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EPISODE 18:

Recipes for Success with Doug MacBean

Deputy CIO
of Caltech's Investment Office

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Andrew O'Shea: Doing well. Happy to be here, excited to hear from Doug.

Robert Morier: Yeah, me too. I'm glad you're here. I'm glad Doug is here as well. He's remoting in from Los Angeles, where apparently it's a brisk 70 degrees. And he's struggling. He's struggling through the 70s right now, but we wish him the best. Yes, we do. Doug, welcome to the show.

Doug MacBean: Thank you, guys. It's good to be here.

Robert Morier: Well, I'm really excited to introduce you to our audience. If people don't know you, Doug MacBean, senior managing director of investments at the California Institute of Technology, Caltech. Doug, thanks so much. We are really excited to ask you a bunch of questions about your role and your experiences as it relates to your work with Caltech. But before you do, I am going to read your biography for the audience. Well, Doug is the senior managing director for

investments at Caltech, where he's been part of the investment team for nearly nine years. In his role, Doug is responsible for a variety of functions, including, but, of course, not limited to, manager research oversight, asset allocation with his investment staff colleagues. As of last summer, Doug began overseeing the investment team. Doug began his investment career in 1999 in equity research for Robertson Stephens and subsequently Jefferies until joining Stanford Management Company in 2007, where he spent nearly 5 years covering public equities. Doug came down to the Greater Los Angeles area in 2013. And after a brief stint at Nazarian Enterprises, Doug joined Caltech in their offices on campus in Pasadena. Doug graduated from Harvard University with a degree in Government, where he was a member of the Golf team. He also earned his MBA from UCLA's Anderson School of Management. Doug is originally from the Philadelphia area but calls Los Angeles home, where he lives with his husband, Ronnie. Doug, thanks for joining us, and congratulations on all your success.

Doug MacBean: Yeah, thank you again. I'm looking forward to our conversation.

Robert Morier: Yeah, we are as well. I always hate starting these podcasts off with bad news, but Harvard's Golf team lost their spring opener to UCLA. Mixed emotions there, or are you following it anymore?

Doug MacBean: Well, somehow, that's gotten lost in all the news of the last few weeks, at least getting to me. I didn't actually play during my graduate days, so I guess I'm more loyal to the Harvard team. So yes, that's devastating news, although, not terribly surprising.

Robert Morier: Yeah and do people in California golf when it's 70 degrees? Or do you have to wait until it gets back into the 80s?

Doug MacBean: Well, to be clear, it's not 70 degrees today. It's raining and 50-something. That's why I look like I'm all bundled up. Yes, that was growing up in Philly and being a golf player. You play in pretty much any conditions that are thrown your way. You need to because you've got to practice all year round, so you've got to take whatever comes your way.

Robert Morier: It sounds like you're talking about the markets again, so--

Doug MacBean: Yeah.

Robert Morier: --I was going to ask you what lessons you took from those days playing golf, whether it's in your high school years or your college years, and how you think about that. But you partly alluded to it. But as an athlete, there are a lot of athletes in our industry, former athletes either in college or even professional. What

were some of those lessons that you took from the course? And what do you see there now?

Doug MacBean: Yeah, I mean, there are a lot of analogies. The most obvious one is patience. Golf is definitely a game of patience, just like investing. I'd say, like investing, just practice, practice, practice is pretty-- just each day of investing, each day being involved with the markets is one more day of knowledge and one more day of wisdom that you can take with you as you invest today and tomorrow. I think there's also a lot to be said in golf for you. You just have to know thyself, know what you're good at, know what you're not good at. I'd say that's also really important in investing. You can get yourself into a lot of trouble if you start dabbling in asset classes or investments where, if you're really being honest with yourself, you don't know what you're doing. That's something to avoid at all costs, similarly in golf. You could be presented with a shot where, oh, no, you've got this, Doug. You've definitely got this shot. And the reality is it's, you have that in your bag. You never did, and you really should be looking for something a little more down the fairway and a little safer. So I think there's a lot of analogies, a lot of parallels to take from my experiences in golf.

Robert Morier: I think that's interesting. One of the things you did say is, trying to become an expert in something, sometimes your asset manager is-- my own experience as an asset manager or working for asset managers is that when things do happen, crises happen, you try to become and the firm tries to become an expert in it very quickly. And then they try to pass on that expertise, or what they've learned in the last few days or the last few weeks. How do you discern that from those folks who actually work, let's say, in the banking system? Maybe they're a hedge fund that focuses on financials versus a global equity manager, who had some financial exposure and is trying to figure out-- I guess you could say another analogy, ride the bike while building it.

Doug MacBean: Yeah. I mean, one is always a healthy amount of humility in moments like that to just, again, know thyself and know that-- the reality is you're not really an expert. You're not really the expert in anything. There's always somebody who knows a space or a company or an asset class better than you. The second, then, is knowing that is to reach out to those whom you know and who you know to be more expert in these particular areas. You mentioned the banking sector. And so over the last couple of weeks, we had questions with regard to what's going on with the regional banks, some of the more structured products within them. We have investment partners who have much deeper expertise on that. Let's go talk to them, and let's make sure we can inform ourselves, educate ourselves by going to the people that we trust and we know to be of much greater knowledge in these particular areas than ourselves.

Robert Morier: Well, you started your career in equity research. Well, what were those first few years like for you, in terms of sitting at the desk, going through-- I'm not sure if you had a specific sector or geographic coverage. But perhaps in the context of what you're doing today relative to how you started your career, how have you seen that bridge divide?

Doug MacBean: Sure. Sure. I mean, I started in the late '90s in San Francisco in the tech space, so? it was a great introduction to business that, coming out of college. That was just a really fun time. It was dot-com 1.0. San Francisco was the place to be. There was venture money flooding in everywhere. I mean, it was just personally a very, very fun introduction into the business world. It also disappeared in 12 to 18 months from my arrival in '99, so a lot of lessons to take from it. I mean, from the investing standpoint, I focused on what was called at the time ease services companies, which really would just be consulting firms. So if you can remember in the late '90s, that was when a bank of America just needed to have a website where you can log on and check your balance. I mean, that was like Earth-shattering technology 25 years ago. And so all these consulting firms popped up out of nowhere and were providing, really, just basic web services or the building blocks to develop those for companies. And these companies grew monstrously for several years, and they got swept up as well in the tech boom. And then, when the tech bust occurred, I think 3/4 of my coverage list disappeared in nine months. And that's not an exaggeration. Mostly, they were all people-based businesses. The moment the economy turned, the demand goes away. You just have to fire everybody. And pretty soon, we were just transition our coverage list over to EDS and Perot systems and the Indian offshore companies, these sort of Accentures-- boring, stable, much more large cap. So that was interesting experience to go through the boom and bust. I think that one thing I've always taken with me from my equity research data is obviously an analytical rigor to getting to know a company hopefully better than anybody else, and then, finally, was the ability to communicate, both written and verbal. Whenever I'm asked by someone new to the industry or more junior, I always say, the ability to write is a skill that is incredibly important to what we do, to be able to convey an idea, both written and, again, and orally. And I just see increasingly fewer and fewer people, younger people with the ability, I think, to write effectively, and I think that will differentiate you that much more. But it was critical, all right, as a research analyst because you're writing your research notes or your work product were your way of conveying your ideas.

Robert Morier: Yeah, that makes sense. I grew up in equity research as well. I was at Greenwich Associates at that same time, so 1999, 2000. And we had programs called e-commerce. And then, 2 years later, we did not have e-commerce. So I completely -- understand that situation. But it's interesting because during that time, too, in a traditional analyst program, you're taught the fundamentals. You're taught how to write an email. You're taught how to answer the phone, how to leave a voice

message. So yeah, I couldn't agree more. I think those are skills that are a little bit lost.

Doug MacBean: Right, it sounds so silly, the ability to leave a voicemail as if you need to be trained. But the reality is I do find that, increasingly, I guess, especially younger people really struggle with the ability to convey themselves and convey ideas. And it will always be critical, will always be essential in the world of investing.

Robert Morier: Yeah. For just a quick, funny story, I remember I was working there. And we had very senior consultants, so it was basically a bunch of 20-nothings and then a bunch of people in their 60s. And I had never left an answering machine voicemail, so hi, this is Robert Morier. So I left this message that said, hi, this is Robert Morier with Greenwich Associates. I'm either on the phone or out of the office. Please leave your name and number. And one of these consultants called me screaming, saying, well, where are you? Are you in the office, or are you out of the office? I don't know where you are. So it's just these little basic nuances of professionalism that I was happy to get. It sounds like you got them as well, Doug.

Doug MacBean: Yes, I 100% agree.

Robert Morier: Well, you moved to Stanford Management Company, also an incredibly interesting time. You were there in 2007. You worked under the late John Powers, who accomplished some pretty incredible things coming out of that crisis. So can you take us back to those days? What were you coming into in that role? You were moving into the allocator seat for the first time. And what did you learn through those years working with John and then just working in the endowment model?

Doug MacBean: Yeah. I mean, the transition from the sell side to an allocator seat was exciting for me. After six or seven years of being an expert on 20 companies, of DCFs and knowing Accenture better than anyone, or hoping I did, it was apparent to me that something was missing in terms of what I was looking for out of my career. And intellectually, it was just wasn't offering me the same reward that it had when I started my career. And so in talking with a variety of people, I got some good advice. And some people who knew me well said, you know, Doug, you're more of a bigger picture, 30,000 foot view kind of thinker than a 3 foot kind of thinker. And that really made a lot of sense to me. Maybe going back to the golf thing, I enjoy something that's taking the long game. And it requires patience and more of a mosaic kind of approach. And so when I was introduced to the idea of-- I always knew there were endowments, but I really didn't know what the endowment model was. And I was fortunate enough to be reintroduced to John Powers. He happened to be the head of research at Robertson Stephens, where I was several years earlier. And since then, as you pointed out, he had taken over CIO role at Stanford Management. I had a coffee

with him in New York in June of 2007. I remember it well. He walked me through what Stanford did, the endowment did, and said there was a position open in the equities and hedge funds team. Would I be interested in moving back to the Bay Area. And I have to tell you, Rob, the whole thing just was so exciting to me. I was like, wait, there's a way to work in this field and support an institution like Stanford and have an investment time horizon of infinite and invest in every asset class in the world? I was like, this is too good to be true. Pinch me. And so I doggedly pursued that opportunity for-- it took about a half a year, several trips to the West Coast again. And I was fortunate enough to get that role in November of '07. You pointed out I did jump into the role at a very interesting time. I feel fortunate that I was housed safely within an endowment during the GFC. I mean, if Stanford was going away, then there were much, much bigger problems in the world. And so I was fortunate to be housed in the environment. And I focused on domestic equities and hedge funds primarily during my time there. What is applicable to my prior role was that I'd served in the seat of an analyst, of a research analyst, of someone who did the rigorous, detailed work on companies. Now I was in the seat to evaluate those firms and those individuals. And so that was one of the bigger transitions and one of the skill sets I was able to apply, is I didn't have to do DCFs anymore. But I could sit across the table from an experienced research team and have them show me one of their DCFs and be able to walk through it and be able to ask informed questions to understand and evaluate, in my view, whether or not these men or women knew what they were talking about, if I thought they were focused on the right things, et cetera.

Robert Morier: Interesting. Well, people like John Powers and David Swensen at Yale really became these luminaries in the endowment world, and they created these models that have since been carried forward and applied to several different institutions. As you think about the Stanford model relative to what Caltech is today-- so maybe 2 questions, is if you could elaborate, what did that model look like in terms of what was being presented when you started, what John built? And then, for people who are less familiar with Caltech, could you talk a little bit about the model that Caltech employs and just some of the blocking and tackling of assets under management and the team?

Doug MacBean: Sure. Yeah, so you can imagine Stanford and-- I mean, Stanford is an enormous institution and a storied institution, housed right in the heart of Silicon Valley. So there's definitely a mantra and a mindset on that campus and certainly within the investment office, and also just because of the various constituencies of alumni who are luminaries in the tech world and are obviously probably very generous donors. There's just a very growth risk-on mindset, I think, that permeates just that whole geography, not just Stanford, but the entire Bay Area. And so I'd say one difference between Stanford and Caltech-- and Caltech is certainly a growth-oriented portfolio, but there was just a mindset in general at Stanford of growth,

risk-on, heavy allocation into venture, and certainly on the growth side as well within the equities world. Because one thing that's often lost when talking about the endowment model and in comparing endowments and how they invest is the side that you don't see, which is the liability side. Each university has different risk tolerances based on any number of factors, and those do often inform key differences in their asset allocations. I'd say just the overall mindset of the team, of the school president, how that informs the trustees, the investment committees. There's just a lot of various inputs that one wouldn't just optically see looking at, what is the asset allocation of a Stanford versus a Caltech versus a Yale? So that was one thing I would say-- specific to John Powers, what I think he did best and what I appreciate his leadership for most was, during the teeth of the crisis, he was remarkably calm. As I reflect upon it now, I was still fairly young. I was maybe 30, 31, going through that. He just had a tremendous sense of calm that this would pass, that we would survive this, and not just each individually. The endowment would survive. Stanford would survive. The world would survive this. And I think that level of calm in the teeth of something really unprecedented and profound, actually, for those of us who went through it, that level of calm was incredibly important as an investment program, to have your leadership provide that day-to-day, because there were-- I remember going to New York in January of '09 for a work trip looking down 8th Avenue at 8:00 PM one evening and not seeing a single soul. It was like out of a sci-fi movie. I mean, New York was desolate. It was a very scary time. I mean, for those of us who went through it, if you can recall, those were the teeth of that. And John was just a total calm in all of that, and I always remember that most strongly about his leadership.

Robert Morier: And that's interesting. It was a tumultuous time. I was working for Goldman Sachs Asset Management. And not only were people not out on the street, but you also couldn't leave your desk. You weren't able to go between floors, because there was so much crisis management going on, that they didn't want to have to basically create more interference in what was, as Doug had said, these really unprecedented times. So yeah, thank you for sharing that. So now you're at Caltech. You've left Stanford. You've taken all of these lessons. It sounds like calm and fortitude were two of the bigger takeaways. So you rightly said, the liability side, also governance, the way that you think about governance at Caltech-- but when did you come in at Caltech? And how is Caltech structured today?

Doug MacBean: Yeah, so I joined Caltech in 2014, focused again in a director role, overseeing the global equities portfolio in addition to our fixed income investments. Although, when I joined in 2014, we didn't have any fixed income investments. So that made managing that side of the portfolio easy. So really, just came into focus on a global equities portfolio. My role has since expanded during my tenure to oversee about half the hedge fund portfolio. And then as you alluded to in the introduction, last summer, I was promoted effectively to Deputy CIO. And now my role is to

oversee the investment program and the investment team. Huge difference here, too-- Stanford was $22 billion when I joined. Caltech was $4 billion when I joined-- or excuse me, it was $2 billion when I joined. We're now about $4, which is-- it's funny when I mentioned these numbers to my spouse, and I don't even sometimes say billion. I just say $4. We're going to invest $10 in this. And he's like, you mean million, right? And I was like, yeah. These numbers-- you forget the numbers you're talking about here. So Caltech, yeah, is a $4 billion endowment now. What's interesting about Caltech, and not a lot of people know this, is it's only 900 undergrads total. So it's a very small school when it comes to the undergrad population. The graduate and postdoc population is actually about 1,200, I believe. So the school supports 2,100 students, but very different from a Stanford, in that Stanford had thousands of undergrads in addition to having medical school, law school, business school, things like that. Caltech doesn't have any of those. It's a pure math and science-oriented campus, which is quite special. I always joke that I don't understand 99% of what goes on on campus, but I absolutely love that what I do supports it. And I mean that sincerely. That resonated with Stanford. That resonates at Caltech. I always feel so fortunate that I get to work in the investing field and have my efforts support the tremendous higher learning institutions of our country. I feel incredibly blessed that my career has led to this spot.

Andrew O'Shea: Doug, you have global equities obviously in your roots. But can you talk about the mix between privates and public equities now? What does that look like?

Doug MacBean: Yeah. So I'd say roughly, at the endowment, about a third of our investments are in public markets. And in our investing, we don't include-- some of our peers include long-short equity in their public markets allocations. We do not. That's purely long-only investments. I'd say another third is roughly in private markets. So there I'd say roughly about 7% in venture capital, low 20s in buyout and growth, and then the remainder a little bit in real assets. And real estate's another 4% or 5%, let's say. And then the remaining quarter of our portfolio is in what we broadly call alternative securities. The way I think about that is if it doesn't fall cleanly in bucket 1, public markets, and bucket 2, private, it falls into the third. So that's everything from your traditional hedge fund, like long-short equity, multistrategy, event-driven type hedge funds to really one-off things, like a power-producing strategy in Latin America to a consumer credit strategy in Argentina to a life settlements-oriented investment. It's kind of a catch all.

Andrew O'Shea: That's helpful. I have a question because of your experience. You grew up on the sell side initially. You went to a large endowment. Obviously, the environments change in terms of some of the factors out there, like the growth of passive investing or the awareness of factors out there. Can you talk about what you think, in today's world, differentiates a public active equity manager?

Doug MacBean: Yeah, this is one of the great debates, right, that rages on still within our world. There's a handful of ways for an active equities manager to differentiate themselves, and it is difficult to do. Concentration is obviously one of the obvious ways to do it. Don't own the S&P 500 stocks. Compete with the S&P by owning your best 10 ideas. The challenge of that, of course, is tracking error and volatility. The good news is, as an endowment, I can stomach tracking error and volatility because my time horizon is forever. And oftentimes, volatility is my friend. And to be clear, we don't actually talk very much about tracking error at the endowment. But I understand that other types of institutions or individuals have a very different risk profile than we do in that regard. I'm not antipassive. I will say what is intellectually true, which is that the only way to guarantee you will underperform a benchmark is to invest passively because passive will get you the benchmark less the fee you're paying. And so you are assured of underperforming that benchmark. Now, I'm also very well-read and versed in the research that shows that active managers over time have about a 0% chance of outperforming a benchmark. So you're asking yourself, geez, what am I supposed to do here? And so what I think is key to our role is to meet a whole host of potential partners, get to know them over a long period of time, try to find that special skill, that special niche, something about the individual or the team, something about the markets in which they invest, something about the way that they structure their portfolio, hopefully some combination of all of those. That's really what I think you're looking for as an allocator in a potential partner. And so I give you a couple of examples in ways that we think about investing. For example, we have a very concentrated life sciences portfolio. And the appeal of life sciences to an endowment, one, is the time horizon for investment success in life sciences is many, many, many years, just because the life cycle of drug discovery and drug companies is decades, typically. And so, again, it's also a very tough space in which to index. It really calls for true medical and financial rigor and skill, and so that's just an area where we think, if we can find the right partner, we think we can navigate what is a very precarious investing environment trying to successfully pick life sciences companies and reap the rewards of being successful there. When it comes to more bread-and-butter, large-cap growth, we still skewed toward the active side because we think there are teams that can outperform over time. And we have a couple of those who, with 7, 10-year track records, at least under the belt at Caltech, and much longer track records historically, have a proven ability to do that. But year in and year out, there's no way you're going to have every strategy beating the S&P. In fact, if you have every strategy in your portfolio beating the S&P, you have a serious risk problem. And so it is an expectation in any given year that at least one or more of our strategies should be underperforming if we're diversifying our portfolio correctly.

Robert Morier: As you think about that, those active managers, whether they're concentrated or not, do you think about specialists versus generalists? So how

granular will you get? Will you look at Japanese long only versus a global equity mandate? Or do you try to allow your managers or your asset management partners to go wherever their ideas take them?

Doug MacBean: Yeah, Rob. I mean, it's a good question in that what you're asking yourself as an allocator is, what is the role of this specific team or of this mandate? And we have 15 public strategies, public equity strategies in the endowment today. Each one has a very specific function, and we obviously are mindful of how the 15 all interact with each other. That's another consideration for us. The beauty of investing for an endowment is that we can and do invest in anything, anywhere globally. So to the examples you cited, absolutely, we could invest in a Japan long only. I've already cited a concentrated life sciences fund, where the largest investment is 40% of capital. And we have a quant global EM mandate that provides us our basic global EM exposure, for which we pay not very much fees. And we feel like a quantitative model can cover a global range of investments better than a fundamental team. So I know there are those in my industry who think that the only investments and investment firms worth looking at are 100% owned independently, all concentrated, 8 to 10 stocks, usually niche, like a Japan only. And then the view is, if I have 15 of those, I roll them all up. I have a global portfolio of 100 to 150 stocks all being managed, though, by specialists. I completely understand that perspective and peers of ours who do that. That makes sense to me as a portfolio construction. At Caltech, we take a little bit of a different tact, and we're not quite so dogmatic about, only that archetype can work for us. I think we're a bit more open to-- there's a time and a place, a potential need in your portfolio for a whole host of strategies.

Robert Morier: Yeah, that construction process that you described is not a cheap one either. So if you think about fees and governance, it's certainly something that we're attuned to, that fees have been going down in the industry over the last decade. So it sounds like a very pragmatic approach. I appreciate that. As you take a step back, you alluded to asset allocation a few times. But what does that process look like? Are you actively allocating across asset classes? Or are you relatively static, and you revisit it once a year? What does that process look like from a top-down perspective?

Doug MacBean: Yeah, so we work closely with our investment committee, who's involved in our asset allocation framework. We don't revisit that on a yearly basis. It's usually set over mid- and long-term targets. So the midterm, I'd say, is 3 to 5 years. The target does change a little bit typically between each time we revisit, every handful of years. But generally, it tends to remain fairly static. It's constructed in a way to optimize achieving what is our ultimate investment objective, which, in most cases for an endowment, is whatever your payout is on a yearly basis to the school plus inflation plus hopefully a little bit of growth so that the asset base itself does grow over time. That, in a lower inflation environment or hopefully a

normalized inflation environment, let's call the payout 5%. Inflation is 2. A little bit of growth-- another 1. You know, your bogey is somewhere in the high single digit year in and year out on a risk-adjusted basis. I think our 10-year number, when I last looked at the print, was something like 9 or high 8's or something. So we're right there. But you don't want to move around the frameworks very much in terms of your asset allocation targets. Those are your guideposts. You don't want to be whipsawing that around and changing it conveniently because of the team's whims in a given day. You want that to be something that's quite steady and is guiding you into the future.

Andrew O'Shea: Yeah, Doug, if you could elaborate on your sourcing process particularly on the private market side, where you have over 2/3 of your exposure. What does that look like from initially sourcing to the due diligence process to ultimately an allocation?

Doug MacBean: Yeah. And it's a good question, one I get asked a lot. There isn't really a tried and true format to it. A lot of it is conversation, is referrals, is-- there's a little bit of just cold calling or cold emailing and introducing a fund to us. What I alluded to earlier is-- let me take a step back. Again, our investment horizon is infinite. We don't actively manage investments on a day-to-day basis. I'm not there looking at a Bloomberg on a day-to-day basis. We're seeing what's blinking green and what's blinking red. That's just not what we do. And so a lot of what we do, therefore, is having conversations, is talking to current partners, potential partners, peers. Anyone in that mosaic of the investment landscape, I think, is a lot of what our job is about. And so when it comes to potential investment partners, I think we're fairly open to introductory meetings with-- I don't say just about anyone, but with individuals with an interesting pedigree, who might be going out and launching their own thing, obviously established institutional funds. Certainly anyone Caltech alum, anyone with an affiliation to Caltech-- we always want to be mindful of being good members of the community and engaging with Caltech alum. But I think it's incumbent upon us to cast a very wide net and at least have initial conversations with a very, very broad group of potential investments because, quite frankly, you just never know when a particular individual or particular conversation or a particular opportunity set just piques your interest. And it isn't, like it, then you just hand over the check at that meeting. But what it does do is it does begin to say, hey, that was an interesting individual. That was interesting conversation. The next time he or she is back in LA or the next time that I happen to be in their hometown, maybe I'll stop in again. And we'll further that conversation, or I'll take the opportunity to get to know him or her a little bit better. So I can't provide you-- like, here's the roadmap to what we do. But I can tell you that it is just an ongoing narrative of individuals and teams and strategies, where we are taking inbound, as well as we travel. My colleagues and I do travel a fair bit. That's partly, too, just to get us out of the Pasadena-- tiny Pasadena mindset. And it's always interesting to

hear what people are talking about in London or Hong Kong. It's never the same perspective as you're hearing generally in LA. And so that's a lot of the initial. I'd say, when it comes to, how do you narrow that focus, that is a lot of, I'd say, the judgment of myself and my colleagues. One, there's obviously the consideration of, what are the needs of the endowment at this moment? For example, we might have a view as a team that Japan is particularly interesting for X, Y, Z reasons. If that's the case, then it's incumbent upon us to start prioritizing talking to Japan-oriented funds or Japan-focused funds and to either then do outreach to those whom we already are in dialogue with, open ourselves up to potential inbound. Yeah. So I don't know. I just always say, it's just an ongoing conversation, ongoing narrative of engaging with-- I mean, I think at any given year, we engage with hundreds of investment firms, even though we only have about 60 to 70 active partners.

Robert Morier: How about those active partners, so as an LP to some of those GPs? We were talking about 1999 and 2021, very similar VC markets, lots of capital, lots of dry powder. I'm assuming a lot of the LPs in '99 were getting the same calls that they were getting, or you were getting, in 2021. So now coming into '23 after a very difficult '22, how do you see that relationship with your GPs in terms of the sourcing of the next vintage or the next great idea, particularly with the amount of capital that they've taken on over the last couple of years?

Doug MacBean: Well, you said it, Rob. They still are sitting on a lot of dry powder and a lot of capital. And so particularly in the venture world-- and I haven't been close enough since the Silicon Valley Bank to know to what implications that had in shaking things up, but I'm guessing it has a decent amount in that world. The conversations-- frankly, they're still fairly well-funded. Most of them have probably raised fairly recently. And so in terms of any sort of stress to their model, I don't think you're going to see it for a while. I think the question mark looming over the venture space certainly is just valuations and their existing portfolios and what is the true value of what they own. I think that's an interesting question. You certainly have the disconnect of the public markets and certainly the tech side of the public markets falling out of bed, while you still have venture-oriented venture funds, crypto funds holding their funds at cost. There's just a disconnect there, and we'll see how that all shakes out. I'm a believer that gravity still exists and that the public markets are telling you something. The private markets eventually find their way to learning the same lesson. But time will tell. The conversations are, fundraising is still ongoing. I haven't seen a market slowdown. I think the pace of calls has definitely slowed down as markets have become more volatile. So I guess that's something I would note, that just in the last few months, I do think the pace of calls has slowed. But the appetite for venture-- Rob, you can appreciate-- venture has been the place to be for the last 10 years, and people have a hard time unlearning that what's worked for 10 years, the past 10, is probably not what's going to work over the next 10 as well. I don't know. That's something I would argue.

Robert Morier: It's a good point. I would agree. I think it's a little bit of going back to basics, so you're getting to know the companies that you're investing in. You're absolutely right about the valuations. But the luxury that venture and private markets have is they've got the time horizon to figure out what the valuation is, whereas public markets don't have that same luxury. So I agree. I don't think too much will change, but I think enough will change in terms of the fundamentals of due diligence and trying to figure out the people behind the ideas and what the opportunities are. But those are great points.

Doug MacBean: There will always be great ideas, great new companies to be founded. I'm not knocking venture capital writ large. I'm knocking the mindset that it's the only game in town and that because, when I look at our track record issue and I look at all of our funds and say, well, look at the venture returns, as we know in every disclaimer on a public market, literature, past performance is not indicative of future returns. And so that's a challenge for any investor, is not get set in the mindset of, well, what worked last year? That's what's going to work this year, is you have to remain open and curious about-- and maybe even a little skeptical as if somethings worked a little too well for a little too long. Maybe that's not the best use for the incremental dollar over the next 10 years.

Andrew O'Shea: Could you talk about emerging managers? Those words mean different things to different people, but you mentioned finding interesting backgrounds in portfolio managers that might be leaving and starting their own firm. How do you all think about underwriting emerging managers? Do you allocate quite early to emerging managers? Or is it more, let's see how the firm grows over the next few years and revisit?

Doug MacBean: It's a little bit of yes to all of those. There's nothing in what we do that says we can't be a day-1 investor. We have invested in, what, emerging managers, as you just described them. It can be, again, a pedigree that's of interest, can be a particular niche. Sometimes the size is appealing to us. I mean, one of the advantages-- Seth Alexander, who oversees the MIT endowment, who I think is kind of brilliant, and the way he approaches investing, I think, is very straightforward. He always says take advantages of what your institution's advantages are. And you just know what they are and take advantage of them. Well, at Caltech, I'm not Stanford. I'm not $40 billion. I'm only $4. But at $4, a $10 million investment can really move the needle for me. And so an emerging manager coming out in the venture space and wanting to raise $50 million, well my $10 million check is material to them. It's material to me. But Stanford would never write that check, because it doesn't move the needle for them. And so yeah, we're definitely open to talking to and getting in front of individuals early. It's very possible that it might be too early for us or more likely that the fit or the need within the portfolio doesn't exist, but we certainly want

to get that dialogue going because I always joke that the goal with what we do is as a long courtship for a longer marriage. And we might not be set up or we might want to watch and see a little bit how fund 1 goes for you. But what's important is that we start the clock at fund 1 so that, by the time fund 2 rolls around, we're not in day 1 getting to know you. We're in year 3. And I think the investors who get it are those who know that a conversation with a Doug at Caltech-- the first conversation isn't just going to be the one where the check comes across the table, and not going to be the second meeting either. But no, there are times where individuals, after a second meeting, more or less say to you, like, so what are we doing here? And I'm like, we're having a conversation. We're getting to know each other. And Rob, I mean, you know this, Rob. You appreciate, right? Yeah, and your background-- you're like-- because there's also so many other elements to this. I talked to so many peers. It might not make sense ever for us to be partner with you. I might think you're the best investor in Japan equities, to keep using this example. But Caltech might never have a desire for that single strategy. But I talked to plenty of other peers, and one of them might mentioned that they're looking in Japan. And if I had a really interesting constructive conversation, I'm going to pass along that name. And I might be useful in that way. So I think those who get it recognize that it's a long game and recognize that there's a lot more to developing a relationship with those of us in the allocator side than just whether or not we ultimately invest with them.

Robert Morier: It does raise a question, though. You have a relatively concentrated group of asset managers. You are looking at emerging managers. I think all of us can appreciate the advantages of a longer courtship. But there's also something to be said, having gone through that whole courtship, whether you could establish a royalty with these asset managers by taking equity in their business or potentially doing some type of revenue share or profit sharing arrangement. Will you take those relationships to that extent? Because Andrew raised a good question on just in terms of emerging managers, the definition of emerging managers. There's also no shortage now of emerging manager programs, so they're trying to differentiate themselves with each other. So as you think about your seat and what's happening in that space as it relates to that royalty, is that something that you would-- is that a path you would go down?

Doug MacBean: No. I mean, historically, we haven't. We're obviously very curious about the viability of the business and who are the equity partners, if there are any, or the outside interests, how are they aligned, obviously very important considerations. In any stage fund, even $20 billion hedge funds, you want to know those things. But no, we historically don't go down the road of trying to take a stake or become an equity partner.

Robert Morier: Well, thanks. I appreciate that. Well, you mentioned crypto. And I'm in a university setting, so I can't help myself. I sit in the School of Entrepreneurship at Drexel University. So I'm either hearing about one of 3 things-- ChatGBT, artificial intelligence, crypto blockchain, or something-- the creator economy. So those are my 3. That's all if we talk about how small my world is.

Doug MacBean: I feel so bad for you, Rob.

Robert Morier: I know. Doug, I feel very youthful, but I am not youthful. But it does make me feel good, at least understanding what's going on. And as we were doing just a little research on you, Doug, I saw that you were asked a few years ago as part of this Next CIO masterclass competition that was held by Institutional Investor, whether crypto and digital assets should be part of an institutional platform. And I should also say, Doug won this competition. He was named the Next CIO by Institutional Investor. So I was curious if you remember that answer and if it's changed.

Doug MacBean: I do. I remember my answer very well. And no, it has not changed. My view, my answer was not in any portfolio in which I am involved, and the very straightforward answer is that I don't understand crypto. If you will, I don't get it. I mean, I don't understand the use case to take it into a financial parlance. But taking even a step back, I don't really get what Bitcoin is. I don't really get what digital currency is. It's just not something I fully understand. And so the most fundamental role that I have at Caltech is as a fiduciary. That is first and foremost always. And I say this to younger members of the team. If you're ever in an elevator with the chair of our investment committee and you get asked about a strategy, if you can explain it in 10 seconds, it's pretty likely that you shouldn't be invested in it. And the truth is that I just don't feel that I have the knowledge of what crypto is about, what Bitcoin is about. It just doesn't really add up to me. It doesn't make sense to me. And if that's the case, then that's an asset-- if you even want to call it an asset-- that's something I shouldn't be invested with, and that's fine because the beauty is other investors, other peer institutions might get it, might have a view that they feel is informed. And that's what makes investing fun, is you don't need to be in everything. But no, crypto is not something that I feel I understand. And if I don't understand it, then I shouldn't be invested in it.

Robert Morier: Well, I don't know about you, Andrew. But I feel a lot better because I don't understand it either. I listen to it all the time, so I appreciate that answer. It sounds like the panel probably appreciated it as well.

Doug MacBean: Again, I'm still looking for a use case. Bitcoin's been around 15 years, and I'm still not sure what you can do with it, other than convert it back into US dollars, which seems-- anyway. Anyway.

Robert Morier: No, no, I'm with you. Well, I appreciate that, and thank you for following up with it. But you did mention that fiduciary responsibility, so governance is part of that. So it's as important as ever. It's obviously always been important, and this is going to take us into ESG. But when you think about governance in light of what's been going on, can you share with us your approach to governance within the endowment, how you think about it? Obviously, you said we write these checks, $10 million, $20 million, $100 million. But there are educators behind it. There are billings behind it. There are grants behind it, potentially. So any comments on governance and your thoughts on where we'll go with the context of where we are today?

Doug MacBean: I mean, there's obviously the governance that's established just in Caltech, which I think is probably fairly consistent across most of the endowments in that there is typically an investment office, which typically reports to an investment committee, which is often a subcommittee of the Board of Trustees. So there's several layers of oversight and governance that sit on top of an investment program. What is different is sometimes the discretion that an investment program has. At Caltech, the investment office has a pretty broad investment discretion, where, while we certainly inform our investment committee of every investment, only those that have a particular illiquidity or size actually require an investment committee unanimous approval. So again, we're always informing them of any decision we make, and we welcome any sort of feedback. And when it comes to actual approvals beyond just the seven of us on the investment team, only illiquidity or size can trigger requiring a unanimous approval of our investment committee. So I think, in general, you obviously want broad governance to-- to me, it's a help to keep you out of trouble. It's an additional set of eyes. It's a perspective that goes beyond the 7 of you in the investment program. Yes, there's 7 of you, and you all come with your different backgrounds and your different asset class priorities. But you can still become myopic as a group. And so it's important that you have those outside of you to whom you are responsible to, to whom you report quarterly. It's important to even-- sometimes, I have peers who begrudge having investment committee meetings because they find it just so mundane. And here we go, doing this again. And I actually think there's a real value to just walking through the mundane to an outside audience because you just don't know what kind of questions it's going to prompt, different perspectives, different viewpoints. So that is hopefully a sense of the broader governance. In terms of how we think about governance of the funds that we invest in, we obviously have a full operations team. We do a full operation, due diligence. We do outsource as well to a third-party provider for additional support on due diligence. That's the only outside provider we use in the office. We don't use one on the investment side, but we do use it on the back office side, just for, again, an additional set of eyes, are we missing anything? That's the piece of this, is the governance, the fiduciary part that you can't get wrong. You're going to get investments wrong, Rob. You're going to get things wrong. You're going to buy gold

Bitcoin at $60,000, and that's going to happen. But you can't get the governance wrong.

Andrew O'Shea: Doug, you brought up an interesting point earlier about, is there a fit for the endowment? And I'm just curious-- there's a lot of noise out there. But is there anything you're more open to in terms of asset classes and evaluating active managers right now in terms of what's coming across your desk versus other areas?

Doug MacBean: In all candor, the challenge at the moment is with public markets having been fairly flat to down for a decent amount of time now, obviously the illiquid asset classes, the private equity and the venture-- those marks were lofty to begin with. There is not a whole lot of liquidity running around, investment pools like ours right now. So I would say, at the moment, a big focus of mine is on liquidity, is on making sure that-- because we have that payout every 90 days, our reason for existing. And so the treadmill that we're on is that every 90 days, we have to come up with X amount of dollars to fund the payout and to fund the school. And that check will go out in 90 days later and 90 days later and 90 days later. And so in environments like this, where public markets aren't just reflating, where the private markets are probably topped off for probably a while, I would believe, liquidity becomes a bit more of a challenge. So I'm sorry. It's a very roundabout way to saying, there isn't a whole lot on the radar today. I would say that fixed income has become interesting for the first time in my nine years at Caltech. The challenge is that even though I can maybe get 5% on 2-year treasuries is my payout is still above that. It's a lot better than getting nothing, but it's still not really meeting the objective of what we need to achieve. And so it's more interesting. I would say, probably distress credit is going to become a lot more interesting if things get more wild and wonky than they have begun to get, and certainly in the regional banking side. So I think that could become a more interesting area. And on the equity side, I still think emerging markets have been pretty much left for dead for a while. And that's probably a more interesting space. And sometimes, I can tell you, we're not looking in US equities. We don't find that interesting today. We're in a reupcycle on the private and venture side, but not really leaning into that space for obvious reasons, from earlier conversations. It's a bit more of a liquidity, and I'd say a little bit more of a preservation mode right now.

Robert Morier: Well, Doug, thank you so much. We're at the top of the hour, so I want to be mindful of your time and Andrew's time as well. So thank you for being here today. Congratulations on all your success. I do have a quick congratulations as well to your husband and you, Ronnie Woo. For those in our audience-- and I know it's a big one for Doug because Doug has been on the road with Ron, with Ronnie, helping promote his new book. For those of you in the audience who don't know Ronnie, he's a professional chef and food personality. He released his first cookbook

on March 14-- Did You Eat Yet? And there's a link on this book. There's a link to the book on our YouTube page. But how has it been since the--

Doug MacBean: That's so sweet.

Robert Morier: Yeah, absolutely. How's it been since the release?

Doug MacBean: Yeah, thank you. That's really generous of you to bring that up. It's been a wild 3 years. He signed-- inked the deal with HarperCollins in the teeth of COVID, having never met any of the editorial team or the publisher. And then we produced the entire book during COVID, and it's really exciting to see his 3 years of effort culminate with the launch of the book. And being with him in New York a couple of weeks ago and seeing him on GMA and Drew Barrymore promoting it, and it's been a lot of fun. So thank you for referencing it.

Robert Morier: No, it's our pleasure. I actually did it mostly for Andrew. He only cooks wings, apparently. So I wanted to make sure he's was aware.

Doug MacBean: My husband loves wings, and there is a really good wings recipe in the book.

Andrew O'Shea: All right, I'm buying it.

Robert Morier: I also want to plug your sister because she's a graduate of Drexel's LeBow school of Business with an MBA.

Doug MacBean: That's right.

Robert Morier: I've become endeared to Drexel University, teaching there now in Venture, so I also wanted to mention her. But Doug, thanks so much. If you want to learn more about Doug and Caltech's Investment Office, please visit their website at www.investments.caltech.edu. As I mentioned before, you can find a copy of Ronnie's book, Did You Eat Yet on amazon.com or at your favorite bookstore. You can find this episode and past episodes on Spotify, Apple, Google, or your favorite podcast platform. We are also available on YouTube if you prefer to watch while you listen. And finally, if you would like to catch up on past episodes, check out our website at dakota.com. Doug, it was so nice. Thanks so much for being here today.

Doug MacBean: Yeah, guys. Thanks for having me. I really enjoyed it.

Andrew O'Shea: It was great, very insightful. Thanks, Doug.

Robert Morier: We did as well. We'll see you soon.