EPISODE 35:

Under the Wall of Capital

with UCLA Investment Company

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, sales leaders, and other important players in the industry, who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live content, please check out dakota.com to learn more about their services. 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 fund raisers for fund raisers. 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 very excited about today's episode. Before I introduce our special guest, I want to introduce our audience to Steve Aitken, from Dakota. Steve, thanks for being here.

Steve Aitken: Thanks for having me.

Robert Morier: Well, I'm very happy to introduce you and our audience to Michael Marvelli, the deputy chief investment officer of the UCLA Investment Company. Michael, welcome to the show.

Michael Marvelli: Great to be with you today. Thank you.

Robert Morier: Yeah, thank you for being here. Well, we have a lot of questions to ask you, Michael, within the hour that we have of your time, which we greatly appreciate. But before we do, I want to quickly share your background with our audience. Michael has more than 25 years of investment management and capital markets experience. Since joining UCLA in 2003, he has been involved in all aspects of managing the UCLA Foundation endowment, including corporate governance, investment policy, asset allocation, investment selection, and risk management. Michael is responsible for the private markets portfolio, spanning private equity, real estate, real assets, and credit. In 2011, upon the board's approval to create the UCLA Investment Company, Michael executed key elements of launching the management company with respect to facilities, systems, human resources, insurance, and corporate governance. It sounds like it's been a very busy 10 years for you, Michael. Prior to joining UCLA, Michael held various positions with firms engaged in private market activities. He was employed by the Irvine Company, one of the largest privately held real estate development and investment companies in the United States. Previously, Michael was with Prudential Investment Management, where he focused on commercial mortgage finance and distressed situations. Complementing his investment experience, Michael co-founded and operated a venture-backed startup, where he served as COO and CFO and as a member of the board of directors. Finally, Michael graduated with a BS in business administration from the Haas School of Business at the University of California Berkeley and earned his MBA from the Kellogg Graduate School of Management at Northwestern University. Michael, thank you, again, for being here, and congratulations on all your success.

Michael Marvelli: Well, thank you. It's a pleasure to be with you today.

Robert Morier: So can I credit you then? Did you build the shelves in that desk behind you? It sounds like you've done everything at the UCLA Investment Company.

Michael Marvelli: Yes, so I'm sitting in my office. We've been located here for about 11 years, about half of my career, at UCLA. And we actually inherited this office from a failed architecture firm. So we benefit from a lot of the built-in cabinets you see.

Robert Morier: OK, that's good to know. I'm afraid that you were overextending yourself. Well, I know you are with investments. And we're looking forward to hearing more about that. But we were kidding around because we were both wearing this baby blue, that UCLA's colors represent. It's funny. You are the fifth person from the UCLA ecosystem who's been on the show, four UCLA Anderson grads and now you, as the UCLA deputy chief investment officer. So it's been nice that we've had a lot of Westwood in Philadelphia, so we really appreciate your time.

Michael Marvelli: Fantastic.

Robert Morier: Yeah, but you graduated from UC Berkeley in 1991 with a degree in finance and real estate. And not only did you study finance and real estate, but at Prudential, early in your career, you were a member of a team that originated mortgage loans, executed workout solutions. So I'm just curious. What took you towards restart real estate originally, as you were thinking about your career, those first steps sitting in a classroom and in your undergraduate studies, thinking about, what's going to be my career?

Michael Marvelli: Yeah, it's a great question. I was just always drawn to real estate it's so tangible. And I'm very passionate about architecture and landscapes. And if I hadn't chosen a career in investment management, I would have been an architect. And I'm married to a Brazilian, who happens to be an interior architect. And so I get to live vicariously through her. And she introduced me to two of the great architects and artists from Brazil, who were involved in the modernist movement. And we go down every summer in July, and we get to see some great architecture. So that's what really drew me to real estate.

Robert Morier: That's interesting. Well, you're in a wonderful city for architecture and design as well. I've always loved LA and everything that it has to offer. So you're in the right spot. And you get to go to the right spot.

Michael Marvelli: Absolutely. And your question about Prudential and how I got started, it was very foundational to my career. We were very quickly thrust into what turned out to be a real estate depression in the early 90s. And so very quickly, we were engaged in workouts of distressed situations. And so it really informed my career because you learn a lot about capital structure. But I think more importantly, you get to see people, unfortunately, at that time at their worst. And so you learn a lot about human psychology, character, temperament, as you work through some of those issues. And that really has been quite instructive for the latter part of my career.

Robert Morier: I found just personally, a lot of my strongest relationships were forged in the worst of times. So as you think about your career and the start of your career, are you still in touch with the folks that you originally began with?

Michael Marvelli: Yeah, yeah, I am. And some of that, you lose touch, then you get back in touch, which has been the case with me. And I also think you learn the most from that kind of environment and from people that you work with when you're managing through difficult times, as opposed to more buoyant times.

Robert Morier: Yeah, I would agree. Well, we look forward to learning more about the people who had influenced you in your career. But after Prudential, you went on to the Irvine Company. And maybe just for our audience who are less familiar with the Irvine Company, since 1864, they've been the steward of the 93,000-acre Irvine Ranch, which was assembled from three contiguous Spanish Mexican land grants and stretch nine miles along the Pacific Coast and 22 miles inland. And I was just curious, looking at their mission, would you say that was where you first began to really appreciate the principles and mission of long-term ownership?

Michael Marvelli: I think that's a great question, and it's absolutely true. And not too many people know much about the Irvine Company because it's a very private company owned by an even more private individual in Donald Bren. And if you think about that company, it's such a unique situation because it was only by historical accident that those land grants didn't get parceled out and sold off. And so you had this massive, contiguous parcel of land, as you said, something on the order of 93,000 acres. And the Irvine Company really developed entire cities of Irvine, Newport Beach, Tustin, along the coast and then stretching in 20-plus miles. And so it was really not just development, but urban planning at its best. Some people might take issue with the aesthetic of the architecture. But it's been incredibly successful. What a lot of people don't know is, just to give you a sense of the scale, when I joined the company 30 years ago or so, almost 30 years ago, they had developed 75,000 lots. These are residential units. They still had an inventory of 75,000 lots. Just think about the scale and not to mention the commercial portfolio. And so in our business, in the fund business, it's not really set up for this kind of long-term mentality. Everybody says that, but you can't execute a strategy similar to what Irvine has done in a fund structure. But yes, to answer your question, I look back on that, and just the long term vision and outlook is something I reflect on often.

Robert Morier: Do you think that longer-term discipline, that vision outlook that you just mentioned, is what drew you to private markets?

Michael Marvelli: Yes, yeah, yeah. And we can talk about it more. But for the first 10 years of my career, I was a generalist. So I dabbled in public markets, private markets, across asset classes. But my personality and my temperament biased me towards private markets. And I think that's, in part, rooted by the early part of my career, but it's also a function of my personality.

Robert Morier: Yeah, no, I think that's really helpful. We've heard from a lot of folks that we've spoken to who focus on private markets, many of them were generalists to start. And we've heard quite often, it makes you multilingual in a lot of different disciplines, which is helpful. I always used to I joke around. It's great to be in bonds before public equities because you get to speak that language. You get to be bilingual. But I think being a generalist before private markets, in particular, is incredibly important because you touch on so many different parts of the capital structure. So it makes a lot of sense. Well, we're going to talk a lot about UCLA over the next 45 minutes or so. But I couldn't help myself. I have a lot of students of entrepreneurship. I am a professor of entrepreneurship at Drexel University. And reading that you had co-founded a venture-backed startup focusing on providing content, community services, health-related products, for persons with disabilities, I thought, was very interesting. The timing, obviously, was very interesting when you did it. But I was just curious what that was like for you in terms of learning experiences and what drew you to that mission.

Michael Marvelli: Yeah, it's a great question. And the mission was really important for me. And I've been extremely fortunate to be able to pursue opportunities throughout my career that have been mission-centric. And certainly, ability was that. And I believe, to a large degree, Irvine company offer that through urban planning. And certainly, UCLA offers that as an endowment, very mission oriented, so very fortunate in that light. Functionally, what I was trying to do back then was I had this horrible idea that I wanted to break into venture capital. And I sent out over 100 cover letters and resumes. And I only got two responses. And one of the responses was from William Draper, one of the early venture capitalists in Silicon Valley, the founder of Sutter Hill Ventures. And he was kind enough to invite me into his office. And his feedback for me after hearing my intentions was to get involved with one of these startups, basically through an operator type role. So my strategy into that was to develop business plans, so try to seek out engagements with startups and help them craft their business plan. And I had several of those engagements just as a consultant. I called it venture solutions. And it led me through a series of introductions to my partner and co-founder Mark. And so we hit it off. And I really appreciated his story and what he was trying to do. And what started as an engagement to write a business plan turned out to be helping co-found the company with Mark.

Robert Morier: With our students who are launching their own businesses, a lot of them are actually looking for co-founders. They look for what is going to work for them as it relates to starting a business, somebody that they can trust, someone they can work alongside with. I'm just curious. This is as much for our students as it is our audience. But what, specifically, made Mark a good partner? What made him a good co-founder, from your perspective? When you two were coming together, what were the characteristics that really worked?

Michael Marvelli: Yeah, Mark, then and now, a just very passionate individual, and this was his mission. He was in a motorcycle accident. His father was a doctor at UCLA. So they had the resources to search out and try to find resources for people with disabilities. That turned out to be a very challenging task, even with a father who was a doctor. And so there was a real need for this company. And so he had the passion, a very positive person. We complemented each other very much. I think this is a very important thing to grasp as a co-founder. Mark is very extroverted, very charismatic, certainly great with customers and external relations. And my personality is just the opposite. I'm an introvert. I'm a strategist. I can execute. So I think you really need to find somebody that complements you. But you both have to have drive and tenacity. And you can't take comfort in that it's two or three or four of you doing this together. Each person has to be able to navigate the pitfalls that you're invariably going to have to maneuver as a startup operator.

Robert Morier: Now, that's wonderful. Thanks for sharing that detail. And it's very good advice our students. So we appreciate it. I appreciate it. I can send this as part of my class to save me a little work.

Michael Marvelli: Glad to be able to help.

Robert Morier: Yeah, exactly. Well, this is, obviously, where it gets fun for us, and it gets fun for our audience. You've been with UCLA now for over 20 years so. Would you mind, just for the purposes of our audience and for those maybe who haven't been as exposed to UCLA's Investment Company, just the mission of UCLA, a general overview of the endowment, and what your role is currently?

Michael Marvelli: So the mission is very simple. The mission of the UCLA Investment Company, which is the advisor to the foundation who owns the assets, is to manage a global multi-asset portfolio, which can sustain the value of the endowment over the long term on a real basis net of inflation after making annual payouts to the thousands of endowed account holders that make up the endowment. So I mean, very simply, that's our overarching objective. We want to support the community of UCLA and their values, which we do. But that's the overarching mission. As far as the endowment itself, UCLA is a much younger endowment than a lot of the private and public East Coast endowments, for example. And so I joined 20 years ago, when the endowment had just clipped $400 million in AUM. Today, we're beginning to flirt with a $4 billion net asset value, so approaching 10x growth. Obviously, the endowment has become much more complex over that 20-year era. Today, we have a little more than 40% of our capital in some flavor of illiquid vehicle. So we're getting there, but our intermediate goal is 50%. So we're marching towards that. And that capital on the private side runs the gamut from private equity venture capital, real estate, natural resources, and a little bit of private credit. The rest is public equity, some long/short, some small amount of event-driven hedge funds, and some cash. And that's the portfolio. It's global in reach. There's 15 of us here after just two or three of us spinning out of UCLA. I used to be an employee of UCLA prior to the formation of the management company in 2011. But we've slowly grown into what we are now, which is 15 professionals.

Steve Aitken: Thank you for the overview. It's super helpful and definitely music to our listeners ears, as you covered pretty much every asset class. But it'd maybe be helpful to hear, I know you alluded to earlier that real estate has been how you got into the business in the first place. Where are you spending most of your time now within the organization from an asset class perspective?

Michael Marvelli: Yeah, so about 10 years ago, I started specializing in private markets. And I had the good fortune of being able to build those portfolios. And so today, I spend most of my time in private equity, real estate, and natural resources. I had built a private credit portfolio that we've transitioned to, a few colleagues, so they could look across the public and private spectrum and more absolute return type vehicles. And so for us, that includes a private credit allocation, so day-to-day private equity, real estate, and natural resources. And then I have some broader portfolio management responsibilities as well.

Robert Morier: Michael, could you talk a little bit about the idea generation, just thinking about it maybe, first, from an asset class perspective and then thinking about those subclasses that you had mentioned? You could use any of those three as an example. But just for our audience's benefit, how do decisions happen at the Investment Company? And what does that flow of information look like between the 15 of you?

Michael Marvelli: That's a great question. And of course, everybody does it a little bit differently. So I have a very strong view on this topic. So who are we? So let's start there. We're a mid-sized endowment that's, ultimately, going to write a $15 to $25 million check. So that's really important to acknowledge. Everybody is in a different situation in that regard. Our AUM allows us to be adequately resourced today. I spoke of the growth in our headcount. But time is still the enemy, even with these resources. And so if you don't have a strategy it can be very nerve-wracking and challenging. So I'm a big believer that you have to devise a strategy. And the strategy is going to be different based upon the asset class. And then once we have a strategy, we can devise some portfolio construction that makes sense relative to that strategy. We can develop sourcing tactics. And then we can execute. And so that that's the framework that we start with. And we can go in to details, depending on where you want to take that discussion.

Robert Morier: Now, it's very helpful. One follow-on question, do you use any external parties to help with that strategy?

Michael Marvelli: No, we don't. Of course, having been here 20 years and having started with the relatively small pool of capital, in the old days we used consultants. But when we launched the management company, we did away with that. So it's just the professionals sitting inside the company that are executing.

Robert Morier: Going a step further, once you do come up with a strategy of, OK, this is where we need to start making reach-outs to other managers, or do you rely on them to reach out to you? And what does that underwriting process really look like? Once you have, let's say, maybe the first intro call, what's the next step through that process?

Michael Marvelli: Yeah, that's a great question. And I think, hopefully, we'll get into some specifics, which I think will make it more tangible. But let me start with some generalities. So really what we're doing is we're underwriting the three P's, so people, process, and product. And you can think about product is strategy and execution. But it's mostly about structure and alignment of interest. So again, sticking with some generalities, again, this is just some of my personal bias. But I don't invest in umbrella, what I call umbrella asset managers. So these are the names that everybody knows that manage multiple products. And that's fine. I think investors can tap into some good sources of returns pursuing relationships with those types of managers. But for me, it's about structure, incentives, and alignment. And so I pursue what I call these old-school partnerships, where they're really not much bigger than we are, 15 people, plus or minus. And there's a purity to their activities and their mission and their vision. They're generally just executing one fund series. We are, by and large, a fund investor. That's our bread and butter. We'll do some co-investment. We don't do directs. So as a fund investor, again, there is some variation amongst our team. But from my point of view, I just see better opportunities, and it's easier for me to manage risk dealing with these old-school partnerships.

Robert Morier: Well, that makes a lot of sense. And we're interested to hear about what some of those old-school relationships, as well, and how those are formed. Because you've been at it for a while. But some of these asset managers are a little bit newer to the game. So we'll get there in a minute. But maybe we can, if you don't mind, get a little bit more granular. We could use the lower middle market private equity program. You shared some information prior to our conversation that that lower-middle market first commitment, I think, was back in 2016. It's since invested in over 100 small businesses. So can you take us through maybe the genesis of the program? And then thinking about Steve's question as it relates to underwriting of marrying the two, if you think about the genesis of the program, what is it about the segment that attracted you at the time, continues to attract you today, and how are you sourcing managers through that program?

Michael Marvelli: I'm glad you asked about it because I absolutely love this part of the portfolio. We're very proud of what we've developed here. And yet, you mentioned it started in 2016. And so we're really talking about strategy formulation. And it wasn't just a grand, comprehensive strategy that we unveiled and had full conviction in and said, OK, here we go. We started taking baby steps. But it's based on a very simple observation. And people are very aware of all the dry powder that's in the market today that has persisted for some period of time. And that certainly was the case in 2016. So you look at this wall of dry powder and how it's amassed over the years. And it's somewhat breathtaking. And so we just started to reflect on, OK, how do we deal with this? How do we approach investing, given this precedent condition? And so what we did is we started, basically, just segmenting the dry powder by fund size. And arbitrarily, we picked $500 million, and we started just stratifying it in increments. And what we noticed was that all the dry powder sat above $500 million in fund size. And when you strip that out, you you're staring at not this massive wall of capital, but this flat line barely above the zero line. And we thought, gee, OK, well, that's interesting. And then, of course, it's somewhat inverted. It's an inverted pyramid. All the capital is at the top of the pyramid, where it gets narrow, if you envision a pyramid. But there are thousands more targets as far as potential portfolio companies that are small businesses, right? So less capital, more targets. So what we realized was we prefer to play under this wall of capital, under the radar, so to speak. And we asked ourselves, OK, well, what risk are we taking by doing so? And clearly, you're taking execution risk. OK, you're not taking as much market risk. And there's reasons why you're not. If you look at the structure of the market, the middle market, the upper-middle market, the large cap, private equity market, has higher valuations on an absolute basis. So if the valuation, the entry valuations, are up here, the lower-middle market's lower. There's structural reasons why. But you also have higher amplitude in valuations through cycle in the middle-upper, middle, and large end of the market. There's reasons for that. It's more liquid. There's more players. There's more capital. But there's also more debt availability that pushes those valuations, that's absent in the lower-middle market, which is a structural reason why those multiples are lower, and the amplitude of those multiples are lower. And it also has to do with competition and capital. So when you look at all that, there are some structural advantages to investing in the lower-middle market. You have a lower entry point. It's easier to grow a small company than it is to grow a big company, by and large. It's not always the case. But overall, it's easier to double the size of a small business. There's not access to a lot of debt, so you can stay out of a lot of trouble. And there's just less competition. And I can go into why the returns are better, but I'll let you take the conversation in whatever direction you'd like.

Robert Morier: Actually, I do think it's a good time. Because it's interesting. As you think about the typical partner profile for the lower-middle market, when you are getting approached by these managers, what are your return expectations relative to what has been delivered in the portfolio since 2016?

Michael Marvelli: So that's a great question. On the one hand, you have a wedge in valuation over the last year between the public and the private markets, right? And so while the public markets have reset-- and certainly, sectors like tech, fintech, anything that touches technology, has largely reset. The private markets are still unwinding in that regard. And human psychology being what it is, you always start with this wide bid ask. You start with low volume and M&A activity. And either things come to a head, or they don't. Why would things come to a head? Well, in real estate, it could be low maturities and interest rates doubling and lenders requiring a standard 1.2 times debt service coverage ratio. If rates jump two-fold, you've got a different coverage requirement. You're faced with the pay down, and you either have the capital or you don't. And you might lose the property. That's an extreme version of what could happen in private equity. Private equity is financed. I should say, when I talk about private equity, I'm talking about controlled transactions and some growth equity, not so much venture capital. So leverage is at work. So leverage could create problems. A recession could create problems in fundamentals. So we haven't really seen, I mean, with some sectors notwithstanding giving turmoil as a result of COVID, we haven't seen a broad-based recession affect the fundamentals of these companies. So that could happen, and we could see valuations deteriorate further. It just takes longer in the private market. So I'm sorry. That's a long-winded way to get back to your question. For me, getting back to this idea in the lower-middle market, the entry point is shifted lower in terms of entry multiples, and the amplitude is lower. It doesn't affect go-forward returns as much. And so you have to look at cash flow accretion and the ability of these companies to accrete cash flow. And then you have to rely on the health of an exit market, which is-- it's more difficult to predict. But we've been forecasting lower returns at least since 2017. Now, this last cycle, January, February, is when we relook at expected returns. We increased public equity returns, which increase the overall return. But the private market returns didn't increase that much because the entry valuations haven't reset. And I think it could be very challenging in certain markets where, frankly, you would expect more deterioration in valuation. That hasn't occurred yet.

Robert Morier: Well, if you're thinking about, at least, the global private equity market, generally, research is saying that tech and health care should continue to drive a lot of the performance as we think about the private market exposure. And I'm just curious from your seat, what sectors and industries are you excited about as it relates to lower-middle market private equity? Are there any areas of focus that you are spending your time on or asking your partners to spend time on?

Michael Marvelli: Yeah, that's a great question. And so the first thing I want to do is round out the picture on the strategy in the lower-middle market. So I talked about the initial precedent condition of the dry powder and how we want to approach that. Once we decided to focus on the lower-middle market, we said, OK, how can we best accomplish our goals of generating superior returns and managing risk? And so we want to come at it with overwhelming firepower. And the way that expresses is through a sectorial approach. And so there's one caveat. When you get into special situations, distress situations, we want to relax a sector constraint, and we want our managers to cast a really broad net. Because it's more of a bottoms-up exercise of sourcing opportunities. And so that is a portion of our private equity portfolio. But the bread and butter, 80% of the capital, is with partners that have mandates to invest in attractive, high-quality businesses that aren't in distress. And so we do that through a sector approach. And so we have folks that invest in health care services, industrial technology, other older school conventional industrial software, other tech-enabled services or business services. We have a manager that focuses on government services and gov tech consumer. So our formula is we want the managing partners leading the effort to have a complement of investment and executive operating experience. So it's common for our partners to be led by people of that background, so somebody that was a private equity-backed chief executive officer one or more times, along with the more classic investor. And the reason why that's important is I'd say most of the program is control oriented. We do some growth equity, but it's mostly control. And that's where you can create a lot of alpha post-investment in accreting cash flow through business process improvement initiatives, both on the revenue side and the organizational side. And that's best accomplished with operating talent sitting inside the partnership. And so that's our general recipe.

Robert Morier: How do you assess that talent? I mean, that's a challenge for any investor, getting to understand the talent of management, not just the resume, but whether they have the fortitude to build the company and have it succeed over time. So how do you derive that assessment?

Michael Marvelli: It's a very challenging exercise. We're still learning how to do that. And that, I think, that's the fun part about the job, and that's the part of the job that you have to focus on, is just continuous improvement in our ability to assess people and processes. Right? And so it does start with the people. We're, ultimately, investing in people, and it's a very challenging task. But we have to believe that we're partnering with people that are passionate about their mission, that work very hard, that have high integrity, that are flexible people that can adapt to challenges, because they will face them, and recognize what their vision is and the market they are not only playing in now, but the market they want to play in for the foreseeable future. So part of our job is to psychoanalyze these partners, right? And it's not easy.

Robert Morier: Are you sending out personality assessments yet, or is that on the horizon?

Michael Marvelli: Yeah, no, I mean, it's interesting. So our partners are doing that when they hire executives, right?

Robert Morier: Absolutely, yeah.

Michael Marvelli: I would say most of them are. Not all of them, but most of them are. We haven't done that. But listen, it's interesting that you say that. In my elder years, I've become very philosophical, and I believe very strongly in personality assessment. And I think it's very important for all of us, whatever our profession is, to really understand our own personality and what our strengths and weaknesses are. And I think you need to do that because if you don't understand that, then how are you going to be able to assess somebody else? So that's a critical part of our work.

Robert Morier: Interesting. I would agree. Again, one of the luxuries of getting into the classroom is that we get introduced to all of these third-party assessment companies that help these either VC firms or founders and really figure out what makes a good, as we were talking about in the beginning of this conversation. It worked out with you and Mark. Mark had a lot of those attributes. But today, if you could both go through a personality assessment, whether it's Hogan or another one that's out there, and really better understand-- so it's interesting from your perspective as an allocator. Maybe in the future, you'll be adopting some of the same tools. It sounds like you already are maybe on the back of an envelope. But they'll be formalized sooner than later. Thanks for sharing that, Michael. Well, one of the, obviously, interesting aspects of private marketing investing, perhaps more than traditional assets, is that it's highly reliant on developing that personal network, so getting to know these GPs over time, really building that trust. But most importantly, for access, there are a lot of LPs who may be competing for that GP interest. So how have you successfully cultivated those relationships? I'm asking on behalf of mostly our allocators who tune in. They're going to be quite keen on hearing how you do that, particularly some of the smaller, mid-size endowments. Another way I heard recently this was asked is, what's the price of importance with your GPs?

Michael Marvelli: Yeah, this is a very interesting topic. And I think sourcing and your personal strengths as it relates to how you source, I think it varies dramatically by asset class. So we started talking about my interest in getting into venture, and I made the remark that it was a horrible idea. As a younger man, I don't think I was quite in touch with my personal strengths and weaknesses. That would have been a horrible line of work for me in my personality because I'm much more introverted. And as it relates to private equity in the segment of the market I've chosen, it really does match my personality with what's required of me to source these. And what I mean by that is I would imagine that most people on this call are better at sourcing than I am, again, just given my personality. I like the Myers-Briggs test. For those that know it, I'm an INTP. it's a very small portion of the population. Fortunately, people don't have to deal with our type all that much. But I fundamentally disagree with the notion that returns are driven by access to the quote, "top managers." I do believe that is the case in venture, although I think you could also make a very strong argument in venture to pursue smaller funds, perhaps more sector-oriented funds, that specialize in and do well. But certainly, you could do very well after having access to the best names in venture. In my world, that's not the case at all. And just to bring you back to some returns, we talked about 100-plus company. It's probably now 120 small businesses through 20 vehicles, managed by 13 partners, of which we entered 10 of the 13 as a fund 1 investor. So these are not well-known firms, not well-known people. And that portfolio has generated a return that is 2x our middle market private equity portfolio at UCLA, which by itself is generating a several hundred basis-point outperformance to the market. So that's a very dramatic outperformance by a portfolio of names, that if you went to a cocktail party, people would lose interest in your conversation very quickly, because they wouldn't recognize any of the names. And for us, there's private equity 1.0, 2.0, 3.0 at UCLA, and we're constantly trying to evolve our thinking. And some of the more recent discussion has been-- in the early days, we tried to back groups that spun out of pedigreed shops. That's proven not to be the best strategy, partly because success, it creates problems. And part of the problem with, how do you become a pedigreed shop? Well, you become very well known. At some point, your performance was outstanding, right? That may still be the case. It may not. If you look at the arc of trajectory of a lot of mature private equity shops, it starts very high. And then over time is that it's inversely related to growth, right? So that's a long way of saying that access for me is not a problem, generally speaking. I can't remember, I mean, the last time I had a problem, we were foreclosed out of an opportunity. and in the firm, in the years that elapsed from that decision point, just exploded in AUM, which is counter to what we're trying to do. I mean, at the end of the day, we didn't talk about this, but when we enter a fund, we're never really challenged. The problem is not the fund at hand and underwriting the fund right in front of you. It is the opportunity of the day it's, what is that manager going to do down the road with the next fund and the fund after? Because as a fund investor, we're spending so much time up front, that we want to leverage all the investment of time. And we want to, at least arbitrarily, in the best case, have a three-serial fund relationship. Now, it may go well beyond that. We made an investment in 2003 with the manager that we re-upped with last year, over a 20-year relationship. So that can happen. But we at least want to see three serial funds out of it. And so the challenge is trying to underwrite their psychology as it relates to their vision.

Robert Morier: That's interesting. Thank you, Michael. It sounds like you've developed an emerging manager program in your lower-middle market book. So I'm curious. Would you say that you can formally describe an emerging manager program as part of the investment objective of UCLA? Or is it more of a byproduct of your philosophy on how you describe to us you approach these smaller managers?

Michael Marvelli: It's fascinating. It's both a byproduct. And then it's also because we like the profile of that type of manager. It's a byproduct in the sense that, if you're looking for a multi-fund relationship, it's harder to get there when you start later in a manager's life cycle, one, because the AUM that you are entering is larger. And two, the manager's been at it for a while, so there might be some secession risk, right? So in that respect, it's a byproduct of wanting to get, hopefully, three serial funds, where the third one ends up under a half a billion dollars in size. So on the flip side, it gets back to structure incentives and alignment of interests. When you're just starting out, you have your feet to the fire. And that first company has to be successful. If you're a fund sponsor, the three deals you do or the six deals you do have to be successful. You have to monetize that first investment to show your capacity to realize. It's a small team. You can all sit around the same table and hash things out. You have full faith and trust in each other and your compatriots' abilities. So there's no secession risk. There's all sorts of reasons why the risk profile, I could make an argument it's less risky. Now, there are risks. And the main challenge for that manager in the lower-middle market is execution risk. So your due diligence is focused on trying to understand how they manage execution risk. So I hope that starts to address your question.

Robert Morier: It does. It's a great insight and I'm sure music to a lot of our audience's ears, who are going out with the first fund. It sounds like it'd be a very interesting call. Just make sure you get the execution down, and you know how to answer the questions. Well, just a couple of questions left, Michael. And I'm going to have to apologize. I'm reading Swann's Way, by Marcel Proust, right now and trying to better understand memory, thinking about psychology and how we remember things. And one of the quotes that I had picked up from him was that the real voyage of discovery consists not in seeking new landscapes, but in having new eyes. So after 20 years or more with UCLA, how do you see the portfolio with new eyes every day?

Michael Marvelli: Yeah, we're always learning, so that's top of mind. I don't really compete against other people. I compete against myself. And so I try to embrace my potential, and I compete against the current version of myself. So if you're doing that, you're trying to better yourself. You're trying to improve your own processes. You're trying to make them repeatable. So that's the evolution. And what's our exercise of the day now? It's OK, well, if we're taking execution risk, how can we go all the way through the value chain of the private equity manager, from strategy, to sourcing, to closing, to post-value accretion, through their network of customers and M&A advisors through exit? How can we identify how to manage execution risk across that value chain, right? So you can just go deeper and deeper. And it never ends, right? What hasn't changed is that asset allocation drives returns and performance. And so I try never to lose sight of that. I think we've lost sight of that in our journey, at times, but not recently. Since 2018, we have been very methodical about building out these private market exposures, and we have this vision for what we want the portfolio to look like. And we know that until we get there, our returns will gyrate more with the markets than some of our more mature peers. But asset allocation is very important.

Robert Morier: That makes a lot of sense. Well, thank you so much. Well, our last question, which we ask all of our guests, and we alluded to this in the beginning of the conversation, are the people who have influenced you in your career, so the mentors, the people who have helped and sometimes hurt. We've heard that from a few guests, surprisingly. It's not always the nice ones that are the most influential. Sometimes, it's the not so nice ones that leave the strongest impact. So we'd love to hear from you just some of those people who have made a mark on you and your career and your life.

Michael Marvelli: Yeah, obviously, there are too many to list; of course, top of mind, my wife. But in the professional world, I was just very fortunate to have just wonderful people that were skilled at their craft, that helped me early. The woman that ran Prudential Mortgage Capitalist office in Century City, my first job, again, the industry was in a depression. Nobody was recruiting at Cal for real estate. I mean, the list was so short. And Lydia Shinn gave me that opportunity, and I'll always be grateful. Luis Sanchez was my first supervisor at Prudential. And everything I learned about real estate, the fundamentals of real estate, I learned from Luis. At the Irvine Company, I had the opportunity to work with Jonathan Victor, who runs one of the most successful special situation funds that I'm aware of. And I'll just say, for those that don't know him, we have a decent lower-middle market portfolio. That firm wins two prizes. They have the lowest entry multiple across our portfolio, and they have the highest EBITDA CAGR. Those two things shouldn't go naturally together with each other, right? But Jonathan ran capital markets at the Irvine Company and had the good fortune of being the right hand to Eli Broad at Sun America and then in a similar position vis-a-vis another billionaire, Donald Bren, at the Irvine Company. And I learned a lot about capital markets. Real estate companies, because they're asset-rich, can be some of the most complex capital structures across any sector. And so that was vital. But more importantly, I credit Jonathan with just refining how I think independently and critically about things, which I think is, we didn't really talk about that much, but I think that gave me the courage to pursue a lower-middle market strategy that is just so utterly different from what the vast amount of capitalist is doing in the market. And so both of those experiences were in asset management, leading up to my career at UCLA. But the last person I want to mention is the late Randy Kim, who grew up at Yale endowment and then managed Hilton and Rainwater. And he was on the board of the UCLA investment company at the launch of the company. So he was here prior and at the launch. And I really credit Randy for teaching me about structure, incentives, and alignment. And investing in fund structures is not easy. And it really comes back to those elements. And Randy was very gracious with his time in teaching me about those things.

Robert Morier: That's wonderful, Michael. Thank you for sharing that. Well, I am grateful for you taking your time. 10 years ago, when I emailed you, Mr. Marvelli, and you took the meeting, and it was the first time I had the opportunity to sit down with you and hear a lot of these insights. I know you had mentioned that you feel like you didn't get to talk about your critical thought process. But it absolutely came through in all of those answers. So we're grateful for your answers. We're grateful for your time. Congratulations on all of your success. Thank you for being here.

Michael Marvelli: It's my absolute pleasure. Thank you for having me. It's been an honor.

Robert Morier: Yeah, thank you. Well, if you want to learn more about Michael and the UCLA Investment Company, please visit their website at www.UCLAInvestmentCompany.org. 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 if you'd like to catch up on past episodes, please check out our website at dakota.com. Finally, if you like what you're seeing and hearing, please be sure to follow, like, share, comment. And we welcome your feedback as well. Michael, thank you. Steve, thank you for being on the desk with me. And thank you to our audience for tuning in.