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EPISODE 37:

Investing in the Future of Pediatrics

with Children's Healthcare of Atlanta

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 to 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 by Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakota-marketplace.com today. Well, I am very happy to introduce our guest today, Mike Negussie. Thank you for being here.

Mark Negussie: And thank you for having me.

Robert Morier: We appreciate it. And as always, Andrew O'Shea from Dakota. Thank you for being here.

Andrew O'Shea: Excited to be here.

Robert Morier: Good, we're excited to have you again. We're two for two. So, it's great to have you. This is episode number 41. We recorded number 40 last week. So, thank you for being here. And it's really a pleasure, particularly when folks come up to Philadelphia. And you coming from Children's Healthcare of Atlanta, coming from Atlanta last night, we really, again, appreciate you being here. Especially since kids are back in school, my kids are back… I now have two kids in school. So, I feel wonderful, a little bit more rested. A little bit more… a little less stressed during the day. You'll get there soon, Andrew. Well, again, Mike, welcome to Philadelphia. We've got a lot of questions for you. Before we start asking you those questions, I'm just going to quickly read your biography for the audience. Mike joined Children's Healthcare of Atlanta nearly five years ago as an investment director managing the multi-billion-dollar investment pool for the non-profit pediatric healthcare system. Children's mission is to make kids better today and healthier tomorrow through more than 60 pediatric specialties and programs, top healthcare professionals, and leading research and technology. Children's is one of the largest pediatric clinical care providers in the country, managing more than one million patient visits annually. Prior to joining Children's, Mike was an investment director with Emory Investment Management, which facilitates the mission of Emory University, Emory Healthcare, and the Carter Center by investing assets to meet present and future spending needs. Before moving to Atlanta, Mike was based in California, working with MSCI as a multi-asset portfolio risk consultant and CSAA Insurance Group as an investment manager. Mike started his career over 17 years ago as an investment analyst with Mass General Brigham in Boston working with our friend Jill Leucorynchus, who joined us earlier this summer on the show. Mike earned both his BS in finance and MBA from UMass Boston. Mike is a CFA charterholder. Originally from Ethiopia, Mike now calls Atlanta home, where he lives with his wife and three children. Mike, thank you for being here.

Mark Negussie: Thank you. Thank you for having me.

Robert Morier: Congratulations on all your success. We're very happy to talk with you today.

Mark Negussie: Thank you.

Robert Morier: Great, well, I was having fun with Google's new AI enhancer, because AI is now everywhere. You can't get away from it. And while I was researching for this interview, I asked how it would describe the Ethiopian food scene in Atlanta. And it told me that the Ethiopian dining scene in Atlanta marries the authenticity of East Africa with the Southern Charm of Georgia. So, my first question, Mike, is do you agree with this artificial intelligence assessment?

Mark Negussie: Robert, I have to say for the first time, I have to agree with AI. Absolutely, I think the Ethiopian food scene here in Atlanta is phenomenal. We have several options. The famous one is called Desta. Desta Restaurant, Desta is Amharic Ethiopian word to mean happiness. It's a phenomenal place with great service and great food. But we also have several other options. I love the food scene in Atlanta.

Robert Morier: Oh good, well, that's good to know, especially for those of us traveling to Atlanta. I know Andrew, you're one of them.

Andrew O'Shea: Yes, yep, a lot of roads, Peachtree, you got to figure out which one's which. But plenty of traffic, traveling around trying to get to meetings. So definitely good to weave in the good food scene as well.

Robert Morier: Well, we always like to start with the beginning. So, if you could share with us your path to the United States before getting to UMass Boston, we'd appreciate it.

Mark Negussie: Yeah, absolutely. I came to the US in 2001, spent a couple of years in high school, school called English High in Jamaica Plain was in Boston I had a phenomenal experience there. I made the best out of it. During high school, I was lucky enough to come across a nonprofit organization called Bottom Line that helped me through the college application process. And as a result of their support, I had several options. But UMass was clearly the winner. I had a four-year half tuition scholarship covered. And I had a lot more other package… financial package as well that made it very appealing to me to attend, to select UMass.

Robert Morier: How did you find your time in Boston?

Mark Negussie: Boston. If it was not for the snow, I think Boston is great. I love the city. It's a phenomenal small town, it feels like, but a big city, walking city for sure. People are great. Somewhat conservative, but in a good way. So, I really enjoyed my time. Frankly, if it was not for the snow, I wouldn't probably move out of Boston.

Robert Morier: Is there an Ethiopian culture in Boston? Is there a relatively large Ethiopian population?

Mark Negussie: Not as big as what it is right now. When I moved, it was very limited. Washington DC area tend to be the largest, followed by San Francisco Bay Area, and Seattle, and Atlanta potentially. But Boston is now becoming a bigger destination for Ethiopians as well.

Robert Morier: That's good. Well, as I said during our opening, you started your career working with an incredible group of investors, many of whom have been guests on our show and some future guests as well. It was then known as Partners Health. So how did you find that opportunity? And what were some of the key takeaways during those years?

Mark Negussie: I actually did my internship with Kraft Foods. I did first year was merchandising. I was out there selling Kraft products. And second year, I did more of sales analytics to support the sales team. It was phenomenal. I had a great experience. And just that after a while, I realized that wasn't something that I wanted to do. I want something that's more challenging intellectually as well. And I was looking for other opportunity sets. And I came across the Partners opportunity. It was very appealing to me right away because it was a position that would take advantage of my analytical skills and my entrepreneurial drive. So, I came across the role in 2006. A quick note, I crashed through college within three years.

Robert Morier: It took me more than four. So, I'm already impressed.

Mark Negussie: Immigrant mindset, I guess. But yeah, in 2006, I came across Partners. I joined Partners. And if I zoom out and summarize my 5 and 1/2 years at Partners, I think the biggest takeaway is that I graduated to be a very well-rounded analyst. Partners, as you may know, are two different plans, highly sophisticated plans across multi-asset classes, multi-billion-dollar plan each. And we had large amounts of team, phenomenal access to great mindsets within the GP side of the world as well as within our investment committee. And my role also spanned from operations analytics to all the way to the front office investing. So, I was exposed to every aspect of managing multibillion dollar portfolios. And that was something that I took away with me when I left Partners.

Andrew O'Shea: On the investment side, and the front office investment decisions, did you start off on the public market side or the private market side? Or were you playing both hats there as well?

Mark Negussie: Solely public. The public one was somewhat easier to pick up. So, I was spending more time on the public side. Towards the end, I was also spending a little more time to covering commodities, and other asset classes, and fixed income. But mostly it was the public side.

Robert Morier: So how did you find your way then to California? You went over and joined CSAA Insurance Group.

Mark Negussie: Yeah, as I said, it's just the snow was tough to get used to after 11 years. I'm still a die-hard Red Sox fan and Celtics fan. But I think it's just… it was tough. So moved over to sunny California. And at the end of 2011, beginning of 2012, to join CSAA Insurance Group. One may ask what would you leave such a prestigious healthcare system to go work for a smaller corporate plan? And I think the answer it was the right step for my career at the right point. It was a phenomenal opportunity. Small team, we were only two senior staff along with the main person, the CIO. And I was the third most senior part of the team managing three different plants, taxable general account, pension assets, that was totally return oriented, and as well as DC plans. So, I got exposed to several aspects of the day-to-day management of all those three plans I was told early on by great former boss and mentor of mine to this day, that Mike, you are not the small analyst or the young analyst that you used to be at Partners. You need to grow up. You need to go do your research, come back with conviction, and lead us. Lead us in certain areas. So, I took that to heart. I took advantage of the autonomy that was given to me. And early on, I started with more of the risk management for construction, an aspect followed by the public equity book across the two plans that we were actively managing, and ultimately, to running the strategy for the pension plan and, ultimately, the general account. So, I was exposed to several aspects of the work. And I pretty much graduated to being a very seasoned manager per se, instead of from analysts that I was at Partners Healthcare System.

Robert Morier: So, you went from small to enormous. So, you go from a very small team to MSCI as a multi-asset portfolio risk consultant. So, what is a multi-asset portfolio risk consultant do at MSCI?

Mark Negussie: So pretty much, I think if you recall after GFC, there was a big push within plan sponsors to adapt the risk system to really to increase the robustness of the investment office and make informed investment decisions. I was effectively using the MSCI tool at CSAA to do exactly that. So I was recruited by MSCI to ultimately consult the rest of my former colleagues on the asset management side how to use it, absolutely. It was a phenomenal experience, one because it gets me it got me, really, exposure to so many other asset classes asset plan sponsors, call it big public pension plans, or endowments, and foundation consultants, and sovereign plans. I had exposure to so many different plan sponsors. And two, I realized that wasn't for me for a long… for the long term. And that's just… risk would mean different things for different people. And it's not always one framework fits for all. So ultimately, after covering about 10 plus plans, I really want to get back to the asset owner side to work for one mission-driven organization instead of supporting more than 10.

Robert Morier: And that organization was Emory.

Mark Negussie: Emory, yeah.

Robert Morier: So back East, into Atlanta, into the Atlanta area. So maybe for our audience who are less familiar with Emory's… from when you were there, how did the team, at that time, approach asset allocation and manager research?

Mark Negussie: It was a brief stay. I was there for about a year. It was a collaboration between the asset allocation risk team and front office manager selection research team. They always drive most of the decision making. The risk team was there to support and the final sizing, and exposure analysis, risk analysis. And ultimately, the team also implemented a small overlay of trades that they felt like was necessary at the top level. And my role was, for the most part, supporting that effort as well as just helping bridge the gap between the asset allocation risk team and the investment team because I spoke the language of the investment side. So, it was easier for me to communicate with the investment staff as well.

Robert Morier: And then over to Children's Healthcare of Atlanta. So, congratulations on your current role. Before we dig into your role and responsibilities and into the manager research process, would you mind for, again, for our audience, just taking a step back telling us a little bit more about Children's Healthcare? What's the mission? What are the objectives as it relates to the investment office?

Mark Negussie: Yeah, absolutely. I think you have done a phenomenal job doing the research and covering during the intro. I think I will double click on the mission, which you outlined. Our mission is to make kids' life better today and healthier tomorrow. So, when it comes to making kids' life better today, it's what the organization does day in day out. We have phenomenal leadership that take care of kids and continue to expand services. The second aspect is also tomorrow. The tomorrow aspect is also an effort that's led by the leadership. But the investment office has a supporting role. The investment portfolio has a supporting role. That is investing for tomorrow. Management is able to take on bold actions and invest for tomorrow because of, in part, because of the support of the investment pool that we have on the back end. So, I'll just give a couple of efforts that we have had recently, and we have currently. One is we are building a state-of-the-art facility to expand our service and to improve our service offerings. And that was mostly financed through the debt market because we have the collateral of the portfolio on the back end. Another one is management kept seeing issues come into our facilities. Early on, it was childhood obesity. Lately, it was mental health crisis and kids come in with suicide attempts. So, management said, we have to put a stop to this issue, not at our facility, going back to the community. So, management is investing heavily on community efforts, trying to stop some of these issues at the source, instead of waiting for those issues that come to our facilities. So that's the type of bold action that management is able to take because we have the backing of the portfolio and because we have the investment assets is there to support those efforts.

Robert Morier: Very interesting. Thank you for sharing that. I know just from friends and family who live in the Southeast, Children's Healthcare is a regional treasure for that reason. So, thank you for sharing that. Maybe just kind of, again, kind of digging a little bit deeper in terms of the investment staff, so can you tell us about the investment team structure and just, in general, how are those decisions made as you start to think about this pool of assets that you now have to deploy to support these types of extraordinary efforts?

Mark Negussie: Absolutely. So, if we take the big picture, it's a balance sheet asset, obviously. We don't have any spend for the time being. And we could afford to be long-term investors. So, our investment framework is somewhat absolute return driven, focused on assets that could compound capital for the long run. We like to call it high quality, long duration assets that are sourced in efficient markets and benefits from impact and technology. So, when you unpack that, it leads us to some areas that we want to be behind for the next 10, 20 years because A, the alpha… I mean, the beta is phenomenal. The tailwind is strong. We want to be behind those tailwinds. B, the alpha is phenomenal because there is inefficiency. There is… and there is impact of technology. They're creating winners and losers in those areas. So, the team is structured as generalists across theme coverage instead of as class buckets. So currently, we have four themes. One is technology. And we invest across all the capital structure. And most of our technology investing is in private side. The second one is life sciences, quite the opposite. I actually see a lot more, better risk adjusted return in the public side than the private. And then within emerging market, we invest in China and India. Again, India is mostly public, but we also have small early VC investments. As well as China, we have some private investment and public. Given the geopolitical risk, the private investment is up for debate on the table, whether that's something that we want to continue or not.

Robert Morier: In terms of the team itself, this is just a question that I always like to ask, as a manager research person in your seat and as a salesperson from our perspective is just thinking about the culture of the team. It's a relatively new CIO in the seat. So, I'm always interested in terms of how the culture is instilled.

Mark Negussie: The culture is phenomenal. We're a collaborative small team involved in every single deals. I take a lead in certain areas. But everyone is involved in the selection process. We travel together. And we have a lot of autonomy. We are opportunistic. And we could drive decision quickly, as well as we could sponsor decisions as well, like new efforts. As long as there is a strong data and supports, it's always easier to push ideas forward. You definitely have a lot of challenge. Everyone is involved. Everyone is trying to kill a deal from the beginning to the end. A deal has to survive through that process to make it.

Robert Morier: So, devil's advocacy.

Mark Negussie: It is definitely that. But at the same time, once it goes through that process, everyone is behind that deal. So, we have very collaborative and supportive culture for sure.

Andrew O'Shea: You have an extensive background, obviously portfolio management, risk management, you're starting at a big healthcare system, and then moving into an insurance company where there's all different nuances with risk-based capital charges and things like that. Take us into moving now into the role at CHOA. What was really your role when you started at CHOA? Has it been more of wearing many hats as you've done at prior organizations?

Mark Negussie: Yeah, that's a great question, Andrew. So yeah, actually, given that experience, given the fact that I worked across different segments of the asset owner side of the business as well as consulting, my first couple of years at Children's was really building out the infrastructure to make informed investment decision. I pretty much built out all the processes to make investment decisions at the manager asset class and portfolio level. So, using returns based, as well as holding based framework, as well as a lot of performance models to look at how the portfolio changes with every key decision that we may make. So yeah, I think my first couple of years was really building out that framework and making sure that there were processes and analytic driven decisions early on as the team was armed to deploy capital investing out in the market.

Andrew O'Shea: Did you find it more exciting to be coming into such an equity-based portfolio compared to prior roles?

Mark Negussie: Absolutely. I think it's always fun to take on risk, right? Matter of fact, some of our risk could be being under risk. So yeah, I think having such a flexible capital base and having a flexible leadership that allow us to invest in a flexible way was phenomenal. I believe we have the best capital base out there, given the fact that we don't have a spend rate. And we could afford to be very long-term investors as well. One example is everyone is now potentially dialing down their private asset allocation. Whereas we are increasing our asset allocation on privates because one, we could afford to take more private. And two, we were not heavily invested in private to begin with.

Robert Morier: Can you take us through a typical process of underwriting a manager? I know being more equity centric, I imagine you gravitate towards more concentrated managers. But just take us through a typical underwriting process, how you might source, and how that—

Mark Negussie: Yeah, absolutely, absolutely. Absolutely, so I will walk you through that in terms of the thematic coverage areas. So, I cover biotech. I spent the first three, four, six months really understanding the markets, meeting with a lot of fund managers, hedge fund managers on the biotech side, doing a lot of research, attending conferences. I went to the JP Morgan Healthcare conference in San Francisco for a week. So really compiling a lot of information to understand the space, to understand the risk, and to understand how to best take advantage of the opportunities that exist within biotech. So that led me to ultimately come up with a strategy as to what I believe makes sense in investing in public biotech. So that is something that gets presented. The team has to have to have a say. And if it gets approved, we move forward. So once that's established, the second phase was really meeting as many managers as possible, mostly class managers. Take 30 minutes to an hour a call, give them a chance, learn their process, learn how they invest. Now we have the strategy that's more of a filtering mechanism, followed by our manager selection criteria. We have people, philosophy, process driven investment, selection process framework. And using those two, it was easy to meet with over 50 or 60 biotech managers and filter it down to about 10 that we think are high quality and we want to spend more time with. So, when it comes to 10, it's just spending more time with those 10. And ultimately, I ended up hiring one last month. But just because I hired one, that doesn't mean the other nine are fallen off. I'm spending quality time with them. They are what we call our tracking list, high quality managers that are phenomenal, we want to have a relationship with. At some point in the future, we may have partnership. But at this point, I decided to go with one. So that nine also needs to be revised. There may maybe other uprising smart biotech manager coming that may make it to that tracking list. So, it's a really mosaic process that started from understanding the strategy all the way to mapping out the universe and having a subset of those that we think are high quality that we want to have a relationship with. Now, in terms of the three P's that I described, the people, philosophy, process, absolutely, we like aligned people, highly aligned people, independent thinkers, people who are… with a lot of experience and pedigree, with a lot of depth on the team as well in terms of philosophy, fundamental oriented for the most part, and take advantage of inefficiency when they exist or be able to have a philosophy that take advantage of inefficient windows when we invest in highly efficient markets. And when it comes to process, we like exhaustive process that's evolving, that's changing, that gets better over time. And ultimately, I think a process that's repeatable. I could put myself into it and be able to do it myself as well if I understand it very well. So those are some of the attributes of really what we like from managers.

Andrew O'Shea: And you did a deep dive on the space. I'd be curious how you express that in terms of substyle. Did you ultimately go with a long-short strategy, long only, long bias? Since you took such an expansive view into the asset class, I was just curious how you resulted in not just the manager, but perhaps the substyle to express that view.

Mark Negussie: That biotech side?

Andrew O'Shea: Yes.

Robert Morier: Yeah, that's a great question. People may disagree, but I believe the right way to invest in biotech hedge fund side and my cost of capital is ACWI, the benchmark is ACWI, is to have long biased or some sort of beta, not pure alpha because I need that tailwind from the thematic area. I like long-short because it's highly inefficient binary market. So, you have to be able to make money on the short side as well. And so, the long-short is definitely one of my strategy requirements. The ability to do private is critical because the line is blurry in a way whether a company is preclinical or clinical, it doesn't matter. That's what matters more than whether it's private or public. The ability to structure deals is critical. Biotech is a money losing endeavor until you find the magic bullets. So, I think you have to… as a manager, you have to be able to come up with creative ways of providing capital to founders and to companies. So being able to do pipe and other structured deals is critical. And then ultimately, the critical one is actually you need to have enough science within the team. You can't outsmart science. You can't just build so many PhDs and be better than anyone else. You just need to have enough of them. But at the same time, equally important is a powerful management skill set. You have to know how to manage risk as you go through readouts. When a company is about to go to events, what do you do before the event? What do you do after the event? And understanding the different beta that they have and how they manage that is crucial within biotech. So, I would say those are the big picture map that I have at the strategy level to filter out some of the biotech managers we have.

Andrew O'Shea: That's fascinating. So clearly, you use specialists in certain areas of the market. And I would gather that's the same regionally, whether it's India or China. Technology you mentioned earlier is such a big theme. Or is that an area you might use more of a generalist type of exposure? Or are you purely looking for very specific specialists by asset class?

Mark Negussie: So, we are absolutely… I think generalist for sure. Like in China, I'd be lying if I said to you, we would hire a US based manager to invest in China. We have someone who actually live in China and understand the Chinese market and be able to navigate through the political uncertainty as well there. But at the same time, there are two asset classes that do not get captured by the fourth thematic coverage. One is what we call high-efficient beta market. The US, Europe, Japan, it's a phenomenal market. You can't ignore it. We have meaningful allocation there. It's just that our alpha expectation is lower. It's highly, highly efficient market. So, I tend to spend a lot of time on that side of the business. And then my colleagues spend a lot of time on buyouts, lower middle market buyout is highly inefficient, incredibly inefficient. And they don't even use a lot of leverage. And they create value. They create synergy. And that's an area where we are very active. And a lot of my colleagues that historically invest in private spend more time on that. So, we are generalists with a little of ability to lean in in our strengths when it makes sense.

Andrew O'Shea: Given the long duration nature of your portfolio, are you using any sort of credit-oriented strategies or primarily equities?

Mark Negussie: That's a great question. I've been… so if we zoom out, what I've been describing is our 70% allocation. We have a 70/30 benchmark, more risk-based benchmark to target 0.7 beta. So, 70% to ACWI, 30% to AGG. And what I've been describing so far was the 70%. The 30% is the defensive assets. And that is cash, just treasuries for the most part, diversifying hedge funds, as well as distress. So, we do have distress as part of the area that we invest in within that the defensive aspect of the book.

Robert Morier: Would you mind taking a step back? How are those themes… or how were those themes derived? So, what does that top-down process look like? I assume it doesn't change that often if you're looking at a 10-to-20-year horizon. But if you can… it is a, like we had talked about before, relatively new office. So, as you think about the ideation.

Mark Negussie: I think the four themes were, in a way, somewhat expressed in the portfolio already, but not in a clear way. Technology is technology. I think it's easy to argue with technology. Life sciences, the same thing, we already had one manager, a couple of, two to three years ago. So, China, India, the same thing, we had allocation. But we also had more generalist emerging market managers that didn't fit the framework any longer because of their focus. And only two market was in emerging market. So yeah, that was a decision, a top-down decision. But it was already… it was not controversial because it was already expressed in the book. But what I want to highlight is how those evolve over time and how we think about future investment that is we are always spending at least one presentation a year covering, updating our themes. China has, for example, a question. A constant debate within the team and the constant discussion within the theme, within the team. And that's something that we may potentially revise or change our mind a year from now, two years from now. So, we can't… even though it's a 10, 20 years outlook, we can't definitely ignore it. We have to constantly evaluate it. At the same time, we have what we call research agenda. We are looking ahead and looking at other potential thematic investments. I'm spending a lot of time in Africa. If Africa is… I'm not sure if Africa is investable at this point. But it could be investable in two, or three, or five years. So, I'm already doing the work. And I'm doing a lot of research. And at some point, I'll present the team what my conclusion is. It may as well be that we will continue to watch. But we're not ready to invest.

Robert Morier: Do you have to consider home country bias when you are investing in Africa?

Mark Negussie: Fortunately, Ethiopia is not… I mean, I think the Ethiopian market is probably not there yet. So, I think Nigeria is the largest one, followed by Egypt and Ghana, Kenya. South Africa is quite different. I think you have to exclude South Africa within the African discussion. But I've come across a lot of interesting ideas within the private side as well as the public side.

Andrew O'Shea: Interesting. Is there any discussion around, in terms of the thematics, digital assets and how that might play a role in a portfolio? Or any time there's tension in the market like we have around this topic, I'd love to hear the opinions.

Mark Negussie: Yeah, digital assets, it is definitely… I mean, I think it is technically part of the technology thematic coverage. Fortunately, or unfortunately, depending on how you see the digital assets, we don't have any dedicated investments. We do have smaller exposure to infrastructure around digital assets or crypto in general from our generalist tech managers. I don't think we have a strong view on crypto or blockchain. And the lack of view potentially shows you the fact that we don't have dedicated strategy to cover that.

Robert Morier: Well, before we move on, we're very interested to learn more about your responsibilities around biotech and life sciences. But just curious, you'd mentioned Africa. You had talked about some of the opportunities you're seeing today. But where else is the team working on opportunities, let's say, over the next 6 to 12 months, as we listen in and wonder who should be calling in addition to how?

Mark Negussie: So, on my end, I think the public bio has been, in a way, established. I'm spending a fair amount of time on the private side, the private biotech. I'm not still 100% sure if we would invest, if the risk/return makes sense. We already have some relationship. But I'm spending a fair amount of time on that. Something that everyone in the private side would agree and listening potentially is megacap tech. It's an area of severe underweight for not only for us, for many other institutions. And I'll be shocked if I'm to hear any of my colleagues or my peers' investment portfolio have meaningful allocation to Apple. A lot of people don't own Apple, like active managers. It makes sense because if you are active manager, you are looking for inefficiency. You're not looking to own highly efficient, well-covered names. But at the same time, they continue to be compounders. They continue to be a leader of innovation, a leader of… if you look at AI, I think NVIDIA has been the clear winner so far. But what I'm hearing across the board is ultimately the big megacap tech firms with a lot of data are potentially the second winners out there. So that's an area that we are thinking hard. Obviously, it's run up well year to date. And we don't want to chase performance. But we have to think about long term solution to that severe underweight. We might as well be just passive. We might as well just buy dedicated index or ETF. But ultimately, that's an area that we are spending a fair amount of time. The last one I would say is distress. We have, I think, very good partners in Europe and the US to take advantage of distress opportunities that is expected to arrive. We have seen some signs of distress, but haven't seen really bled on the Street, per se. But we continue to learn about the distress side. More private credit is not appealing to us, at least the liquidity profile of private credit, and the fact that you are investing a hard to clip coupons. They don't have a lot of protection. We like buying something for $0.30 or $0.50 and trying to sell it to $0.50 or $0.75. So yeah, we've been spending time on the private credits as well.

Robert Morier: As the person that leads biotech and life sciences, why don't you tell us about the thesis behind it? So how big is the allocation? And what's driving it?

Mark Negussie: I hate biology. But I ended up getting passionate about biotech over the last year or so. So, if you take a step back and look at why we invested in biotech, I'll take something that I heard from one of the smartest investors who was in biotech, which is why do people rob banks, for the most part? Because that's where the money is. Why do we invest in biotech? Because that's where the innovation is. And we believe if you take… the innovations have had several phases. And I'll quickly go through it. The first one is the ability to read. The ability to read is the first wave of innovation, was first ability to decode human genome. Once you sequenced genome, it took more than seven years, three institutions, more than $3 million to sequence a human body once. And now, it costs about a couple hundred to sequence human body. So, the ability to sequence human body, and Google was… research driven research efforts called AlphaFold released the 3D structure of over 200 million human proteins. That led to a lot of ability to read, to understand what causes a disease. So, once you read, the next one, the next phase is to write. So that comes in a form of gene editing, a lot of modality, new modality, modality is a way to deliver care, start to come across. And once you understand the read and the cause, there has been a lot of innovation on cancer with a technology called EDC. So there has been a lot of modality that improved the care and created a lot of innovation. So, with ability to read, now we can write. And we have also the power of compute with the ability to read, you have a lot of data. And there's a lot of other data that comes from different direction as well. You are competing that as well to find the right target. And ultimately, that leads you to the right molecules and matching. That is creating a large wave of innovation. And I believe in the next 20, 30 years, there will be either cure, or medicine, or treatment for most diseases in the world. And we want to be behind that. We want to take advantage of that. We want to be able to support that as well. So that's our overall thesis. In terms of the allocation, I think it's all bottom-up driven. Currently, the public is about 6%. I could easily see it go to 9% of the overall portfolio. The private is small. But I could easily see it grow as well. I don't think we have a limit, a top-down limit. It's just based on the opportunity set from the bottom-up.

Robert Morier: I think for many of your peers, maybe more of those who don't have the time horizon that an endowment or foundation does, biotech is something that can look prohibitive, particularly from a duration perspective. So even though we've created efficiencies in gene mapping and editing, the development timelines and the regulatory hurdles, particularly for these drugs, is still quite long.

So having talked to a few biotech funds leading up to this call, one of the challenges that they have is raising assets because they need the money in order to address that time frame. So, as you maybe are advising your peers on how to approach the asset class from that perspective, without that same time horizon, what are your… what are your words of advice?

Mark Negussie: So, I think one good news is I think technology is making it cheaper and faster to potentially to expedite that process. And it's not there yet. We're not at the point where we could use AI and machine learning to discover medicine yet. But it's helping at the initial stage of the drug discovery process. And the hope is that will continue to evolve and will continue to get better. And a lot of founders don't have to start with the lab. They could borrow… they could rent a wet lab and do their experiments. So there has been innovation in the same way that I think Amazon cloud changed all SaaS platform, there has been a lot of that coming through biotech as well for drug development. It's still immature. Still has a lot of proven to do. And that's the hope. But you're right, I think the handover is very long. It takes… what do they say? It takes more than $1 billion, more than 10 years to discover a drug. And only 5 out of 100 makes it at the end of the day. And if you look at the 5 or the 10, depending on which research you use, only a few of them are commercially viable. The rest are not. So that's why, in a way, in part, that I think I believe the public side has a better risk adjusted return than the private side. I think in terms of raising capital, you just have to be innovative. You have to find a way to cut your losses early on and small. So that your winners, you could double down on your winners and ultimately win over the long run and allocate capital efficiently. But as long as you have the right process, and people, and approach to drug discovery, capital usually follows that.

Andrew O'Shea: So, it's similar to venture, biotech's obviously a very capacity constrained asset class in certain segments of the market. So, it's not just identifying those managers that have the skill and the fit in your portfolio, but it's also the timing and being able to have access to them. How do you leverage your organization at CHOA to get access to these managers that might have limited capacity?

Mark Negussie: That's a great question, Andrew. And one of the things that I didn't mention early on was we're also invest heavily on… management invest heavily on research and development efforts. And we partner with Emory Healthcare System on that effort. That's an area where I want to spend more time to capitalize on. I think there is a lot of value we could add as an institution for GPs and because of our presence but as well as our research efforts. And that's an area where I'm going to be spending more time trying to leverage. But for the most part, I think a lot of GPs like to partner with people like us because of our capital base. And most importantly, it's our mission. Who wouldn't want to be behind making kids' life better today and healthier tomorrow? A lot of our high-quality GPs that we are able to access is because of our mission, for the most part.

Robert Morier: Well, one way to address accessibility is by investing in newer, younger managers, emerging managers, early stage.

Mark Negussie: Absolutely.

Robert Morier: More risk, but potentially more reward. So how does… how does Children's think about emerging manager allocations, those early-stage managers, first funds, and so on?

Mark Negussie: Yeah, absolutely a great question. We love emerging managers. We are currently expressing that through our private book. I think when it comes to lower middle market buyout, for example, I think there is a lot of synergy and value creation that happens. And the earlier, hungrier managers are best positioned to take advantage of that and to be able to create those values. So, we do have fund ones. Obviously, the bar is high. And there is a lot of processes around it. But we are open to emerging managers within the private book. And the public side, we do not have one yet. I'm pushing for one. And I will… I'm calling it the rule of three, the number three. And that is to say we need to have at least-- and just to give you a perspective, in the public side, we allocate a minimum of 3% allocation to a manager. Maximum is it could be up to 10%. We don't have 10%, but it could be up to 10%. So, when I'm underwriting a manager, I'm underwriting for a 3% allocation. So, if that's the case, it makes it very difficult for emerging managers to make it through that emerging… that allocation framework. So, one idea that I have is a rule of three, which is three managers per year, 1% each for a total of 3%. They have three years. And we have three years to decide whether they are core managers, we want to retain them, and make them a 3% position, opening up a spot for someone else. Or they go to zero. And we'll move on. And they have to be less than three years old. And yeah, ultimately, it's zero or three type of framework. That's something that I'm thinking about, I've been socializing with the team. We just have to discuss that a lot more and decide what that final framework would be. And ultimately, and ultimately, whether we want to do it or not as well, and once we decide that, hopefully we will have emerging managers program within the public book as well.

Robert Morier: That's great. That's an innovative approach, interesting. You have our vote of approval on that. So, I'm not sure… I'm not sure what your colleagues will say.

Andrew O'Shea: Very well defined.

Mark Negussie: Yeah, just the challenge is there is a constant imbalance between keeping the bar up. But at the same time, not having overdiversified book. So, if you lower your bar, if you create up an emerging manager program, you could potentially lower your bar because you don't have a lot of data to build conviction. And you are given excuses saying it's an emerging manager, it's a small allocation. But by forcing it to be only 3% allocation… 3% allocation, only three managers per time, that limits the amount of allocation we could do to emerging managers, or how many emerging managers we could have. But at the same time, raise the bar in terms of who takes those three spots as well. And ultimately, those emerging managers are the one that ultimately have to be in a position to substitute the matured managers that may be towards the end of their life cycle than anyone else. So, we need to have that fit, natural fit to be able to replace those long-matured managers as well.

Robert Morier: Well, I can certainly imagine other endowments and foundations maybe replicating that same model with emerging managers, which leads me to my next question. There's a rumor out there that endowments and foundations tend to invest together. They invest in herds. So, one of UMass Boston's notable alumni is a poet, Eileen Myles. And she wrote in her novel Chelsea Girls, if there's something I will always carry in my heart, it is this, earnest unwillingness to be part of the bunch. So how do you and Children's avoid being part of the bunch?

Mark Negussie: It is tough. It is tough. I think our asset allocation framework, which is more absolute return-oriented dynamic allow us to be more flexible and to think outside of the box in a way. The research agenda that I discussed looking at Africa right now, whether it's impossible or not, I'm not sure. But that's one way we try to be different and try to be ahead of the curve. At the same time, we recognize that the large cap tech under exposures are discussed. It's unlikely to be implemented right now because we don't want to go after something that ran up quick and we weren't chasing that performance. We will discuss it. We'll have a strategy. We will be very patients in terms of how we may address that over the long run. We admire managers that are independent thinkers. And we're trying to exercise that in ourselves as well. So, we try to read books. There have been some ideas within the investment office that will likely happen, which is each of the senior staff spend a summer in a different location, someone spending in Hong Kong understanding the Hong Kong LP side as well as the GP side for the summer will be an idea that has been floated that will likely happen. The same way, London will be another area, or San Francisco will be another area. So those are the type of things that we think about. We recognize it. It's an issue. And we have different mitigation. And we believe. And I think we're trying to be slightly different.

Robert Morier: Cognitive diversity in action.

Mark Negussie: Yeah, absolutely.

Robert Morier: Very interesting. Well, we always like to end our podcast with asking about the people who have influenced you along the way. And I don't always do this, but I'd love to hear from Andrew as well about some of the people who have influenced you along the way as well. But Mike, as our guest of honor, those folks who really played a part in your career?

Mark Negussie: I have to start with family, right? It's just I think I grew up with a humble family that started from the bottom and worked their way up to the top. So, I think I have learned the value of hard work from my family. I think what I learned in America is it's not only hard work. You have to work smartly as well. I think that's… family would say the first one. My older brother, small town that I grew up, we didn't have lights. 24 hours, light came on around 12 PM and would go off around midnight. And I would find him in the morning when I wake up studying with a small candle next to him. And that's just the type of things that I remember in terms of having grit, and working hard, and the value of hard work. Here in the US, I think there are several. But I'll go back to one of my former boss and good mentor of mine, and good friend of mine who told me that you need to focus on what we call the three E. It's the exposure, experience, and education. And he coached me very well that exposure is achieved through hard work. The reward for good work is more work. You work hard. You do an excellent job, you get more work. That is the experience that you get. And that experience ultimately leads you to exposure because ultimately, if you are the one doing all the work, senior management, sooner or later, will give you access to them as well as us as our senior management above them. So, exposure was the second one that he emphasized on. And I was able to get access. The last one is education. When I was in San Francisco, I already had my master's degree. But I was CFA level one. He encouraged me to get back to my CFA program. I was debating between CFA and KAYAK. And I ended up doing level two and level three. I passed all three levels on the first try. And once I have that experience, so I have exposure, experience, and education, I was a totally different person. He played a very critical role on that. And that's something that I'm grateful for.

Robert Morier: That's wonderful. Thank you for sharing. Andrew, I'd love to hear yours too.

Andrew O'Shea: Yeah, I think what comes to mind for me is definitely going back to the early years, middle school, high school and certainly, we've all had teachers that are subject matter experts. And they know the topics quite well. But there's also those teachers that are also subject matter experts, but they know how to get the best out of their students across a variety of different learning styles. And there was a teacher I had that was also a coach, Brian Justice, who was really influential in bringing out the best of me, not just as a student, but as a person. And I think those teachers, you tend to remember. And so, I think the early days of learning how to effectively apply studying habits but also outside the classroom, teachers that can light a fire in your belly are special. And that happens in the workplace as well. And so that's one that comes to mind for me.

Robert Morier: That's wonderful. Thank you for sharing. Thank you both for sharing. Well, Mike, thank you again for being here today. Thank you for coming to Philadelphia. Congratulations on all your success. We wish you nothing but the best for the future. Andrew, thank you again for being here. So, if you want to learn more about Mike and Children's Health of Atlanta, please visit their website at www.choa.org. You can find this episode in 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, check out our website at dakota.com. Finally, if you like what you're seeing and hearing, please be sure to like, follow, and share these episodes. We welcome your feedback as well. Thank you both again. And thank you to our audience for investing your time with Dakota.