a developed process, to having a lot of longevity, of having looked through credit in cycles. And so, there are different strategy areas call for different approaches, different managers, et cetera, and it's not a check the box exercise for us. We do look at a lot of criteria, probably no surprise to you. People on the team are critical, process investing

ultimately is a very process-driven business. Performance and in particular, how did they generate the performance, peeling back the onion and seeing how that was delivered, that's very important to our evaluation. And then the partnership. So, do we feel like it's aligned between the investor and the general partner? Do we feel like it's someone that we want to be in business with? And so those are some of the key criteria that we look at. A lot of this is hard work, honestly, in terms of what we're doing at the end. And I feel like we look, just to give you a sense of the scale of what we do, we're looking at over 1,000 opportunities every year to invest, about 1,200 a year. We're being highly selective... we're doing well under 10% of those are getting into the portfolio. And so, a big part of this too, is just hard work.

Dan DiDomenico: Obviously is, probably goes without saying, the technical expertise is essential. We talk a lot on this program, on this podcast with Robert and other guests of ours, that evaluation of the soft skills, the human skills which are equally critical in portfolio management. How does your team assess qualities like communication? You mentioned integrity, adaptability when selecting managers, there's a lot that goes into it. So, I'm just curious as to how you all approach thinking through those more qualitative qualities when it comes to manager selection.

Alex Band: This is absolutely critical and hugely important to us. And I think if I look back and reflect on lessons, I think many of the situations where things have not gone the way we had hoped is because we mis-assessed the team and the manager. What we look for, I think the criteria even across strategies is actually relatively consistent discipline. A continuous improvement mindset, so you have to have some amount of conviction in your beliefs to be an investment manager, but you also have to adapt, have to see how you can improve, how you can do better and be really pushing on doing that. And I often think, in the investing world, if you're staying in place, you're actually falling behind. It's highly competitive and you just need to have that mindset, the alignment, and the integrity. So those are all very important. In terms of, how do we assess that, I think the most important thing I can tell you on that is we need to focus and we look at actual behaviors, not just what managers say they're going to do, but what do they actually do, especially in challenging circumstances, and that what gives us the best litmus test for those soft and personal qualities.

Dan DiDomenico: Do you consider emerging managers? It sounds like maybe in different asset classes you might consider those managers that might be in earlier stages of the investment opportunities within your portfolio.

Alex Band: Yes, we absolutely do, and you picked up on an important point, which is it depends on the strategy area and our view on what it takes to be successful. But there are a lot of parts of the portfolio where emerging managers, early-stage managers, smaller managers are an important part of what we're doing. Buyouts, venture, constrained, more

niche public strategies, some absolute return hedge funds are examples of that. Importantly, when we're looking at newer managers, we're applying the same target return, the same underwriting standards, the same expectations as we do for any other part of the program. So, we keep the bar very high.

Robert Morier: A follow up question to that, in terms of how you source emerging managers relative to the better-known managers that are out in the ecosystem, are there any variations in how you look at that world relative to the more traditional or the more established?

Alex Band: Yeah, I mean, a little bit goes back to what I was talking about earlier, which is just you've got to work harder. They're less obvious and so you need to really have an active effort to look at them. We have a lot of great sources for those introductions. Our existing managers are an incredible resource for us. Our clients are a great resource. Our internal team and we have, over at the firm, we have a 400-person team that's very well-plugged into various opportunities. They're a great resource, our partners, peers. So frankly, good managers and good idea introductions can come from anywhere and we've got to have a really disciplined process to evaluate and spend our time on the ones that are the most promising.

Robert Morier: Well, getting back to that white paper, because officially was obsessed with it, looking at the different elements, one of them was the right partnership structure. I find that particularly interesting as you're looking at strategies that you had mentioned earlier, private debt, absolute return through direct investments. Can you elaborate how you keep driving these innovative structures within partners portfolio as you're growing, as you're meeting new managers, and just as you're thinking about ways to innovate for your clients?

Alex Band: This is one of the areas that we've most progressed and evolved over the past 10 years. The first focus is on the talent, the people, the strategy. Do we fundamentally think it's someone we want to go into business with? We're never going to lower those standards because we can get a good deal, or we can do something interesting. So, we've got to start there. The second part here is then let's focus and work when we can collaboratively manage to make sure the mandate is right up the alley of the managers, exactly what they're good at and where we think the opportunity is. The fees are aligned. We're happy to pay incentive fees to managers, but they have to be a fair proportion of the value that they're adding so that we retain the large majority of that. And then is it in the right structure, the right liquidity in order to access that opportunity? And so, we'll partner with managers and help them think through those elements. But as you were alluding to a big part of this for us is accessing direct opportunities where it makes sense. And the key areas for us have been co-investments on buyouts where we've really leveraged our relationships, our platform to have a significant effort there. It is on loan

participation and doing similar activity in the credit space where we've been able to do some really interesting investments and deals there. And also setting up separate accounts with hedge funds that we can then risk manage and cross collateralize in a way that just improves the quality of that absolute return allocation in our portfolios.

Robert Morier: Well, you've mentioned hard work a few times now, I know it's critical. But in that paper, you also mention early mover advantage, so being, sometimes not always, but sometimes trying to be the first one or at least in the early stages. If we can look ahead to 2025, what's your outlook in terms of thinking about some of those asset classes that you had mentioned earlier, both public and private, especially given today's economic climate and of course, Federal Reserve policies?

Alex Band: Overall, what we said, at this point about two years ago is we've seen a fundamental shift in the overall market landscape. Higher rates, and even with the Fed looking to decrease long-term rates, we expect to remain elevated for a variety of reasons. More uncertainty in terms of the geopolitical environment, the market environment, higher volatility in markets. And so, our view is, you just can't count on market growth, multiple expansion, low cost leverage, some of the big market level drivers of returns that took hold over the past 10 years as we're looking for it. And so, what does that mean in terms of where we're focused in 2025? It's really in areas where the execution is important to driving the returns. And so, what do I mean? An example is in buyouts, who are the sponsors who can drive operational value and basically take advantage of that ownership structure that we think is really advantaged in order to get good outcomes? Higher revenue by going into new markets or really propelling forward the sales engine, better margin structures, accretive mergers and acquisitions. Sponsors who can do that, those are the sponsors we want to back. And particularly doing that maybe in smaller companies where we think there's more of an opportunity to do that, maybe in specialty areas where they have true expertise, that's very promising. And so that's an area that we're focused on. Early-stage venture where there's been a pullback, but there's still a ton of innovation going on in the US and elsewhere in the world that we want to back. And so, we're continuing to lean into that area. And credit, this is an interesting story where talking about early mover advantage, we've been investing in private credit for about 12 years. And so, in the early days, it was actually not a lot of activity there, but the opportunity set was very different. And so, we've had to evolve how we approach it over that period. Two years ago, we really leaned in, and this was a period where we had to deploy a lot because we thought the opportunity was so great into middle market direct lending. Now, that pricing has compressed a little bit, the risk return is not as good, and we're looking at specialty lending areas, capital solutions, more niche opportunities where we think we can get good returns. So, in some cases, that's also evolving how you're approaching which specific opportunities within an asset class you're going after.

Robert Morier: Well, I wouldn't have done my job if I didn't ask you about risk management. And my chief risk officer when I started my career would also be wanting to why I haven't asked it by now. So, I would love if you could walk us through your approach to risk management. I'm going to assume I should never assume, but I will, that it's important. But how you execute on it is critical, I think, for us to understand in terms of how you're working with your clients.

Alex Band: And it is important and it's the fifth element of our overall endowment approach to investing. And why is it important? Because we want to build a portfolio that we think can generate robust returns across a variety of macroeconomic scenarios because we just don't know exactly how the world's going to play out over the next three to five years. And so how do we do that? I think there's three elements I'd highlight that are really important to us. One is, we need to be able to maintain market risk and maintain illiquidity even in more challenging market environments, and you've got to plan for that ahead of time. The last thing you want to be is in a market downturn, an environment where you're not getting distributions from your private managers, and that's when you're out over your skis. So, we want to avoid those situations, be able to be in the market in those types of circumstances. The second and this frankly has been an evolution for us is, we should size our investments based on the risk that we're taking. So, there are some investments that can take a lot of capital and are pretty risk managed. And so, we can size those big from a capital allocation perspective and others where there's frankly, a lot of risk in that investment, and so that should be sized smaller. And ultimately, what we want is a portfolio where there's a lot of very diversified and somewhat equivalently sized risk contributors to the portfolio. So that's the second thing. And then the third thing is, we've really as an industry and think partner's capital, advanced leaps and bounds in terms of our ability to have data and transparency to what exactly do we own in the portfolio. And so, we spend a lot of time at a portfolio level aggregating that data and saying, what do we own and what potential skews, weaknesses, opportunities that express and make changes based on what we're seeing there. So those are three elements. And it's been a journey, it's been an evolution. The first one has been in place for a long time, probably throughout the history of our firm and others, we've added those capabilities as the data and our toolkits have improved.

Robert Morier: If I can add on to that question, the third point you made around data that inevitably coincides with technology and the advancement and the pace of technological changes, particularly with artificial intelligence. So, when you think about the speed of technology as it relates to your business as well as how you evaluate the managers in your stable, how do you think about those technological advances and the speed of the deployment as it relates to your decision-making process?

Alex Band: I mean, the technological and data landscape has shifted materially and is continuing to change. And so, the two things for us are, one, on the data side, it's so much

more valuable than it's ever been. And so, we take a great effort in really collecting, codifying, analyzing, and integrating all of that data so that we can have the best visibility into what that tells us, what decisions does it help us drive? And then the second piece is just continuing to experiment with the different tools and technologies that are out there. We're doing some experimentation with AI... I think we don't at this point know exactly how ultimately it's going to impact our investment process. But it's important for us to try things and that's part of a little bit the bottom up, getting the team excited about it, running different experiments and seeing which ones really take hold.

Robert Morier: I was reading a book recently called the Age of Anxiety, it was written in 1946. As historian myself, I've once again seen that history repeats itself. We live in some turbulent times, and it seems just as relevant today as it did when it was written in that time. So as students and young professionals are starting to step into this complex and shifting world, I always like to ask people like yourself how they should be managing this environment.

Alex Band: We are absolutely going through challenging times, and I don't expect that to change. But with challenge comes opportunity. Stay medium, long-term oriented and realize there are going to be ups and downs, and that applies to investments, that applies to career paths, that applies to individual projects. And I think those who are successful are the ones who really soldier through and persevere and adapt and adjust through those challenges. The second is just the importance of curiosity. I mean, just asking the why. Why does that work? And again, I feel like that really for me separates out folks who do exceptionally well in this job and those who are just OK is this thirst to understand, how does it work and why and get to the bottom of things. And then a few other things that have just been really important, I just urge people to stay focused on as they progress on this career or frankly, in many other areas is intellectual honesty. So, listen to what the data says and be willing to admit that you were wrong about some supposition or thought that you had. I think that's just really important to have that flexibility. And then the final piece and this has been absolutely true in my career is just how important the people you work with are to your experience, your learning, how much fun you're having. And so just stay focused on working with people that you're excited to be around and that you're proud to work with.

Robert Morier: We are glad you ran with the responsibility when somebody trusted you with that task and we are very appreciative of the generosity of your time. Thank you for being here. Congratulations on all your success. We wish you and Partners nothing but future success.

Alex Band: Great. Well, look, thank you so much for having me on. It was really a pleasure to be part of this and wishing you all the success in the world.

Robert Morier: If you want to learn more about Alex and Partners Capital, please visit their website at www.partners-cap.com. You can find these episodes 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.

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