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EPISODE 39:

Following the Fundamentals

with Gerber Taylor

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 the 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 recommendations of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today.

Robert Morier: Well, I am very happy to introduce our guest, Sean Montesi, partner at Gerber Taylor. Welcome to Philadelphia.

Sean Montesi: Thanks for having me.

Robert Morier: Yeah, thank you for being here. And as always, Dan DiDomenico.

Dan DiDomenico: Robert.

Robert Morier: Welcome.

Dan DiDomenico: Always a pleasure being here.

Robert Morier: Back to school?

Dan DiDomenico: Oh, yeah.

Robert Morier: How are the kids?

Dan DiDomenico: Routine is a good thing.

Robert Morier: Good, yeah, that nice open block during the day where there's no calls, no practice, no games.

Dan DiDomenico: That's right.

Robert Morier: Good. Well, congratulations. I'm glad you're there. Sean, thank you so much for being here. Gerber Taylor, just for our audience before we get going, is a multi-asset class investment management firm with a heritage rooted in deep fundamental investment research. Founded in 1990 and headquartered in Memphis, Tennessee, Gerber Taylor has $7 billion in assets under management as of June 2023 and an additional $6 billion in assets under advisement as of December 2022. We're going to talk to Sean more about those pools of capital. But before we do, I want to quickly read your background for our audience. So, Sean joined Gerber Taylor in 2010 and focuses on research and manager selection with respect to traditional and alternative asset classes. Previously, he was an investment banker at SunTrust Robinson Humphrey in Atlanta. He also has experience in private equity and private debt and as an entrepreneur. Sean earned an MBA with honors from the University of Chicago Booth School of Business and a BS in business administration from the University of North Carolina with a concentration in finance. Sean is also the board treasurer of the Memphis College Prep Elementary School. Sean calls Memphis home, where he lives with his family. Thanks for coming up here.

Sean Montesi: Of course, thanks for having me.

Robert Morier: Well, we always have a lot of questions for our guests, particularly those who are coming from out of town. It's always an honor for us to have people visit us at Dakota Studios and visit the facilities here with this great group of people. But my youngest daughter, we were talking about this, was born in Memphis at Baptist Memorial Hospital. I go back and forth between Germantown and Shelby Forest. Are you from Memphis originally?

Sean Montesi: I am, yeah, grew up in Memphis, was away for a number of years but been back for a long time, too, and like your youngest, was born at Baptist. My oldest was born at Baptist, youngest was born at Methodist. But yeah, a long time Memphian. And family's been there a long time, went to Catholic schools there, Saint Dominic, Christian Brothers High School. And then maybe even to go a little further back for a second and give you a little family color and context, yeah, my mom's from the New York area. Her dad was in broadcast for ABC. And so they live within a train ride of the city. And then dad's family's been down there a long time. So Italian heritage, like a lot of people in Memphis of Italian heritage, came over to work plantations in the Mississippi Delta, and when they could, got off of those and came into the city. And being Italians, knew a lot about food and got in the grocery business, so a long-time grocery family there in Memphis. And mom met dad there in Memphis. And yeah, so anyway, long time Memphian, but spent some time elsewhere and came back.

Robert Morier: Well, a lot of our sales folks who listen in on the podcast are very familiar with Memphis in May. They get down there every May for some of the conferences that are down there at that time. So, we're glad… Philadelphia in the fall, I think is the right place to be. It's still pretty warm down in Memphis?

Sean Montesi: It's still pretty warm, although it kind of broke about a week or so ago. It was brutal all through July and August, as it was for a lot of the country.

Robert Morier: So how did the locals take you go into the University of North Carolina?

Sean Montesi: Yeah, no, so we actually had a pretty nice little contingent of Memphians around my age that made their way coincidentally over there together. So, I was looking for… I kind of mentioned the family business aspect. So, I grew up always hearing about family and business being closely intertwined. So, I was looking for a state school experience, but also a great business school, and so went and visited Chapel Hill and just kind of fell in love with it. It's the quintessential college town, oldest state school in the country. And so, it was kind of a no-brainer for me. And then as it turned out, I got there, and there was a handful of us from Memphis that brought a little bit of home along with us. So, we would eat North Carolina barbecue. And there's a very distinct vinegar-based barbecue sauce. But we would bring some Corky's barbecue sauce.

Robert Morier: Yeah, the good stuff.

Sean Montesi: Yeah, exactly, exactly.

Robert Morier: I'll say it. I know you can't. But I'll say, the good stuff.

Sean Montesi: That's right, that's right.

Robert Morier: Oh, good. Thank you for sharing that. We appreciate it. So, you're at UNC. You're thinking about, out of school, what you're going to be doing for that first job. What was that thought process like? And you obviously ended up at SunTrust Robinson Humphrey as an investment banking analyst.

Sean Montesi: Yeah, yeah, I mean, I was weighing a couple of different initial career paths. I actually had an offer to go work for UNC management for the endowment there and then a couple of investment banking offers. And I think at that point in time, I was already sort of thinking ahead to business school and felt like the crunch that you get as an investment banking analyst and packing those many years of experience into a couple, we kind of play the best as far as preparing for business school and thereafter. So, I decided to go to the business school route. And yeah, Atlanta was great. Atlanta's a great town. And that's a great firm. And so, it was a really good experience.

Robert Morier: That's good, yeah. We had Children's Healthcare of Atlanta here, actually, last week, Mike Negussie, actually, that episode aired yesterday. So, yeah, there's a lot of good things going down in Atlanta. I'm sure you enjoyed it.

Sean Montesi: I did.

Robert Morier: But you ended up going out to Chicago for business school, interesting time. I'm always curious, the people who were in school during the great financial crisis. What was it like in the classroom? How were you being taught? What was going on in the market?

Sean Montesi: Yeah, I mean, a really interesting time to be there. I mean, on the one hand, people were like, oh, great time to be in business school and hide out, which it was. I mean, if I hadn't have been there, you might be somewhere getting laid off. On the flip side, it was, you could imagine, a pretty tough time to recruit. So, I'm not sure that our class got the full benefit of that, calling people in the fall of 2008 and spring of 2009 looking for jobs. It was a tough thing. But it was a really instructive time to be there and just a live case study in progress, and so—

Robert Morier: Is that how it was approached? I'm just curious. I'm in the classroom as well. I teach at Drexel. And during the Silicon Valley Bank fallout, we did. We stopped what we were doing and presented a case study. Here's what's happening. This is what the industry looks like. This is what it means when there's a liquidity crisis. Did you see the same things? I mean, I'm sure you did. It's a wonderful school.

Sean Montesi: Yeah, yeah, we did. I mean, of course, it brings back to the fore the efficient market debate, of course. Gene Fama is there. And it's the birthplace of efficient markets. And how can the market be efficient at S&P 1,500 one month and 700 a couple months later, you know? So that's this ongoing rousing debate. And then Hank Paulson actually came to campus during the crisis to give real life color. And I just remember thinking, this is incredible that we have this kind of access to people and information right now. So, it was really interesting times.

Robert Morier: Interesting, thanks for sharing. But you went home to Memphis.

Sean Montesi: I did, yeah, yeah. I mean, I was exploring a lot of different things during business school. And I had actually interned with Gerber Taylor as an undergrad at UNC, and so had stayed in touch with the team. And as coincidence or circumstance would have it, they had a couple individuals leave for other family office or other pursuits and had some openings and reached out. And so, the stars just kind of aligned. I mean, I wasn't necessarily focused exclusively on Memphis. I mean, it's a small market. So, I thought I may go elsewhere for a period of time. But yeah, no, it's a fabulous firm. And they reached out. And so, I was happy to get back home.

Robert Morier: Would you mind for our audience, telling us a little bit about Gerber Taylor? I know it was founded in 1990. But what's the mission? What are the goals and objectives of the firm? And how do you approach your clients?

Sean Montesi: Yeah, yeah, sure. So, you mentioned the assets under management and under advisory. In the very early days of the firm, it was purely an advisory business. But many, many years ago, they started the management business as well. I think what kind of birthed it was, we were making these recommendations to institutions. And the individuals oftentimes, high net worths on those boards, were inquiring and saying, this is really interesting stuff. How can I access it as well? So, we started putting another pool of vehicles for wealthy families. And over time, that became the core of the business. These are our best ideas. This is what we think you ought to be doing. We're still consulting, of course. But if you want our best thinking, here's an outsourced approach. And so that's really been the driving force of the firm for a period of time now. So, the majority of it is wealthy families. And then the balance is endowments and foundations. It's concentrated in the Southeast. Tennessee and Texas are core markets for us. And yeah, I mean, we look a lot like a big university endowment. That's kind of how we invest. Day one, when I was an intern, got Swensen's book and devoured that. And that's really the driving philosophy.

Robert Morier: Maybe starting with the advisory business, we're really interested to hear about the assets under management as well. I know you're doing a lot of exciting things in private markets, in particular. But as you think about the advisory side, what's the core philosophy? You mentioned the endowment model. But as you think about putting that into place, what's guiding the manager research team in terms of how you want to be spending your time, where you want to be deploying that capital?

Sean Montesi: Frankly, we're wanting to spend more time in inefficient spaces, you know? I think, as we think about, there's only so many hours in a day and so much research attention, frankly, we don't devote a lot of time to say fixed income, for example. That's an area where we have a small allocation. And we're going to approach it in a more passive manner. And most of our research effort is focused in the alternatives sphere, where we think there's just more room for inefficiency and out-performance. And that's really what we're known for. So, a lot of clients come to us for total portfolio solutions. But many come to us specifically for hedge funds and private markets.

Dan DiDomenico: So, if we're talking about those inefficient spaces, the areas where you're looking specifically in alternatives, that makes a lot of sense, right? I mean, obviously, there's a lot of different ways that you can define that. But now, just thinking through manager selection, so if you have an area where you want to express an investment in the portfolio, how are you going about that manager selection process to find the best that you believe can exploit that inefficiency?

Sean Montesi: Sure, yeah, so I mean, we've been at this 30-plus years now. So, we've got, of course, a stable of managers, some of which, actually, we've worked with the entire tenure of the firm. So, we do have some GP relationships that are over 30 years old. And so, we're always actively reviewing managers constantly. And it's a funnel. People are always kind of shifting and filtering through the funnel. We're actively monitoring. And it's certainly more art than science. I mean, there's many, many, more great general partners out there than we have room to hire. So yeah, I mean, we're actively tracking and monitoring and interviewing. And hopefully, the cream rises to the top.

Dan DiDomenico: And a little bit of the top down and bottom up, meaning you might have an outlook where you're looking to get at something that you see out there in the market, where you want to get that type of exposure. But are you also taking calls more from managers that may want to share with you an idea?

Sean Montesi: Oh, of course, yeah, of course. Yeah, it's both. I mean, we have our views on specific areas that we think are particularly inefficient. And we may go market map and interview everybody in that arena. But yeah, no, our doors are absolutely always open for things to come up.

Dan DiDomenico: I love that you said that you've been working with some investment managers since the inception of the firm.

Sean Montesi: Yeah.

Dan DiDomenico: So, clearly, you're getting to know these managers. You have the evaluation process in terms of knowing what to expect from performance. I'm sure not every manager outperforms in every market cycle.

Sean Montesi: Sure, sure, sure.

Dan DiDomenico: But as long as you're thinking through the proper metrics in how to evaluate those strategies, maybe talk us through that evaluation process and how you're thinking about performance for those investment managers.

Sean Montesi: Yeah, again, more art than science because as you said, within those 30-plus year relationships, most of them have had near-death experiences. And it's not always obvious, do you stick with them or not? I think if we can articulate a reason why it's external factors as opposed to internal factors that led to this period of under-performance, then we're likely to stick with it. If we think the strategy has materially changed or shifted, then we may not give them that additional rope.

Robert Morier: Tell us about some of those near-death experiences because that's the hard part, I would assume. I know that it's a challenging job. It takes a lot of time, a lot of energy to evaluate these managers because you have so much coming in. But those moments of inflection with some of these managers, if you think back in your experience, what has that process been like for you and the team?

Sean Montesi: Yeah, I mean, there's a lot of debate involved. And it's not easy to jettison a 15 or 20-year relationship. And you hope you make the right call. I'd say, in general, given that we do have a number of these relationships that span 30-plus years, I think we tend to maybe be a bit more patient than some of our peers. And we're loyal. And vice versa, the GPs, if you stick with somebody through that type of experience, there's a lot of reciprocal goodwill there. And I think that accrues to our benefit in a lot of ways, whether it's capacity rights or terms or other things.

Robert Morier: Could you talk a little bit about the team? So how many are there? Looking at these managers, how do you think about your time in terms of asset class responsibilities? And how does the rest of the team break out that responsibility?

Sean Montesi: Yeah, there's about a dozen or so research and diligence professionals. Broadly speaking, we divide it into private markets, hedge funds, and long only. Myself and two partners, Bill Ryan and Kojo McLennon cover private markets for us. So that's everything from early-stage venture through growth equity, buyouts, distressed, on the private equity side. And then on the private real asset side, largely real assets, some infrastructure and energy, similar sized teams covering hedge funds and long only, and then an operational due diligence team that supports across all the asset classes, and then some individuals on the investment committees that are more generalist in their focus.

Robert Morier: I'm always curious about that operational due diligence team. Does that happen at the end of the process or throughout?

Sean Montesi: Throughout. It certainly ramps much more at the end of the process. But we're tending to get feedback sooner rather than later. And then once the manager has been on-boarded, then it's continuous with them. They're regularly meeting and monitoring throughout the life cycle of the relationship.

Robert Morier: We're going to spend most of the time in your area of coverage. But just curious, on the public equity side, public markets, any, I hate to use the word biases, but any preferences as it relates to asset managers? Concentration is one that we hear quite a bit. And I always love to ask our investors, what does concentration mean to you?

Sean Montesi: Yeah, yeah, yeah, no, I think concentration is certainly a preference. So, Jason Gowen leads our long only efforts. And yeah, absolutely, I mean, I think if we're going to have a stable of managers, if they're all very diversified, that's probably going to be over-diversified for our end investor. So, we prefer concentrated portfolios. And in some cases, that could be as little as a half dozen positions. And generally, it's not more than a couple dozen. And so, when you roll up maybe 8 or 10 managers with portfolios of that size, that's a properly diversified portfolio. So yeah, we're looking for concentration. We're generally… I think Jason's been very good at finding managers that are early in life cycle, generally small asset bases, typically, more often than not, a single strategy firm, not a multi-product firm, with well-aligned managers that have the majority of their net worth invested in the fund alongside of us.

Robert Morier: Specialists, you're looking for specialists.

Sean Montesi: Typically.

Robert Morier: I like that. Now, I know you mentioned the endowment style when thinking about your underlying clients and your core philosophy and how you're allocating client capital or advising on that client capital, just understanding that each of your clients may have its own goals and objectives. How are you thinking about an optimal portfolio solution? I'm assuming that they're all customized or there aren't models that you're necessarily going into. But you may have recommended managers that you want to work off of. But how are you thinking about achieving that level of optimal asset allocation for your clients?

Sean Montesi: Sure, sure. I mean, we have kind of a preferred starting point. I mean, we call it our model allocation. That's kind of our base recommendation. If you came to us without any preconceived notion or preference, this is what we would advise you to do in terms of asset allocation. And then we've got standard manager allocations within each of those assets. But certainly, it's customizable. And we absolutely do customize it. And so, it's a starting point, and then a conversation that says, where do we need to tilt and shift this, relative to the starting point, that works for the client? And we try to have a lot of uniformity in terms of the manager allocation. So many of our clients are coming, or the majority our clients are coming in, to commingled pools that we manage so that they're all getting, effectively, the exact same manager allocation. Of course, in certain cases, again, larger clients want more bespoke portfolios. We do that.

Robert Morier: Maybe just set expectations for our listeners. We've talked through the process for manager evaluation. But the on-boarding of a new investment manager, maybe just set expectations for our listeners.

Sean Montesi: To be honest with you, it can be pretty variable because, again, we've got these 30-plus year relationships. And so, if given the time, we'll take it. I can think of cases where we've gotten to know a manager for, honestly, 10 years before making an allocation. But if that's not practical from our perspective or theirs, it can be done quickly, in as little as a month or two. And so, it really just depends. It's very situational. We're very opportunistic. We're typically not just kind of running managers through a gauntlet. It's very iterative and opportunistic. But yeah, we mentioned the operational due diligence team. So typically, they're starting with the investment research team over a series of meetings that could last, again, months or years. And then as they get further along, they're engaging more and more with the operational due diligence team. Once it's gone through investment committee, we're relatively quick.

Robert Morier: Are you employing any tax overlay solutions? As you think about your clients, you have a lot of, it sounds like, ultra-high net worth. So, I could ask it in two ways. There's tax overlay. And then there's risk management. And I think for people who are thinking about taxes, it's a risk, maybe, mitigation strategy. So how are you addressing both?

Sean Montesi: We're big investors in all our products alongside of our clients. And we're taxable. So, we certainly think about that as well. And I think it's not the driving force. But it's certainly a factor and a reason why we're big believers in private equity and long-term hold periods. And even within our equity portfolios, generally, those managers are holding things for a very long period of time and deferring taxes. And we haven't necessarily used a lot of overlay strategies, if you will.

Dan DiDomenico: We've gone through a fairly volatile environment in terms of the markets over the last three years. And I'm sure we're going to get into more of the deeper conversations around how you are incorporating alternatives. But how are you thinking about risk? How are you mitigating the risk within those portfolios to help with that market volatility?

Sean Montesi: Yeah, yeah, I mean, I think it's twofold. It's asset allocation and diversification. So, our asset allocation, we lean pretty heavily on our hedge fund portfolios to be volatility dampeners, particularly the kind of multi-strategy hedge funds. And then we do have a bit of fixed income. And then our real asset portfolios tend to be reasonably low volatility in their return profile. And then it's diversification. We've got nine different asset classes. We've got a number of different manager types and strategies within each of those asset classes. And then they run themselves, properly balanced and risk aware portfolios.

Robert Morier: Well, before we start talking about alternatives, when you think about the team collectively, what are some of the areas of opportunity that you guys are looking at today, just thinking out maybe the next six to 12 months? As Dan had mentioned, there's been quite a bit of activity in the markets. But that also tends to present a lot of opportunities.

Sean Montesi: Yeah, I mean, we're certainly spending more time on distressed opportunities, which there hasn't been a lot of for a long time. Some of our managers that historically had an expertise there have kept it honed through things like corporate carve-outs. But now, you're seeing true distress. And so, I think we'll probably be spending more time looking at managers that are specialized there. And then, also, I think a number of our GPs that have that in their toolkit will lean further into that. And then also, tangential to that would be secondaries. So, whether that's LP positions or individual company positions, I think there's going to be much more of that transacting in the coming years. And so that's a focus now and probably will be a growing one.

Robert Morier: So how do you stay competitive? That's a lot to do. How does the team do it? How do you stay ahead of the curve?

Sean Montesi: Yeah, I mean, I think you just got to be willing to do some things differently than others. And I think we do have some of these relationships that date back a long way that are maybe more, these days, a household name, maybe weren't back then. But I think we're very willing to lean into emerging managers, first-time funds, new launches. People like the kind of balance of, you've got these established groups. But you guys always have things I've never heard of and never thought about. And it's a nice pairing.

Robert Morier: And what's the objective of the strategy?

Sean Montesi: Yeah, so I mean, the objective is high absolute rates of return in a tax efficient manner. And we do that through a combination of buyouts, venture capital, and growth equity, and the occasional other thing. And it’s primarily fund commitments complemented by co-invest and direct investments. And within the buyout space, we definitely have a preference for lower middle market. It doesn't mean we won't allocate up-market. More often than not and nearly all the time with new relationships, we're looking in that lower middle market space.

Robert Morier: What separates lower middle market from other areas of the cap spectrum?

Sean Montesi: We've probably all seen the inverted pyramid charts where most of the capital that gets allocated into private equity goes into the biggest funds. If you look at the number of companies in the United States and you bifurcate them by size, there's only so many that are viable targets for those large fund sizes. And there's tens of thousands, if not hundreds of thousands of companies down here in the bottom of the pyramid that can be targets for those lower middle market managers that raise a small fraction of the overall private equity capital. So, I think there's just a long-term kind of structural mismatch between supply of capital and the volume of opportunities.

Robert Morier: What does the typical partner profile look like for that lower middle market portfolio?

Sean Montesi: It varies. But I'd say the most prototypical profile would be a junior or mid-level kind of partner at a larger firm that's anywhere between 35 and 50 that's got real experience, has a real personal track record, is at a point in their career where, do I stay where I am or do I strikeout on my own and become an entrepreneur? And if they're striking out on their own and they've been successful with their prior firm, that's a profile that's attractive to us. I mean, those first deals, they've got to work. I mean, this person's walking away from a lot of success and probably putting a huge amount of their personal capital behind this. They probably have their friends and family invested in this. And it's got to work. And so, we like that dynamic.

Robert Morier: Any sectors or industries in that same space? I'm sorry to harp on it. But we had a great conversation a few weeks ago with Michael Marvelli. He's with the UCLA's investment company, so talking about an endowment approach. And they've built a very interesting lower middle market portfolio that they established back in 2016. They had some sector biases. I'm just curious if there are any areas from a sector perspective where you'll tend to gravitate?

Sean Montesi: Health care is always a big component. Within it, industrial, kind of services businesses, tech-enabled business services, those would probably be some of the bigger categories.

Robert Morier: The statistics for venture capital right now aren't great in terms of fundraising and cap raising, particularly for some of those early-stage funds. I'm really welcome to hear your thoughts about what you're seeing in venture capital today and how your clients are responding.

Sean Montesi: Yesterday, I was in New York for the primary summit. And there were 2,000 attendees with hundreds of people on a waitlist. And it felt like venture was vibrant. And I think there's… I'd put the tone as cautiously optimistic. The IPO market is about to open back up with Arm and Klaviyo and Instacart in the next few weeks. And if those go well, I think there's a belief that maybe there'll be return to normalcy in the IPO markets. And on the early stage, I don't think the volume of new businesses starting changed too terribly dramatically. Of course, the late-stage venture market has more or less shut down for a period of time. But again, if the IPO market restarts, that could certainly change. We've continued to allocate maybe at a moderately slower pace. Everybody was coming back to market 18, 24 months ago. And we were trying to pump the brakes. Now, things, they feel healthy in terms of--instead of the 18-month fundraise cycle, we're back on the 2 and 1/2, three-year fundraise cycle.

Dan DiDomenico: How do you dig into those portfolios? I mean, obviously, you're relying a lot on the managers, their skill set because obviously, in this rate environment where we find ourselves, that could be more problematic for some of those individual companies. You also talked about in doing some direct investing. Obviously, looking at secondaries will help you provide opportunity for the portfolios to allocate to those that, maybe, you can dig into the portfolios. But how do you think about that more portfolio company risk that's inherent in these kinds of strategies?

Sean Montesi: Yeah, I mean, certainly with the increase in interest rates, there's a lot of company budgets that didn't forecast, if they had floating rate debt, that they were going to have a 500 and something basis point increase. And so, I don't think we have seen too many cases yet, anyway, of where that's created real going concern issues. But it's inevitably going to come for some. And so, I think just staying on top of that with our managers and trying to get ahead of it, and they're trying to get ahead of it. But yeah, and that will and that will lead to… we talked about the stress.

Dan DiDomenico: Opportunities, it creates opportunities.

Sean Montesi: Build the opportunity to recapitalize these businesses at much lower valuations. And that's exciting for new capital.

Robert Morier: Digital assets, do they work their way into your client portfolios at all?

Sean Montesi: Not really. I mean, certainly, we've not embraced it and actively allocated to it. I would say, within our venture portfolios, we haven't prohibited it, you know? And so, a few managers may have had exploratory positions here and there. But I can't really think of any case where it was meaningful for any of our managers.

Robert Morier: One of the advantages of my seat as the host is that I get to ask you questions as if you were selling to me. And you did send me some marketing materials in advance. And in those marketing materials, it shared that your venture capital portfolio has a differentiated approach. How is it differentiated relative to your peers?

Sean Montesi: Yeah, I mean, I think similar to what we were talking about earlier in terms of long only, we like single strategy firms. We like strong alignment. So, we're generally going to allocate to funds where there's an above market level of GP commitment, deep research orientation. So, of course, networking is important in the venture sphere. But we don't want to allocate where we feel like they're overly reliant on that. We want to see all the research behind the thesis. Specialization, it's hard to cover everything in the tech universe, specializing in an area. And then, again, the kind of, like, right sized. We pay attention to strategy drift and motivational change as organizations grow.

Robert Morier: I'm just curious, in the alternatives book as well, we talk a lot about the US and the US market. But what are you seeing outside of the United States? Are you seeing managers calling you, coming to Memphis?

Sean Montesi: Surprisingly, they do. I guess we've been at it long enough that it's worth the effort. There are some other allocators in Tennessee. And certainly, Vanderbilt is not too far away. But yeah, I would say, relative to some others of our size, I think we have a pretty substantial international exposure, particularly on the long only side. And again, just to give Jason a few props, on our international equity portfolio, it's almost entirely out of country, either single country or regional specialists. And it's very good at finding people, whether it's in Oslo, Norway, or Bath, England, or Singapore or Bangkok. And that's appealing for our investors, who otherwise would not have that access.

Robert Morier: Speaking of access, maybe just because you were just there yesterday with the VC side of the book, how are you cultivating those relationships, beyond the conferences and your history in investing in early stage? There are still a lot of managers out there.

Sean Montesi: There's a lot of managers out there, yeah.

Robert Morier: A lot of people looking, lots of dry powder.

Sean Montesi: Yeah, I mean, I would say, in recent years, probably the best sourcing avenue for us has been GP referrals. So, when GPs refer other GPs to us, that's high signal value. And it's, hey, I served on a board with this guy. And I think he's also a fantastic GP. And you guys can't allocate all your capital to me. So go meet him as well. And in a high percentage of our recent hires, that's been the case.

Dan DiDomenico: And that's a good way for you all to initiate that conversation, that relationship, knowing that there's credibility behind it, right?

Sean Montesi: Exactly, yeah, yeah. And from that new GP's perspective, I mean, he'd much rather have that referral, than you're just kind of calling out of the blue.

Dan DiDomenico: And that's where I wanted to go with the conversation next. I mean, clearly, you all, in thinking about those early-stage managers, the emerging managers, how do you define that? I mean, it's not just the start, right? There's obviously experience behind the people that are initiating and launching that firm. But how do you define an emerging manager?

Sean Montesi: I guess, in simplest terms, fund I, II, III in the private side. And then on the public or hedge fund side of the house, it would be new launch, day one or near to it. And so yeah, like I said, that's a very healthy and vibrant part of our… we lean into it. And we've observed that our experience with first- and second-time funds on the private side has outperformed the balance. And so, we try to maintain some discipline and balance there and say, if we're leaning in on funds IV, V, VI, VII, and VIII, the data says, we should be thinking about the next new blood.

Robert Morier: Where will you tackle co-investments? Will it be with an existing GP relationship? Will you look at co-investments with new GP partners?

Sean Montesi: We will, yeah. It's both. I would say the majority has been with existing GP relationships. Especially on the venture side, I think where it can be more complicated due diligence for us. And so, I think we need to lean on our general partner relationships there. We've been a little more willing to do it with new relationships on the buyout side. Particularly, what we've seen going back to these first- and second-time funds is, many times, a manager will get a start by doing a few deals as an independent sponsor before raising a true institutional fund. And so, we would observe good performance oftentimes in those pre-fund deals. And so maybe, we can establish relationships even earlier by allocating to one of these pre-fund deals. And so, it's a way to slowly build a relationship in advance of a full-blown fund commitment.

Robert Morier: So how about on the technology side? I can't get away from artificial intelligence, particularly in the classroom. I'm being briefed every week about how artificial intelligence is being utilized by students. So, we're trying to figure it out. And it had me thinking about us. It had me thinking about how asset managers are utilizing artificial intelligence, potentially, and what that means for compliance, regulatory risk, also, how manager research is using it. Is it another tool now or another arrow in the quiver? So where does, and maybe not specifically, just broadly… because you're talking to a lot of VCs. I also assume you're probably talking to a lot of folks who are now setting up stakes in Cerebral Valley in California. And it's a part of every conversation.

Sean Montesi: Yeah, I know. Towards the end of the day yesterday, I was thinking, I should have kept a tally of the number of times AI was said. It would have been pretty hilarious.

Robert Morier: That in itself is a good anecdote.

Sean Montesi: Yeah, it probably would have been in the hundreds. But yeah, I do think it's real. It's been around for a lot longer. It's just kind of come into the mainstream of late. Not to knock too hard on digital assets, but I do think… so that was the rage and the craze a couple years ago. And I think it is a little bit different with AI, in the sense that I've heard it said a couple of times. But not every CEO a couple of years ago was concerned with their digital asset strategy. But today, I think nearly every CEO is very much concerned about, what is our AI strategy? And so that would… we tend to think it's more regrettable. And it has legs. And it's here to stay. And so, yeah, I think everybody's got to be thinking about it. And certainly, the venture capitalists are thinking about it every day. And so, I think technology, broadly speaking, it still is, but was a stand-alone sector decades ago. And it's like, now, every business has to incorporate technology, right? And so, I think, at some point in time, every business will incorporate AI, but maybe not right this minute, you know?

Robert Morier: You talked about health care as one of the sectors. How about biotech within health care? Is that an area you're spending some time?

Sean Montesi: Yeah, absolutely. I mean, so we spend time researching. It within our private portfolio, if you look at dispersion among different sectors, biotech is the one with the highest degree of stock dispersion. And so, anyway, we had observed good success there within our portfolios and had some inquiries from clients to maybe up-size that exposure. And so, yeah, we've got a dedicated biotech fund with a handful of successful, long-tenured, difficult-to-access managers therein.

Robert Morier: So, as you're looking forward, what do you see as some of the main challenges and opportunities in private markets?

Sean Montesi: There's a lot more capital coming into the space, which, I think, presents challenges in terms of forward-looking return expectations likely to continue to compress. That said, we talked about the inverted pyramid earlier. And the overwhelming majority of that capital goes into the biggest firms. And so, I think that space is going to get tougher and tougher. More of it will filter its way down market. But I don't see it fundamentally changing the value proposition there. There's just so many businesses, so many targets. And then I think you've got these structural factors at force, which is, the baby boomers are retiring. And many of them are business owners. And many of them don't have succession plans. And so private equity is the off ramp. And so, I think we remain very long-term bullish in terms of the lower middle market and the opportunity there. And then on the venture side, the pace of change and innovation seems to only ever increasingly accelerate. And so, I think that's sustainable and durable as well. And hopefully, some of the froth has been taken out of the market. And some capital is retreated. And so, I think that'll make for good opportunities going forward.

Robert Morier: I think there's going to be a lot of small business owners who are calling their bankers right now looking for private equity capital.

Sean Montesi: Yeah.

Robert Morier: Well, we're going to bring this full circle. Your family came from Mississippi up to Memphis. There's a writer named Shelby Foote, did the same track. He started out in Mississippi. He actually died at Baptist in Memphis. He was a wonderful historian. He wrote that, "making mistakes and discovering them for yourself is of great value. But to have someone else to point out those mistakes is a shortcut." So how have you approached mistakes in your career? I mean, we all make them. Particularly in manager research, sometimes, it's the managers that make them. So how do you think about that?

Sean Montesi: First of all, you've got to own the mistake and be aware of it. Luckily, we've talked about diversification a lot. And so, I don't think that any mistakes that we've made have been detrimental to our clients. They're contained. And they're small. But we all make them. And I would say, maybe like an overarching theme, if we think about, mistakes would be either overconfidence or maybe creeping outside of your core competencies. The book hasn't been written yet. But certainly, perspectives on venture in China are very different than they were a few years ago. And so, we'll see how that plays out. But that would be a watch area, where we didn't have an extraordinary amount of allocation. But we did allocate. Whereas, several years ago, that seemed like the global growth engine and a market size comparable to the US and an area you needed to be. And now, it's very much not a preference for most allocators, so.

Robert Morier: Thank you for sharing all that. We always like to end the conversation by the people who really influenced you in your career. I know we may be waiting for that book to be written. I have to be honest, if it's you that writes it, I'll be interested to read it. This was a very exciting conversation, and very insightful. So, thank you. But we're always interested who shaped these ideas, who formed these thoughts for you.

Sean Montesi: Yeah, yeah, well, I've got to definitely give a lot of credit to Charles Gerber, our founder. And I mentioned, day one as an intern, getting David Swensen's book. And that was obviously formative. And Charles has been a great mentor and, really, a friend in a lot of ways through the years. And I think he's established a wonderful firm culture. And we absolutely wouldn't have the success that we have without him setting that culture, and great guy to work for. And so, yeah, I think Charles has been incredibly influential for me and many, many others within Gerber Taylor, and just the broader community and Memphis and finance at large. And then, like a lot of successful people, he's a philanthropic person. That's kind of influenced my interests there. He founded some charter schools in town, tuition free charter schools for under-served kids. And we mentioned Memphis College Prep at the onset. But that's kind of what influenced me to get involved in that movement as well. And if we want to change our communities for the better, we've got to start with the education of youth. And it's an important thing. And then, I guess, maybe one other quick shout-out, when I was at SunTrust, our group head there, Joe Thompson, who at the time, probably as a young guy, probably seemed to me like a tough guy to work for, but was very, very great and a good guy to work for. And I probably wouldn't have gotten into the quality of business school that I did without his assistance. Him and his wife, as well, would give recommendations about essays and edit essays and help craft the business school applications behind the scenes. And so, it was super helpful.

Robert Morier: That's wonderful. Thank you for sharing that. Congratulations on all your success. We look forward to more accomplishments. I'm sure there are going to be many.

Sean Montesi: Yeah, thanks.

Robert Morier: And thank you for coming to Philadelphia.

Sean Montesi: Yeah, absolutely. Thanks for having me.

Dan DiDomenico: Yeah, thanks, Sean, great having you on. We learned a lot.

Robert Morier: We did. And Dan, thank you for always being on the desk with me. I appreciate it.

Dan DiDomenico: Thanks for having me.

Robert Morier: Well, if you want to learn more about Sean and Gerber Taylor, please visit their website at www.gerbertaylor.com You can find this episode and past episodes on Spotify, Apple, Google, YouTube, you can watch or listen, if you prefer. 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. Sean, thank you again. Dan, thank you for being here. And to our audience, thank you for investing your time with Dakota.