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EPISODE 58:

Private Market Consulting

with LCG Associates

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, and other important players in our 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 our Dakota Live content, please check out our website at dakota.com. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker who is not affiliated with Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. The information in this podcast is educational, and general in nature, and does not take into consideration the listeners personal circumstances. Therefore, it is not intended to be a substitute for specific, individualized financial, legal, or tax advice. To determine which strategies or investments may be suitable for you, consult the appropriate qualified professional prior to making a financial decision. 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: In our most recent episode, we are excited to introduce you to Catharine Burkett. Catharine Burkett, who has dedicated over a decade to LCG Associates and has 30 years of experience in manager research and due diligence, has recently transitioned from her role as co-director of private markets to concentrate on her work with Invest Georgia. The Invest Georgia program supported by the State of Georgia aims to foster and support current, new, and future venture capital and private equity investment funds within the state, contributing to the creation of new companies, entrepreneurs, and sustainable high-value jobs in Georgia. This episode showcases Catharine's deep understanding of the LCG Associates manager research process and offers valuable insights and advice for both asset allocators and asset managers. With that said, we hope you enjoy this conversation with Catharine Burkett. Well, I am thrilled to introduce to our audience Catharine Burkett. Catharine, welcome to Philadelphia. Thank you for being here.

Catharine Burkett: You're welcome.

Robert Morier: Yeah, thank you. Well, Catharine is a Vice President and the Co-director of Private Investments with LCG Associates. We're so happy you're here. We're very excited to ask you questions about your career, and your role with LCG, and your thoughts on what's going on in the markets today. As always, Andrew O'Shea, welcome to the desk. Thank you for being here. Andrew's with Dakota and is nodding along. He's a little tired because he's just had his second baby. He is here on the desk with us. And we're grateful for you to be here as well.

Andrew O'Shea: Yeah. Excited to be back. It was a brief hiatus. But we have a great guest with Catharine today. And anyone that's traveled to Atlanta knows LCG is one of the preeminent consultants, especially within the Southeast. So excited to hear from Catharine.

Robert Morier: We are too. Thank you so much. Well, thank you both for being here. So, we have a lot of questions for you. Before we start, I'm going to read your biography for the audience. Catharine Burkett joined LCG in 2013 and is Vice President, Co-director of Private Investments. Her responsibilities include private investments research as well as due diligence and collaborating with clients to implement their private investment allocations. Founded in 1973, LCG is an employee-owned full-service national consulting firm headquartered in Atlanta, Georgia. LCG's sole focus is investment consulting. The firm is independent 100% employee owned. Prior to joining LCG, Catharine was a founding co-director of Alternative Investments for the retirement systems of the State of Georgia. In that capacity, she led and created the initial private equity investment infrastructure. Previously, Catharine was a principal at Camden Partners which she joined to build out Camden Private Capital as a diversified private equity fund of funds. Before working at Camden, Catharine was Director of Private Investments at Spyder Management Company, the University of Richmond, where she managed the University's portfolio of investment funds for real assets as well as venture capital and private equity funds. During the 1990s, Catharine held positions at the Sherman Fairchild Foundation, the Overseas Private Investment Company, Duke University Management Company, CIT Equity Investments, and Rogers Casey and Associates, now Segal Marco Advisors. She started her career at the Hillman Company in Pittsburgh. Catharine has a BA from Queens College in Charlotte, North Carolina, and an MBA from Xavier University in Cincinnati, Ohio. She has also served on the board of advisors for several private equity and venture capital funds. Catharine, thank you for being here today. Congratulations on all your success.

Catharine Burkett: Thank you.

Robert Morier: It's very nice. We're so excited to hear all about it. We could happily spend the next hour walking through your career. But in the interest of time, throughout your career, you've worked on various sides of private markets, including fund of funds, real assets, venture capital. And I'm wondering, how do these different aspects of private investments intersect as it relates to your career? How would you describe the nucleus of your career as it relates to your experience in private markets?

Catharine Burkett: Intersect is an interesting word. And made me think about it. When I started at the Hillman Company, I started with venture capital. That's what they were interested in at the time. America was really founded on venture capital. You had the merchant ships that were speculatively financed to come over to the United States and bring back all the gold that they never found until the 1850s. But venture kind of was the basis, I think, of private investing as it became popular for institutional investors in the '70s. Venture provided the model of management fee and profit sharing, the 2 and 20 that is fairly standard. And they provided that model not only for private equity for the buyouts, the LBOs that were popular in the '80s but also the same model for hedge funds. So, venture is really, I think of as the base. Arguably, you could also say real assets is the base because ownership is the… is the basis of wealth. And owning something is the basis of wealth. So, either one, venture or real assets are the starting point. And all these other things intersect as they're built off of a model and apply to different areas of opportunity. Fund of funds was really the way that most institutions originally entered the space because they were using advisors. The HarbourVest and the Adam Street, Horsley Co., now Horsley Bridge, were all advisors to institutions created then, secondarily, created the pools of capital that became the fund of funds. So, it all kind of weaves together, and works, and continues to work, and is not just one or two. But now you have the retail investor trying to get in and be part of it. So, it's become… when I started, it was a cottage industry. And it was mostly venture and some LBOs. And now it's a big part of the fabric of American finance.

Robert Morier: Another aspect of your career, which I find so interesting, is you served on the board of advisors for several private equity and venture capital funds. Can you share some of the key takeaways or lessons from your involvement, particularly with fund governance and strategy that could benefit both investors and fund managers. You've kind of had an opportunity, an interesting opportunity to sit in between not just as a consultant but also as a board advisor.

Catharine Burkett: Well, if you think of private investing as a legal way to have inside information, being on the board of advisors is even better inside information. I think it's an opportunity to… we're stewards of capital. And so, it's an opportunity to get closer to how that money is being deployed, how the team works together. When issues come up, watching that process is very instructive and informative.

Sometimes, you have an opportunity to influence it. Sometimes you don't. Sometimes it's just an advisory board that gets together for 20 minutes after an annual meeting. But most of them try and take it seriously and include those that have brought the capital into their partnership and treat it like a partnership. General partner, limited partner, so… governance is very important also. And I think that's where the LPs have their strongest ability to influence what the partners too. So, we don't take it lightly when we accept that position. It is a little bit of extra work. And it's a little bit of extra gossip, and a little bit of extra inside information.

Robert Morier: Well, we were talking before we started recording that you have spent some time in the classroom as a guest lecturer at some of the universities that you've been affiliated with. I teach at Drexel University. So, I have students that I have to go back to this afternoon. And they're always asking me how they can find a career in finance, how do they enter a venture capital, private equity. I don't know why. But they all ask. And I'm just curious with your own experience, how did you find your way into the business if you think back to your time as a student?

Catharine Burkett: I am doing this because I had to pivot in my life. And when I pivoted, I went to graduate school. And that's kind of where I found my path. I got my first job in the industry by chance. I was looking for a position in a trust company in Pittsburgh. I wanted to advise. And my resume was passed to the Hillman Company. And they were very involved in being some of the first movers in private investing. And I was hooked. And I've never looked back.

Robert Morier: You ultimately ended up on the asset owner track. We're going to talk a little bit about your time at Camden Partners. But if you think about how, you ultimately ended up in that asset allocation manager research role, what was that path like for you?

Catharine Burkett: Pretty much a straight line through. Everyone helped me get the next. I think the fact that I was at the Hillman Company in the early '80s when all of this was starting has been sort of my ticket to the next… to the next step. Being on the endowment side is really interesting and one of my best experiences. I did it twice. And would do it a third time if I had a chance.

Robert Morier: I did want to talk about Camden Partners just because there's been more talk and we're hearing more and more from asset managers about introducing fund to funds, particularly in private markets. And I was curious, can you talk about your time with Camden Partners building out the private equity fund of funds business? What was that experience like particularly through the crisis?

Catharine Burkett: Yes. It was very interesting through the crisis. But when it started, I would have to say, first of all, I joined my mentor from the Hillman Company to do this. He and his partner at Camden had started the process with a very, very small fund of funds that they had partnered with a bank, a trust company, to bring in clients who didn't have access to institutional quality, private investing. And so that was their idea. And they weren't going very far because they were also doing direct investing. And they weren't… weren't as interested in the fund of funds process. So, they brought me in from Richmond. I wrote my first private placement memo. That's a really good exercise. It's exhausting. And all the compliance things that you have to do, which were de minimis compared to today. And that was in 2005. We raised our first fund in 2005 and our second fund, we were raising in 2007. GFC started in 2007 with the CLOs. Didn't understand what was going on, really, because that was really a financial instrument. And I didn't get it. And I didn't understand why there was such a crisis. But a year later, when the stock market crashed, I knew it was a real crisis. And having something like Bear Stearns go down, Lehman Brothers go down, that was for sure a crisis. I think, it wasn't two months before Bernie Madoff, who I had never heard of. And I was found myself at 6:00 at night writing a letter to my LPs to assure them that we had processes in place, that we did due diligence, that we knew what the back office was, and that it was real, and that people really had accountants, and they really counted the money. So, it was a big learning experience, and then it's been instructive ever since because we just had a year, last year, 2023 that was the lowest in distributions since 2009. So, in that time period, after the markets crashed and things started slowly moving to right themselves, there was a very low period of activity. Kind of like this past year was of deal activity being down, exits being impossible to catch, and just fundraising even being down.

Robert Morier: Were you writing similar letters to your LPs as Silicon Valley Bank was happening?

Catharine Burkett: Yes, we were. Weren't there… weren't our LPs but clients. Yes, yes, yes. That was an interesting day, totally unexpected.

Robert Morier: So how did the opportunity with LCG initially come to your attention? I always like to ask, what aspects of the role or the organization piqued your interest?

Catharine Burkett: I was pivoting again. I was at the department of investment services at the State Pension Plan. And they were kind of like the last state to bring on private investing. And it was going to be a long slog. And I could tell that it was going to be a long slog. And so, I pivoted. I had talked to LCG in the process of before I got the pension job. And I just went back to them because they said you can come back if you change your mind. And I changed my mind. And I went back. And they've been very good to me ever since.

Robert Morier: I think that's a good lesson for everyone. I think, particularly, when you're at a firm that you and trust, and you also know and trust yourself that might not be the role for you. So, I think that's good advice, as I think about my own students.

Catharine Burkett: I've had people say that if you take a job and it's only been six months, that a mistake can be just a mistake. And I called him back on the exact same six months anniversary that I'd taken the job. So, I hope it was forgiven. And it seems to have been.

Robert Morier: I think it usually is. I did a similar about face. I was at Julius Baer Investment Management for about five, six years. And I went over to Goldman Sachs Asset Management. And wonderful firm. But I knew at about six months, it wasn't for me. The financial crisis did not help. But I was… I also called my old chief investment officer about a year later and ended up going back. But I had good memories and experiences from it. Thank you for sharing all that. So, it sounds like education and building are two threads in your career. Do you find that when you go into an organization, it sounds like with LCG, you had to educate your clients as related to fund of funds versus direct I would assume?

Catharine Burkett: Yes. So, I had to educate the people at the state of Georgia. So, I had just been through that process. So, I repeated myself. And I wrote, for LCG, what I call a primer of private investing and explained every one of the sub asset classes in writing so that… and the return expectations, and the types of funds, and sizes, and just kind of almost… well, it was the primer. And this was used to educate the consultants and the analysts, but it was also used to educate the clients. And so, before they started investing, we usually did some sort of education training with clients. I know, I remember one client they just, they'd brought in a whole bunch of their advisors, and they all brought in their chairs and asked questions. And so that's been really fun.

Andrew O'Shea: First, we would love to understand the types of clients LCG tends to work with. I know a lot of consultants will, you know, specialize in public pensions or endowments foundations. But what is the end client typically look like at LCG?

Catharine Burkett: So historically, they started 1973, so they started about the time that ERISA was allowed for investing. And their clients were mostly utilities. So mostly corporate pensions. They have morphed so that now… still have utilities. But corporate pensions are about one-third of the client base. Next third is endowment and foundations. And we're talking about the smaller universities that have $200 million to $500 million and don't have staff. So that's where we fill in with staff. And then the other third is really all over the place, health care systems, religious organizations, family offices. Family offices is a new and growing component of the client base.

Andrew O'Shea: And is that strictly a consulting relationship or do you all have a portion of your business that's discretionary as well?

Catharine Burkett: The family office tends to be discretionary. But most of our business is non-discretionary. However, particularly on the private side, I like to say we have influence.

Andrew O'Shea: That's great. Well, one of the things I've always loved about LCG is the consultants themselves, at times, will get very involved in the active due diligence process of managers where some consultants at bigger firms might not be involved in that part. But to that end, could you just talk about how the structure of the team is in terms of public markets versus private markets and how that works?

Catharine Burkett: So overall, LCG divides all of the investing professionals, the consultants and the analysts, into asset class teams. Asset class teams will be public or private. There is a director of research for public. And his job is really to ride herd over all of the various public managers that we employ in client portfolios. And mine is director of private research. So, I do the same. Asset class teams and also, we have some client… there are always client teams. And I'm impressed that you know that about LCG. One of the things that they pride themselves on is that they don't have a central research department. And the research which is, I consider, manager research rather than overall macroeconomic research. That research is done by everybody. So, the client teams will take over. If it's a hedge fund, there's an asset class for that. There's an asset class called alternative income for private credit. So, everybody has a role in an asset class team. And those are where all the searches are conducted. The private equity team, I'm proud to say, is the largest. And we're like the hotel California, nobody ever leaves. They rotate all the other asset class teams every three years. But once you get on the private equity team, you never leave. Unless you're promoted or leave. That's the only way you leave.

Andrew O'Shea: So, in that case, how are priorities being set then? Are they being directed by the client as it relates to search, so it's search directed?

Catharine Burkett: Yes, yes. It's a very client-centric firm. And the client direction is a lot of it. But like I said, we have influence. We will take our ideas. If they say we want to replace such and such manager, then we'll take our ideas to them. And pretty much, they will listen to us and take our advice. There are some clients who want to see for themselves and will ask to have an interview with the team, whether it be a public or a private asset. But for the most part, we make the case and create a little book, and put all the numbers in that prove our case. And so, it's mostly… mostly done when it's needed and overall looked at. I will also say that another thing they do that I think is unique is that they believe that the collective mind is better than a single mind. So, we review portfolios together. And we review prospective portfolios together. So, if we're looking at a prospect, you look at the portfolio and has no private equity, and I raise my hand and say, oh, let's get started. So that's usually… that's usually the way we do it.

Andrew O'Shea: Given you're a very client-focused firm, potentially search driven. Do you have rating structures where there's managers that you have approved or how does it work because I know you all have the infamous database that everyone needs to stay on. So, people ask me, I say make sure you're in their database. But how does that process work once you get comfortable with the manager?

Catharine Burkett: We don't have ratings per se, but we have choices. And I'll speak for my asset class, private equity, we do benchmarking. If you're not doing certain level of performance, then we're not going to consider it. So same for public managers.

Andrew O'Shea: You mentioned performance being a key indicator as an opportunity to narrow the scope of where you're spending research. That's logical. But are there other criteria you have on the private side in terms of number of funds in the past, fund size, or does that just vary by client because they might have their own different preferences?

Catharine Burkett: Our client base is not writing $200 million $400 million checks. So that predetermines the kinds of funds that we will look at. Our biggest check size is about $50 million. We can collectively, with all clients, put over $100 million in a fund occasionally. But for the most part, we're smaller investors. And we are looking at funds that are smaller in size.

Robert Morier: It sounds like we have a good sense of how a manager is identified. But when you think about the actual due diligence process, what does the underwriting process look like in terms of lifting up the hood and starting to really understand a manager, their investment biases, what they're looking to… what they're looking to produce based on what they've shared with you.

Catharine Burkett: That is… it's a long process. So, I guess, it starts with getting into our database. And you get into our database to have a meeting. And so, we meet with… I can't tell you how many managers every year but. If I said, the number and it was wrong, I would get in trouble. So, I'm not going to say. But—

Andrew O'Shea: It's a lot.

Catharine Burkett: It's a lot. It's a lot. And that's the start. And usually, after a meeting, the group that's had the meeting will coalesce and say what did we think. And when they first started doing that, when I was first there, I was sort of embarrassed because I thought, but they know you're talking about you when you leave and they close the door, but that's what that's what we do. Notes are written by an analyst, typically. And the analyst has to come up with a bottom line. And that's what that conversation is about. It's a summary or a bottom line. And we say, wait till another fund or they don't have… they don't have their team together, they don't have their story together. Their performance is poor, or we really like them, let's go the next step. The next step is typically a one-pager. And it's from the old tear sheets from the S&P. That's where I picked it up, where I learned it. You just write a summary of the organization, the team, how many funds, do a little performance chart, key terms when they're going to try and close, and get that into the system. And then that's where the asset class team takes over. And the asset class team will discuss, we have monthly meetings, more often if we need to, but monthly meetings. And we'll highlight the managers we've met with that sort of come to the surface that we want to dig under the hood about. And in that case, we find out, because we have consultants and analysts around the table that are on client teams, we find out who might have interest because diligence is expensive. And not only in terms of money but also resources. And so, if we have client interest, then we will pursue. We will put together a deal team. It's usually the other co-head and I are always on the deal team. And then made up of the consultant or the analyst who has a client that's interested. And so that's the deal team. And the deal team will go through a sort of an analytical process, and then make an appointment for a site visit. It may take longer. It may be a longer… it may not be a launch. It may be something we're interested in. And that would sort of take a back seat. We wouldn't do a site visit. We continue to have conversations, and ask for more materials, and do more analysis, and maybe they're doing a pre-launch, and we met them and thought this is really great, when they launch, we want to be ready. So, we will do as much as we can. And then the site visit is important. It's important to see the people at their offices, understand what the organization is like. Try and feel the culture if you can. This was very difficult during the pandemic. And we had to resort to Zoom. That really doesn't let how the… how the partners feel about each other and the body language that you don't get on Zoom. But we had to do it. And we did it. And I think we were probably in some ways more thorough because of that. We were all sitting at home. So, we had time to make reference calls. And we didn't lose time on the plane rides and the late schedules, and whatever else happens when you travel. So anyway, it's a process where we bring all of that together and write an investment memo. I should say that at LCG and other places as well, the operational due diligence has become almost as robust if not more so in its own particular way. And that is in parallel. So, we have an operational due diligence team that's made up of three people, two ODD analysts and one lawyer. And they go over all of the documents. They verify the accounting firm. They verify the fund administrator if there is one. They verify the law firm if there is one. They look at terms… we look at business terms. They look at other terms and make sure everything is all right. They usually have a… they don't usually do a site visit. Sometimes, they will. But they don't… if they don't, they do an interview with the CFO or the compliance officer. So, it's a fairly thorough process. And all this comes together in a book. We have a committee system. And the committee meets monthly. And we review those books that are up for consideration and approval. And that's how we get something done. There is… I should say, a lot of side conversation along the way. There is socialization with the clients so that we don't surprise them and say, this thing is going to pop in two months, and you've got to sign documents. We usually try and time it so that it all works out so that we're not, at the last minute, throwing up our hands and saying, well, we can't participate because things aren't done. So, it's all a very thoughtful process. It takes a long time. People will usually… we ask, you know, when's your closing, and they say in two weeks, and we say, well, think of us next time because we can't do that. That's not a thorough process. And we will only do a thorough process.

Robert Morier: I really appreciate the idea of the cost of diligence. I think just based on how you described it, if you think about opportunity cost and what else you could be doing instead of taking the time with that manager, very insightful. So, thank you for sharing. Now I'm going to ask you about your biases because all of these managers calling, all of these managers that are in the database. And there are, I would assume, some characteristics. Sometimes we ask our guests what are the must haves at least from your seat, thinking about private market managers, whether it's venture capital or private equity, what are some of those key characteristics that you prefer in managers?

Catharine Burkett: So, I have my five Ps. So, it's people, philosophy, process, portfolio, and performance. And those are all the must haves. So, all of those intersect each other. The people need to have the experience and expertise that advances their philosophy, or their approach, or their strategy. They need to have proven it by the performance that they've put down on paper and are proud of or not. They need to have an orderly process. We need to understand that they are thoughtful about their diligence in investing in companies and in taking on the tasks that they need to take on, whether it be a startup or whether it be turning a company around. So, their process needs to be considered. And we look at that. And then the portfolio. I think, that's the most interesting part is to understand what kind of companies that they are investing in and how that works with their strategy, and the stories about companies are always the most interesting part and the best part of doing the onsite diligence because that's when you really can get sort of get the partners or the principals on board with telling you how this company is doing, what they're worried about, what the challenges are. So that's… those are all must haves. And you can't live without any of those. So—

Robert Morier: How about some characteristics of the managers. We talked earlier about when you started the program with LCG, it was initially fund-to-funds. When you started going direct, were you looking at just large managers in the beginning or were you looking at a suite of managers as it related to size and scope of mandates that were being delivered to you by clients?

Catharine Burkett: I've been doing this for a while. And obviously, I have a network of managers that I like. So that's how I started was to introduce some of the people that I knew that I was proud of their performance and thought would work with the characteristics of what I knew about the clients at LCG. It took a little bit longer for me to learn that than to just apply my own… my own relationships. But I did figure it out eventually. I got the opportunity to meet with some clients that were interested in pursuing private equity. So that was very helpful in guiding me on who to direct to whom. But no, I didn't start with the big ones at the top. We tend to not do the big ones because as I said before, the size of our check is small. And if our biggest investor is $50 million in 1 check, that's not going to move the needle in the KKR $20 billion portfolio. So, we stay with the smaller ones.

Robert Morier: Looking out into 2024, obviously, coming off a slower year in 2023, what are some of the areas of opportunity you and the team and your clients are looking towards in terms of asset classes?

Catharine Burkett: I think, well, we look at all asset classes. And it's hard to be tactical with private equity. I think there are areas of interest, certainly early stage and seed are of interest. They have not had the valuation markup that the other classes have. So, they haven't had to rearrange as much. And there's so many interesting things going on in, obviously, AI and machine learning, also in health care, and technology for health care, digitizing health care. Those are great opportunities. And I do think mistakes will be made in AI. But I still see it coming up everywhere in every portfolio one way or another. So those are interesting areas. And the other one that I think is really interesting and that I've seen in the lower middle market buyout funds that have done well is engineering services, buying companies and aggregating them, and bringing them up to scale, and professionalizing their processes, everything from HVAC to civil engineering. So that's been a really interesting opportunity. And I'm watching the smaller funds do some of that and have great success.

Andrew O'Shea: I was just going to ask about if private credit falls under your purview as well within private markets or if you're just covering… or head of private equity and venture capital?

Catharine Burkett: That's a separate asset class.

Andrew O'Shea: OK.

Catharine Burkett: So, I have some experience with it, and I… and I recommend it because I think a diversified approach for a portfolio in private assets is important. And if you get to a period where, like last year, where exits are not happening and liquidity becomes essential, having some private credit makes sense because you do get a check on a quarterly basis or else don't invest with that fund that doesn't give you that.

Robert Morier: You did mention check sizes a few times. And I was just… one question on portfolio construction, how do you go about sizing the managers. How do you decide on that allocation, what does that process look like for each of those investments?

Catharine Burkett: I wish we could say that we're sizing but we're not big enough to size. So usually, the process involves having a conversation with the manager and saying, here's… here's how much interest we have because that's… I didn't mention that but that's part of our process, we do run an indication of interest around email, a little Excel spreadsheet. People sign up and say, this client would like this much. So that's a negotiation with the fund manager and where I say I think we have 25 or I think we have 35 million. This is how it will come in, is that acceptable? And so, it's an allocation negotiation.

Andrew O'Shea: There's an art as well as science. That makes a lot of sense. I appreciate that.

Catharine Burkett: Well, and in excitable times, you have this phenomenon of one and done. And it takes no time for someone to raise a fund. And then in other times like last year, one and done and is not as common and is taking longer. So, the negotiation goes a little bit better. The pendulum swings back and forth as to who has more power, the GP or the LP.

Robert Morier: Well, thank you so much for all of those insights particularly into the manager research and due diligence process. I teach venture capital as we talked about. And you clearly have a lot of experience in VC. I did have a couple questions. One, it seems as, venture, again, from some of our guests is increasingly looking to deploy funds in companies where they can achieve returns over a shorter time horizon. Generally, one to two years. So, I was curious what you think that means for your approach to the asset class if time horizons are potentially shortening for your clients?

Catharine Burkett: I don't see time horizons shortening. I have not experienced, in venture, someone doing that except in a seed stage fund where they are so small, or they are small. And they cannot participate in follow-on rounds so they sell their position into a round or to someone who's looking around to see interesting companies that they could get into before there's a round. So, it's sort of like a secondary sale. But I, for the most part, because the exit window opens and shuts, the time horizon has lengthened for holding private companies, except in the case of the seed round. So, I think shorten… people want it to be shorter but it's just the characteristic of the asset class is that it's a long-term hold. And that's what you need going into it. So, I don't see shorter.

Robert Morier: That's good. That's reassuring to hear. I think in the interest rate environment, there was some talk that had been… things have come a little bit closer together. But I'm happy to hear it from your side. So, as you're talking to those early-stage managers, thinking about founders, you mentioned some of the characteristics that you look for when you go into the office body language. How are you… how are you evaluating founders, entrepreneurs who are starting something new? It's a tough business, it's a lonely business, there's a lot of stress involved. How do you get through all of that and make the decision?

Catharine Burkett: Founders are tough. And that is a very qualitative evaluation. In the case of venture founders, I don't think there's as much of the assessment, psychological assessment, that is done later at the buyout stage. So, you're having to do that kind of yourself. I think it's their experience, where they've been, what they've accomplished in other places. And it means you really have to dig in, and do the reference calls, and get into their backgrounds as far as you possibly can. The founders are also leaders, and so how do they treat the people on their team, how big is their team. Maybe it's only two or three at the time. But at least meet with all of them, and collectively, in a room together to see how they treat one another. And I think, after that, I do have some serial founders, so that's a little bit of extra ounce of confidence when you invest with them. But founders are really hard. And founders often get fired. And founders often go and found something else. And maybe they're more successful the next time. But founders are tough. But if they need to be sort of salespeople on their own to coax the money out of whoever's pocket they're trying to get it from.

Robert Morier: So, as I was kidding before, I teach early-stage venture. So, I was saying that I teach our students sometimes that's your parents, so you have to coax a little bit of money out of friends and family, and those early angel investors. So, thank you for sharing all that. I appreciate it.

Catharine Burkett: You also have the accelerators, which are much more prominent than they used to be. I can't tell you how many we have in Atlanta. I think it's up to 17 different accelerators. And those are really good schools for founders to get into those programs. They get a small check. It probably helps them do a little bit but not much. But they can at least advance the idea before they go to the next… to the next financial backer.

Robert Morier: It's the same in Philadelphia. And we're seeing it across universities now. It seems like every university has some type of incubator or accelerator in house. At Drexel is no different. I think it's great. It provides a lot of community for these founders, so they don't feel as alone. Lots of mentors and advisors that they don't necessarily have to put in their pitch books right away. You know, we've got a lawyer who comes through once a week. We've got an accountant who comes through once a week. And, you know, it gives them a little bit of that feeling of community. So yeah, that's great to hear. Thank you for sharing all that.

Andrew O'Shea: Emerging managers. Is that something you all have adopted at LCG at this point?

Catharine Burkett: Not as many as I would like. That's really exciting to do emerging managers. But, you know, we're advisors and consultants. And so, brands are probably easier to sell emerging managers… it can be their very best fund. But there are a lot of-- there are a lot of situations where it's a struggle in the first fund. It's either their best friend, or they go out of business, or I think the other thing is I found this, you need to think two funds. So, when you're making a decision, you need to think one ahead and be sure enough of your investment diligence to think that I'm going to back these people again. So, I'm here for the long haul. So emerging managers, that's definitely a two-fund decision. So, it's a really risky decision. And we don't do it very often. But we will do it. It tends to be those managers that have spun out of another firm.

Robert Morier: Right.

Catharine Burkett: And have a track record.

Robert Morier: I'm going to use the word intersection again. But can you discuss the opportunities you're seeing as it relates to the intersection of returns, the performance, one of your Ps, and finding solutions for some larger problems, for example, energy transition. So, if you think about that balance of impact, getting a return but still trying to do good. Are you seeing that as an interest or a demand from your clients, the impact side of investing?

Catharine Burkett: We do. We see some. It tends to… it tends to move to the family offices that like it, to the foundations that align with the cause, and high net worth individuals. It is not really an institutional pursuit, at this time. While there are some big funds that have been raised in the impact side, I don't think they have… I think they've done it on a wave of interest. And it is kind of waned right now. Climate and energy transition are different. So less the social impact, they're more popular. And we are seeing every big oil and gas firm that's still standing have an energy transition fund. They all have to have one now. It's inevitable. But they know it's going to take time. So, they're still doing their dirty carbon business as well.

Robert Morier: How much less or more do you see ESG in presentations relative to two years ago?

Catharine Burkett: Well, two years ago… I mean, has ESG has been coming on strong for quite a few years. And I don't see it any more or less than I did two years ago. But it's been coming on strong for at least five years. And it's usually in a presentation. It's usually in a private placement. It is not usually in a presentation or a private placement of an early-stage venture fund. They are less concerned with it. But we certainly see it on the larger funds.

Robert Morier: So, as we think about the end of your thoughts on the market. It's a big question to end with. But what do you see as some of the larger risks as we head into this year, particularly for private market investors? And I could also ask, how you're capitalizing on those risks or how you're avoiding them?

Catharine Burkett: That is a really hard question. I am not a fortune teller. I would never have predicted that Silicon Valley Bank would have fallen last year. I wouldn't have seen that coming. For this coming year, I'm cautious because the political uncertainty all around the world, there are elections in something like 80 countries this year. And there's a lot of political uncertainty. And a lot of sorting out that will have to be done after that. So, I'm cautious about the outlook. That doesn't mean I stop. But it's not a time to accelerate investing. I would just keep the steady pace.

Andrew O'Shea: You had mentioned earlier that… I'm interested in your perspective because of your history with alternatives as institutions have adopted more private equity, venture capital. And now it seems that that's coming in more retail or high net worth individual portfolios. Do you have any thoughts on if you all have clients that are on the family office side that are showing more interest in private markets and how you might work with them to achieve that?

Catharine Burkett: We do see a lot of that. And there are a lot of ways to work with it. All the big wire houses are selling private equity to high-net-worth individuals. It comes with a fee, an extra fee on top of the fees. And that can be onerous. And so that's something that LCG is trying to solve with those high net worth and family office clients. And that's where we come in as an aggregator. And so, part of my negotiation discussions on the allocation is we're going to do $25 million but 4 of them are going to be $1 million checks. And we have one consultant who wants us to go down to $500,000. And we're considering that. But that is the way we solve for not having fee upon fee upon fee. And also, when you're doing those with the wire houses, you don't have direct access. And so, you have more direct access through us because we are maintaining conversations and monitoring the progress of the portfolio. So that's what we're trying to offer clients. I wouldn't say they're exactly retail because they've already hired us. But it is going out to retail because there are a lot of platforms now that are offering private equity to family office and high net worth individuals.

Robert Morier: We're getting close to the top of the hour. And I cited a quote last year for one of our guests says that what you are is an expression of history. So where does history show up… where does your history show up in your life today?

Catharine Burkett: Well, I'm still doing what I started out doing.

Robert Morier: So, you're still in the same… on the same path?

Catharine Burkett: I'm still on the same path. Yes, yes.

Robert Morier: As you think about your… that career path, which was more linear, going from shop to… going from shop to shop. What were some of the key takeaways or lessons you've learned from each kind of new iteration of doing the same thing?

Catharine Burkett: I think one of the things that I sort of have the advantage of is that I've been at different jobs and so I've looked at it in different… from different lenses, looking at it at LCG, there are lots of different clients, so how an endowment looks at something is a little bit different from how a foundation… because they have different missions, and how a family office looks at something is different from how a religious organization would look at it. So, they're all different. And if there's anything that's been interesting is to see it from different perspectives and sell it to different mindsets than before.

Robert Morier: How about your own mission? What are some of the areas that are important to you?

Catharine Burkett: I use my investment expertise on a couple of nonprofit boards and really have enjoyed that. It's been interesting to, sometimes, take off my private equity hat and think about other asset classes, and how they intersect in the portfolio. And so that's where my mission has been. And also, I've been working fairly closely with the venture community in Atlanta through one client. And so, I've gotten back down to the very early seed stage, and talking to founders about direct investing, and things that I haven't done for a while. So that's been a mission for the last eight years is to try and help that community come up to the standards that they want to have and to flourish in the community. So that's been my mission.

Robert Morier: I asked Dana Jones a very similar question. But for my female students and the female professionals who have been on this desk, any advice or guidance you could give them that are looking to enter into financial services or private markets?

Catharine Burkett: Persevere. The odds are always stacked against you. You sometimes have to ignore the noise going on around you and keep on going, if you like it and want to stay. It's a fair playing field than it used to be. But it's still… I still go into a room where I'm one of three. And it's ridiculous after all these years. So, if you want it, you can have it, but you do have to persevere.

Robert Morier: How about advice for the industry to increase those ratios?

Catharine Burkett: I'm concerned that DEI, which was very prominent two or three years ago, is falling by the wayside. Not to get political but there are reasons why some of that is less interesting than it was. And I was thrilled that it was happening. And I don't think that the big corporations or the big funds that had really embraced it are going to let it go. But it is not… it is not at the forefront. And I'm really sorry to see that.

Robert Morier: I would be grateful, and just as our last question if you could share some of the mentors, some of the people who have been impactful in your life and in your career?

Catharine Burkett: Sure. I had two when I started, they were both guys, one had three daughters, one had three sons. And I was a young mother with three sons. And they were so thoughtful in the way they… I mean, it wasn't… we didn't even have the future of work or any of that hybrid. But they were very thoughtful in the way that they let me, you know, miss something if a child was having a concert or… so I was very lucky. I haven't had any… But there was another gentleman, when I was at OPEC, who was one of my best mentors ever. And that was well into my career. But I was from the generation that thought you weren't supposed to talk too much about personal experiences when you met somebody. And the way he would meet somebody and put them at ease by saying, I was in your shoes, I was raising money one time, and it was really hard. And it made all the difference in the way I started approaching people. So those were my three favorites.

Robert Morier: Thank you for taking time to be here today. Congratulations on all your success. It's been wonderful hearing about your career and your experiences. I know Andrew will agree we learned a lot today. And I know our audience will as well.

So, thank you. If you want to learn more about Catharine and LCG Associates, please visit their website at www.lcgassociates.com. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We are also available on YouTube if you prefer to watch while you listen. If you would 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. Catharine, thank you again for joining us here today. Andrew, it's always a pleasure. And thank you to our audience for investing your time with Dakota.