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EPISODE 86:

Private Equity Seeding

with Catalyst Partners

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 the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live! content, please check out dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by 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. Well, I'm thrilled to introduce our audience to Dan Pogue. Dan, welcome to the Dakota Live! podcast.

Daniel Pogue: Yeah, no, it's great to be here. Thanks for having me.

Robert Morier: It's great to have you here. Well, we're in Dana Point, California. So, a little bit different than we're used to. Normally, we're in a Philadelphia studio, either on Zoom or in person. But we get to be by the ocean. So, it's a special day.

Daniel Pogue: Yes. Yes, it is. So, I'm based in St. Louis, and usually, this time of year, it's about 100% humidity and 95. So I got here, there was no humidity, and it was 75.

Robert Morier: It's perfect. I was watching The Weather Channel this morning. It was raining on the forecast. It didn't look like it here. So, I am very happy.

Daniel Pogue: Exactly.

Robert Morier: Well, it's nice to have you here. You are the vice president at Moelis Asset Management, where you're a member of the Catalyst team. We're going to talk more about that in a few minutes. But before we do, I'm going to read your background for our audience. Dan is a vice president at Moelis Asset Management, where he is a member of the catalyst partners team. Dan focuses on partnering with emerging private equity managers, encompassing responsibilities such as manager research, investment sourcing, and value-add support services. Moelis Asset Management is a New York City-based asset management firm with approximately $8 billion in assets under management across strategies such as broadly syndicated loans, direct lending, venture capital, and private equity. Within Moelis Asset, Catalyst partners focuses on partnering with emerging private equity managers, providing strategic anchor capital, and value-added support to help these managers grow and succeed. Dan has served in various high-level investment roles. He began his career at Summit Strategies Group as part of the private markets team, which supported more than 50 first-time funds than emerging managers. Dan also has private markets experience from his time as a vice president at Asset Consulting Group and a principal at Mercer, where his area of focus included small market opportunities and emerging managers. Dan holds a BS in Business Administration with a concentration in finance and banking from the University of Missouri and is a CFA charter holder. Most importantly, he calls St. Louis home, where he lives with his wife and his three children. Thank you for being here.

Daniel Pogue: Yeah, no, thank you.

Robert Morier: It's really a pleasure. Well, we always like to start at the beginning of these conversations, how you found your way into the industry. When you were sitting at the University of Missouri… I have three students who are here with me right now that just recently graduated. I'm not sure they knew they'd be associated with the asset management industry a year ago, but how did you find it?

Daniel Pogue: Yeah, so it was by accident, I think, to some degree, as I think it usually is. So, I think when you're growing up, you always have this sort of subtle steering of the direction in terms of where you go based on what your parents do. So, my mom started off as an accountant. My dad's been in commercial banking his entire career. So, they were within finance… different areas of finance, not investments, not asset management, but certainly, within finance. So that's what you know. That's what you see. So being based in St. Louis, I knew I wanted to stay semi close to home, so I went to the University of Missouri. I knew I wanted to do something in finance, hence you go to the business school, and you figure it out over three to four years. What I would say is when I was a junior, that sort of… I think increasingly today, but even back then, I think that's when you start to feel the pressure to really figure out what you want to do. You need some sort of relevant internship. So again, it was happenstance. It was an accident. But the University of Missouri, the endowment and the pension plan, it's actually a four-school system that, at this point… it's probably doubled since I was there. But the pension and the endowment together are quite large in terms of the collective assets. And they have pretty strong exposure to alternatives, and within that, private markets. They had selectively… the endowment office, which is based in Colombia, at the primary school, which is where I was, they had a couple of interns, but they were really trying to formalize that internship program. And I think today, they actually use it to selectively make full-time hires out of that. So, it's great feedstock. It's great for the school. It's great for the endowment, et cetera. So, I just sort of accidentally found that internship, and I was the guinea pig for doing that 12- to 18-month rotation. So, the team over there was fantastic. They're still in place today. They taught me a lot in terms of the foundational knowledge of, what is a private equity fund? What the heck is a buyout, what do they do, type thing. So that was awesome. And then that sort of dovetailed, then, into I knew… so my wife is from St. Louis as well. Our family is still there. We knew we wanted to get back there post-graduation. So, the internship ran sort of through graduation. They actually were able to connect me… the team at Mizzou was able to connect me to Summit Strategies Group. So, they had known them. They hadn't used them as a consultant, but they had known them off and on over time and thought highly of them. And again, sort of by happenstance, Summit had a very long-standing, robust client base, had been in the business for 30 some odd years at that point, and within their broader approach to general advisory work on the investment consulting side, had a very rich history and a very robust team on the private equity team. And they were looking to hire somebody that was quickly coming out of school.

Robert Morier: That's interesting. St. Louis is an interesting market. It's very intimate as it relates to, there are a number of consultants that work within the region. Summit, prior to its acquisition by Mercer, was one of those standard bearers in St. Louis. What was that experience like for you in terms of getting to the culture of an institutional consulting firm?

Daniel Pogue: Yeah, it was a great experience. Again, I think… and maybe it's changed in schools today. I think they're better about teaching people what private equity is, what consulting is. Like, you don't just have to go I-banking to be successful. There're other avenues. That was not an obvious thing to me. So, I didn't know what investment consulting was. So, it was happenstance that I ended up at Summit. But if I look back on it now, it was the best happenstance that could have happened to me. And I spent the most time at Summit, so I'll speak more so to that experience, because that was sort of the formative years in consulting. And then ultimately, that got bought by Mercer. And then I spent the last three years prior to coming to Moelis Asset at Asset Consulting Group. All three were very strong, very experienced consulting firms… great clients, great teams, great knowledge and activity on the private equity side. And I think, naturally, you evolve, and you learn something new at each stop along the way because they all view the market similarly in some respects, but differently in other respects. And I was focused on private equity, really, private credit buyout, venture growth equity-type manager research and consulting at each one of those. But again, you do something different. You learn something different at each stop. And I think one of the biggest learnings I had… obviously, they did a great job of teaching me about the different strategies, how to think about the nuanced approach to manager underwriting, kind of portfolio fit for clients, things like that. But I think what all three of those firms did particularly well was they always placed the clients first. It was a service-first mentality, which, when you're in consulting, for anybody who thinks consulting, whether it's management consulting, investment consulting, that seems obvious. It doesn't always play out like that in practice. And so having that… the client… it's not the client is always right, but the client knows what it wants. You're there to serve the client and provide some context and some guardrails to ultimately help them make well-informed decisions. Sometimes, that's your idea. Sometimes, it's them bringing you an idea. A lot of times, it's meeting in the middle and having a true collaborative partnership. I think that was a huge lesson learned on the consulting side at all three of those firms. And I think… and we'll get into it. But I think that general philosophy and mentality, we apply that as a team today at Catalyst for our clients, for the managers that we partner with, and hopefully, a very value-add way.

Robert Morier: So, what ultimately motivated you, then, to join Moelis Asset Management and the Catalyst Partners team?

Daniel Pogue: Yeah, so it's part sort of where I want to spend my time, kind of where I derive energy from a focus and a strategy perspective. So as a consultant, you don't just do emerging managers. You don't just do lower middle market buyout, again, especially depending on what firm you're at. You have to cover the universe, because every client is different in terms of their preferences and what they want. So that's great experience, but it doesn't mean that you derive the same level of energy or intellectual curiosity from each subsegment that you naturally need to focus on to properly serve all of the clients that you have under the umbrella. So ultimately… and again, this really goes back to the Summit days. You said it a little bit in the intro. But our team committed with our clients to probably about 200 different funds collectively over the course of time. About 50% or about 25% of those were kind of squarely in that emerging manager space. So, I think versus a lot of consultants, I would argue there was a higher percentage of what we did in that space. And ultimately, I think I saw firsthand the amount of value that can drive in a complimentary way within a broadly diversified private equity portfolio. And this notion of partnering with highly talented, highly aligned managers, but they're still at this very interesting… and it's not a risk-free inflection point in terms of their own personal careers. And you can really be a formative, foundational, true partner for them. It's not just capital. It's capital plus value-add. And that can come in a variety of ways. But forming those deeper partnerships with those specialized emerging managers, that's where I derived a lot of my energy. That's where I wanted to spend more of my time. And so ultimately, you always… you learn different things. You evolve in your career. And I think the sweet spot, long-term, is when you can really dedicate time to a particular area of expertise that you want to spend 12 hours a day focused on. And for me, that's the emerging manager space. I think the other consideration is you need to love who you work with. Again, some of this is obvious. You don't always have that luxury. So, the team that I'm working with now, specifically two of the core members of my team, Chris Keller, Peter Burke… Chris actually hired me and Peter at Summit. So, it was about as close to cultural and philosophical plug and play as you could get. Chris had actually left Summit to join Moelis in early '18, and then whenever they were looking to make a couple of additional hires over the last 12 to 18 months, came back to me and Peter. And it was about as close to a no-brainer from a team energy and fit standpoint as you can have. So, pair that with, I always knew, long-term, I wanted to spend more time in this space, it was kind of the perfect match.

Robert Morier: Well, thanks for taking us through that. And it's interesting how it kind of came together. You're talking about the importance of emerging managers here, being a partner with those managers, so the culture, the team, the people. It sounds like you found that at Catalyst. So, it's almost like you went through an emerging manager process yourself as you guys were coming together. So, it's nice that you were able to apply the process with some procedures at your shop. But could you tell us a little bit about how the team is allocating responsibilities? So how are you thinking about the day to day as it relates to your role?

Daniel Pogue: Yeah. So, if I think about it, it sort of starts a little bit with broader Moelis Asset Management. And so maybe it's a little bit of context on how the firm overall is structured and then how we fit within that. So Moelis Asset Management, it's a privately held affiliate of Moelis & Co, the investment bank. Grown over the last decade, Moelis Asset has about $8 billion of AUM at this point. That $8 billion, approximately, is spread across a variety of different alternative investment strategies. I think like we talked about earlier… broadly syndicated loans, venture capital, private equity, direct lending, et cetera. So, it's effectively a holding company for those different businesses. And interestingly, they have a very rich history of seeding different alternative investment businesses. So, this notion of how to be an early foundational value-add partner for managers, regardless of the strategy, starts at the top and sort of trickles down. And we employ a very similar philosophy, just within a narrower kind of strike zone. So that's the organization. That sort of leads into how everything is structured. So, there are… we're very fortunate to be part of a platform in a lot of respects. But specific to your question, there are dedicated, centralized resources that we can pull from on, for instance, the legal compliance, the finance and accounting side. That's very helpful for us as sort of a business within the business. I think too… and this sort of gets in a little bit to our model that I'm sure we'll touch on in terms of our value-add. But we can also filter that down into our relationships with managers. If you think about emerging managers and where they derive value beyond capital, it's, a lot of times, with things like back office. So having the ability to be a sounding board and be a value-add resource there, it doesn't just help us. It helps our managers.

Robert Morier: So, can you plug those managers, then, into the Moelis ecosystem as it relates to back-office functionality?

Daniel Pogue: So, there's different ways that we can do it. I think the most common way is more of a sounding board. A lot of times, they'll have some sort of CFO/compliance person, even if they're not dedicated to one, at least to start. So, it's more of like a sounding board on various things, like how to do capital calls. Hey, do you have a preference on service providers? Things like that. It doesn't usually take that hands-on of an approach, but there's a lot of flexibility in terms of how we can deploy those resources. So that's on the back-office side. And we can pull them in, and we get them very instrumentally involved, the legal and the finance teams, sort of throughout our underwriting and structuring process. And then there's more of the investment in the business side, which is, there's really four of us, day to day that cover that… the three of us I already mentioned. There's also an individual, Chris Ryan, who is part of the senior leadership team from Moelis Asset. So, he doesn't dedicate his time to us, but we get a lot of benefit and a lot of value out of having him as an extension of our team. He sits on our investment committee. And so, we obviously manage the sourcing, the underwriting, the client relationships. When it comes to non-back office value-added services, like making LP intros… if a manager has a co-investment, we can be a facilitator of capital by making certain intros to our network. We get very involved on that. And so, it's really, there's silos in terms of the business side, the legal side, the finance side, but it's very collaborative and very nimble in terms of how we all work together.

Robert Morier: That's great. In that regard, you mentioned your value-add. So, before we start to talk about your underwriting process, could you talk a little bit about the value-add, the competitive advantage that you have relative to other managers who are doing something similar? There's been quite a growth in emerging manager programs in the industry, different players taking part in it, from state pension plans to single-family offices. So where do you sit in that ecosystem and what do you see as your competitive advantage?

Daniel Pogue: So, I think there's a couple of things. I'll maybe take the value-add piece second. I think there's a more foundational piece, which is that there's a lot of institutional… whether it's endowments, pension plans, even families… that will participate in emerging managers, even, within that, because we really play more so in the fund one space, which is a subset of emerging managers. There's a lot of thoughtful LPs that will robustly and fluidly play in fund ones and broader emerging managers. But there's still a lot of LPs we find… even if they're thoughtful and active in the space, they still don't want to be first capital in. That's why our model exists, because ultimately, these managers, they spin out. They've oftentimes bet their career, their livelihood, on building a world-class franchise and building a multi-fund firm and a multi-generational firm. But ultimately, you need capital to be successful. And if nobody is truly willing to move first, you have that classic chicken and the egg issue. And so that's an immediate, just foundational pain point that we solve for. So, kind of our model is we want to be early, we want to bring scale, and we want to add value. The scale piece we can get into. But the early piece, the timing piece, is important because, again, these managers… a lot of times, to be successful, one, you need working capital to invest in the team. Two, you need actual capital in the fund to actually deploy into assets because a lot of LPs will want to come in, but they'll want to be a later close LP once you've already deployed money into the fund and they cannot underwrite a blind pool where they don't know what they're buying, but they can underwrite two or three of the assets that they're ultimately going to own. But you need capital to do that. And you need capital early to do that. And so that's just foundationally what we solve for. There're groups like us that do that. But I would argue the supply of opportunities… or I guess the demand from the GPs… for our type of capital far outstrips any sort of competition, theoretically, that you could see with us. So that's kind of on the foundational side. Then on the value-add side, we alluded to it a little bit. I think there's the back-office piece. Sometimes, managers value that. Sometimes, they don't. I would argue the biggest value-add that we can bring is once we make an actual capital commitment to them, proactively being their advocate in the market. We are not a placement agent. So, it's not necessarily our explicit responsibility to help them raise money. We're not compensated to help them raise money, like a placement agent would be. A lot of times, our managers will still hire a dedicated placement agent. But we will work in collaboration with that placement agent in a very supportive, proactive way because we have our personal networks from the consulting days on the LPs side. Moelis Asset obviously has its own set of complementary networks across the institutional investor community, the family office investor community. There's a very powerful network there combined, between us personally and Moelis, that we can tap into for the benefit of our GPs and plays a very complementary role to what someone like a placement agent can do. And ultimately, at the end of the day, if they're going to build a world-class franchise, it starts with fund one. And fund one is arguably the hardest to raise, especially in this environment. Having an anchor helps, but that maybe gets you 20% of the way there. There's 80% you still have to raise. And it goes a long way when your institutional anchor is one of the foremost advocates for you proactively in the market. And so, we spend a lot of time thinking about how we can leverage the power of our brand, the recognition, the network to bring that to fruition for our managers.

Robert Morier: Interesting time to be doing this. Thanks for sharing all that. Also, not an easy role to be the leader or a pioneer. Someone once told me that pioneers get eaten by bears, settlers get bearskin rugs. So, it's tough to be the first one out there, but it sounds like you've figured out the way to do it, particularly based on your experience coming out of those more traditional consulting roles but taking that emerging manager angle. So now, you have this universe of fund one managers who are coming to market for the first time. How do they find you? What does the sourcing process look like as it relates to that initial courtship?

Daniel Pogue: I would say it's naturally a combination of them finding us and us finding them. I think, again, just foundationally, there's big benefits to us as a team, at Catalyst, of being part of the Moelis brand and network. If you think about the complexities of leaving a brand-name firm, you have to be very careful. You have a lot of carry on the line. You have personal reputation on the line. You have to be very careful with how you manage that process and how you communicate that process. You can't talk to your colleagues. Obviously, you can't talk to your boss. You probably can't talk to your firm's placement agent because they were hired by your boss. There's not that many people you can call. So, in addition to having the Moelis relationship and some of the advantages that it gives us on the sourcing side, obviously then it's about the personal networks and being proactive. I think it's table stakes to go to the emerging manager conferences and go to the independent sponsor conferences and do those sorts of outreach. I think this is a more subtle thing, and it doesn't pay immediate dividends, and the volume is not even remotely the same as what you get from going to a conference, things like that. However, I think a lesson that we've learned over time, but we've seen it actually come to fruition in a positive way for us pretty meaningfully in the last six months or so on a couple of potential opportunities for us, is we naturally say no to the vast majority of the opportunities we look at. It's not the right strategy fit. It's not the right economic fit. Whatever it is, there's 1,000 reasons that sort of mutually you can agree that it's not the right fit. I think what we've learned… again, this sounds obvious, but you have to remind yourself, when you're in the moment, because you're still looking at a lot of different things, to always be respectful and be honest and transparent with how you deliver that no. They value the no. They value the context around the no, a heck of a lot more. And so, I think what we try to do, quote, unquote, is provide a "helpful" no. So not only is it helpful to provide context on why we're a no… hey, have you thought about doing this? If this changed, maybe we can re-engage. You can educate them a little bit and try to provide constructive feedback that's helpful in terms of the relationship and their continued evolution and growth. And so, I think that that's something that we spend a lot of time on. And I think, too, to the extent… we can't always do this. But to the extent that we can provide a message of, hey, we're a no, but you should talk to this group over here, because we know this family office or this endowment, for instance, and I think they'd actually be really interested in what you're doing, and they may actually be a really good partner. Do you mind if I make that intro for you? That helpful or supportive no goes a long way. And we've actually seen, in one or two instances, recently, where a manager we said no to has actually referred us another GP who's looking for the right solution on the seat or the anchor side. So, there's a combination of things.

Robert Morier: That's great. I love the concept of a helpful no. In the classroom… I have a few of our students here. We usually teach students, start with a no, and then have the GP or the manager earn your yes. But I love the context of a helpful no, really giving them the context as to what they could be doing or what you're looking for in a partner, which may or may not match with what they offer. So, based on that, what are some of those key characteristics, then, that you are looking for, whether it's sector-specific, transaction type? When you think about your universe of opportunities… so that funnel chart, that obligatory funnel chart… what are some of the key criteria that you're looking for in the beginning to help you narrow the field?

Daniel Pogue: Yeah. So general sandboxes, they're raising a fund one. We'll look at a fund two. I think there's certainly instances where maybe it was more of a subscale friends and family fund one, not a true, at-scale, institutional fund one, even though it was a pre-committed commingled pool of capital. And now, fund two really feels more like a fund one. We'll look at those situations if they have "fund one characteristics," is how we refer to it. But in general, it starts with, we want to play in the fund one space, I think. From a return standpoint, that's the most interesting to us, and from a partnership and our ability to be a supportive value-add partner for those managers, that's just where we can have the highest and best use and have the most impact. So, it starts with that. Then, if you expand the scope out a little bit, general sandboxes. We'll play fluidly across North America and Western Europe, but it's primarily a North American-focused. It's solely lower middle market buyout and growth equity, not late-stage venture growth equity. It's capital efficient, oftentimes still family-led, founder-led businesses where the manager is going to be first institutional capital in. So, it feels a little bit more like higher growth buyout or growth buyout as opposed to late-stage venture. So, we're squarely focused on those strategy types. Nothing wrong with this, but what that means is we're not doing private credit at Catalyst. We're not doing early-stage venture capital. We're not doing real estate. There is, I think, a growing and very healthy opportunity in those areas for a strategy like ours, but just today, not our focus. And I think having a tighter filter, especially as we continue to grow and evolve, is a good thing. And then from a fund size perspective, just to check that box, again, it's a guidepost, not a rule, but in general, we will commit to fund ones that are raising anywhere from $200 to $750 million with the average kind of in the $300 million range or so. And the model, again, is to be, typically, a first-close LP, and we will typically write a $75 to $100 million check to those fund ones in terms of our LP commitments. So that's the general sandbox. Then to your question a little bit around, beyond that, what do we look for? I think this goes all the way back to the Summit days and the philosophy that we employ there. And I think, partially by accident… a little bit, if that's the right word… why we ended up successfully backing so many emerging managers was because our team… our firm, to give everyone credit… had a philosophy around the types of situations that we wanted to play in. So, it's not like we had a mandate to go back to emerging managers. But to your question around specialization, we knew we liked lower middle market. It's a much less efficient market, greater opportunity for value-add and alpha creation. And we knew that we liked, in particular, operational specialization. I think that was more novel than it is today. So today, I would say that's just table stakes. It's the overlay to everything. And then it's the other forms of specialization. I think, historically, people like to talk about sector specialization. That's an obvious one. We focus on that. We backed a lot of sector specialists. I think, increasingly, it's becoming a little more nuanced, where it doesn't have to be sector specialization. It could be transaction-type specialization. So maybe they're really, really good. They're category killers and only doing small cap corporate carve outs in an inefficient space or an inefficient geography. Or maybe it's not even so much focused on the exact transaction type, but in general, the manager has a very astute ability and a very strong history of playing in just generally complex situations. It can be carve-outs. It can be sort of misunderstood businesses that are maybe owned by a defunct private equity firm or just some unnatural, uneconomic seller. They've kind of gone sideways for a couple of years. People love to talk about value traps, but because of the manager's experience, they can see the diamond in the rough and they know… they probably have experience with a similar company. And they're like, no, you're just misunderstood by the market. There's a lot that we can do here. That's not a transaction type. It's more like a philosophy around the context for the transaction. So, we spend a lot of time thinking about all of that. And generally speaking, if you look at the managers that we commit to, it'll have some element of all of that. There's always the operational piece. And it'll typically have some combination, then, of the transaction type or complexity or sector. It's usually not just one.

Robert Morier: It's a combination of everything. Well, before we move on to the underwriting process, just one more follow-up question as it relates to sourcing. As we started in the beginning of the conversation, we are sitting in Dana Point, California. We were at the TIDE SPARK Conference, which is attended by a number of institutional investors, as well as GPs, across the country. So, when you think about the conference circuit and you think about conferences like TIDE SPARK, in your role, what are you hoping to get out of this type of event as it relates to sourcing some of these opportunities?

Daniel Pogue: So, it's really focused on long-term networking and relationship-building, frankly, on the LP or the investor side and on the manager side, because again, we may meet managers at a conference, and we may not be the right fit for them. They may be raising a fund three. So, they're an emerging manager, but it's just not the right fit. But we may mutually know people in common. They may have a friend who's saying, hey, I saw you spin out. You're successful. You're on fund three now. You have a loyal customer base or client base, investor base. I'm actually… now, I've kind of got the edge. I'm thinking about doing this. Do you know anybody that can do that? And if we were able to meet them at a conference in a context where you're not selling anything, it's not transaction-oriented, it's just, hey, we're all here for a similar reason. We have similar philosophies. Let's get to each other and see if we can ever be supportive and be helpful and collaborate on something. We're more likely… it's not that we're automatically a call, but we're more likely to come to mind. And there's a similar philosophy on the client side. If they're thinking about doing something in the emerging manager space, on the investor side, if they're thinking about doing something in the emerging manager space, and we had a non-transactional, just friendly, catch-up conversation with them, they're more likely to want to, at the very least, just use as a sounding board and pick your brain on things. And that's never a bad thing for anybody.

Robert Morier: That's great. On that note, how do you evaluate the potential of independent sponsors compared to spinouts when considering them for seeding?

Daniel Pogue: Yeah, so I would say, sometimes, people view them as very different. I would say we view them as largely the same in terms of experience and quality, at least in terms of the groups that we would take a serious look at, even though they've taken a slightly different path to get to the point where we're considering some sort of partnership with them. So, I think, historically, the concept of a spin-out, which… just to use an easy example, let's say it's two or three people that worked together for a period of time. They have attribution for the track record, decided to spin out a brand firm A. And they've sort of earned the right because of the track record, the attribution, the team continuity. Their prior firm is hopefully supportive. They've sort of earned the right and have a clear path to moving straight to raising a fund. That's a spin-out. A lot of what our platform did on the seeding side, historically, over the last eight or so years, just happened to be focused more on the spin-out space. And we probably were not unique in terms of that being the dominant driving force in the pipeline. I think just speaking to our own pipeline, I think it's indicative, loosely, of the market. It's become a lot more balanced between what I just described on the spin-out side and really high-quality independent sponsors. I think when people think historically about the independent sponsor space, they think of the one-, two-person shops. They're buying very small businesses. They really don't have aspirations to raise a fund. Those aren't my words. That, I think, historically, was the perception, which gave this misperception today, to some degree, that still lingers, about asymmetric risk or potential lack of quality or opportunity within that space. I think we… and I think our peers probably agree. We think that's actually a very interesting space, and we think that it's evolved in a very positive way over the last 10 years, even really over the last five or six years, where there's still a misperception around risk. But I would argue that the average quality of independent sponsors, at least that we interact with, has gone up pretty dramatically. And there's not really a discernible difference in experience or quality or pedigree between some of the independent sponsors we talked to and the spin out groups we've talked to. It's really just a function of, is there some sort of misunderstanding or misperception in the market, maybe, that would suggest that they shouldn't go the direct spin-out route? They should temporarily go the independent sponsor route for a couple of years, a couple of deals, and then move to a fund. So, we're agnostic on the background or the path that they come from as it relates to spin-out versus independent sponsor. We like them both. And I think, if anything, the misperception around risk and opportunity and quality in the independent sponsor space should continue to actually create very interesting opportunities for us to source from there, because I think we just have, at times, a different philosophy or a different opinion toward that space. And it creates a lot of interesting opportunity.

Robert Morier: Dan, thanks so much. That's really interesting, particularly on the sourcing side. So now, if we can get into the heart of it, the underwriting process. You've identified the manager. You know you want to do the work… you and the team want to do the work on that manager. What does that process look like?

Daniel Pogue: I mean, there's the obvious around track record and understanding attribution and the repeatability of the performance and things like that. That's obvious. Let's set that aside. That's probably the less interesting piece. I think the more interesting piece is on the team side. And certainly, it starts with this and then it gets more nuanced. But it starts with this notion of team continuity and how different people have come together over time, and what's allowed them as a team to be successful over time. That sort of dovetails, then, into their motivations for leaving… not just their motivations for leaving their firm, but their motivations for wanting to raise a fund and actually build a franchise. It ties back a little bit to this notion of the independent sponsor community. There's a lot of really high-quality groups now that have a very clear intention to be an independent sponsor, raise a fund. I would say there's still plenty, though, of groups that are very high-quality that are like, I never want to bother with raising a fund ever. And so, if someone's been an independent sponsor for a period of time and we're getting to know them, it's very important to us to understand why… economically, it can be actually very beneficial to be an independent sponsor. Why do you want to build a firm? You have to manage a back office. You have to manage a larger roster of LPs. You have to manage a larger team. You're going to have to deal with succession planning. Those are not easy things to deal with. Not everybody is cut out for that or wants that. And so, the motivation, the driving force for where they actually want to go and end up. And then along those same lines, how we can actually be a catalyst… no pun intended… for helping them achieve that vision is very important to us. And then you have the alignment piece. And alignment comes in a lot of different forms. I think sort of if you drill a layer down… and this is, in some form or fashion, related to some of what I just said… we spend a lot of time getting to know the team. And yes, it's understanding the alignment and the motivations, but it's really more nuanced around the human capital piece, i.e., the personality traits of the different team members. We don't do personality tests or anything like that. I think we have—

Robert Morier: No Hogan assessments?

Daniel Pogue: No, no. I mean, I think, depending on who you ask on our team, there's some desire to get more… not necessarily do that. That can be, frankly, a little clunky and uncomfortable in certain situations. But get more prescriptive with how we analyze it. I think we've made some steps in doing that. I think we'll continue to think about how we can do that successfully as a team. But loosely speaking, you do it for long enough, you have enough pattern recognition. That's great, but you still leave a little bit too much to gut feel. So are there three to five specific personality traits that, if we look back over our time doing it at Moelis, doing it at Summit, that have led to good outcomes? Maybe they were missing this personality trait and it led to bad outcomes. So, it's things like, obviously, humility, decisiveness, adaptability. There's a handful of others. Through our process, in different types of conversations, different people on the team having different types of conversations, different settings you're in… you're at dinner, you're at a social gathering, you're in the office. There's a lot of different ways that you can attack this with similar but different questions and contexts to really try to tease that out over time. At the end of the day, we're not looking for everybody on the team to have the same human capital equation or the same personality traits. It needs to be a mosaic. It needs to be very complementary in terms of how it all comes together. But we spend a lot of time doing that. And so maybe the last thing I would say on that is we get asked a lot about for managers, what's your process look like? I would say, in general, when we're seriously engaging on an opportunity, really running at it, let's say it takes up to six months in terms of the investment side, the legal side, et cetera. But that generally doesn't mean that if we're closing a deal today, we met you six months ago. It probably means we met you at least a year ago, in a recent opportunity that we completed. We met the over three years ago. And so, it's not to say that we're calling them every week across that two- to three-year period, but there's a foundational level of trust and rapport. And through different interactions, and then through the intensive up to six-month actual due diligence process, you have a lot of time to get to each other, understand the personalities behind the people, the true driving forces behind the people. And again, do it enough, and ultimately, that leads to good outcomes, hopefully.

Robert Morier: So, once you've gone through that assessment… so I do find it interesting you're thinking about these three to five personality traits. And we talk a lot about this in the classroom. So that's why I'm kind of drilling into it a little bit deeper. But are you quantifying it or does it kind of remain a qualitative assessment over the course of your evaluation with that particular manager?

Daniel Pogue: So, it would be awesome if we could quantify it and make it as scientific as possible. It's almost like you're sitting in some of our team meetings, because we have these conversations. It'd be misleading to say we're at a point yet where we're doing that consistently. I think that's an aspirational goal of getting to a place like that. I think, for now, it's still more qualitative. But getting more consistent or programmatic in references, for instance… having, for instance, one person do the reference. One person is an active listener. And when it comes to the section on personality traits, asking the same or similar questions, two very different types of people who have interacted with these people in very different situations. And at some point, if you do that enough and you do it consistently… and I think having this notion of an active listener, where they're not thinking about the next question, they're truly just reading the body language, interpreting the actual kind of nuance behind the answer, that, in theory, allows us to be more consistent, more programmatic. I wouldn't call it scientific. But you do it enough and you do it consistently throughout a manager underwriting and then across manager underwriting processes, it probably starts to get interesting. Whether or not we can build on it from there, who knows?

Robert Morier: Maybe something to think about.

Daniel Pogue: Exactly.

Robert Morier: Interesting. Thank you for sharing that. How about the underwriting process on the investment side? So now, you're thinking about their process as it relates to how they're sourcing a deal. So, could you take us through, maybe, a little bit more granularly, what does that look like from your seat? So, what do you want to be seeing in that manager, in that GP, as it relates to the way that they're sourcing a specific investment?

Daniel Pogue: Yeah. So, on the sourcing side, I think… and really, it's sourcing and execution. It ties back to the foundational element I was describing of understanding where they came from, why they decided to leave, and how they think they can build a better mousetrap going forward. I think, at the end of the day, what you ultimately want to see is consistency. And what they're doing today needs to rhyme with what they've done in the past, with some slight tweaks or some slight evolution. So, in today's world, I think what you tend to see with people that maybe left larger firms is they may have been a sector specialist within that firm, but at its heart, it was actually a generalist firm that focused on a variety of other sectors. And so, their ability to consistently and programmatically source, execute, elevate opportunities within a diversified fund, where you're competing with 1,000 other ideas, you're dealing with politics, et cetera, that all kind of gets stripped away whenever you start your own firm. But you also lose some of the bandwidth and the resources, because a lot of times, these bigger firms, even if they're generalists and you're competing for time and attention and resources, they still have dedicated cap markets people. They have dedicated BD people. So, you lose some of that. And so, it really comes back to just fundamentally understanding, how can you stay consistent with what you were successful at, but sort of backfill or replicate maybe some of the resources that you've lost? And that applies on the sourcing side. It applies on the execution side. I'm not sure there's any formula to that or secret sauce to that. It's really just, again, getting to them as people, getting to know their motivations, and then just sort of dovetailing what you pick up on that in terms of how they can consistently replicate that process.

Robert Morier: So, is there a fund two, then? So, what does the graduation process look like for you all as it relates to your partners?

Daniel Pogue: Yeah. So, our model is pretty specific, and we're very transparent with managers on this. We are exclusively fund one partners if you think about Catalyst directly. We have funds that we manage to ultimately make these commitments. And I think the easiest way to think about it is, our value-add longer-term for some of our investor partners is to effectively be their eyes and ears for the fund ones, knowing that they probably want to own those relationships directly long-term. And a lot of times, that starts in fund two. And there's a variety of reasons for why they wouldn't do… they wouldn't want or be able to do that in fund one, but they can and they're willing to do it in fund two. And so, we're kind of like a farm team of sorts for those fund two relationships. And I think this goes back to the value-add of the model. Sure, a lot of it's focused on the managers. I think it's equally focused on our investor partners and making sure that we're making the right connections along the way between investors and between the managers, because ultimately, if we do our job correctly, the manager has performed well, they've executed well on the strategy, whether it's sourcing, execution, whatever. It's all delivered strong performance in line with expectations. But we've also helped our investors get to know the manager and vice versa over time so that whenever fund two comes around, it's not like we're saying, hey, manager you should call these LPs. They already have that rapport and that level of trust directly, not just with us as the middleman or as the liaison. And there's some mechanical things that we can do in terms of… we'll pre-negotiate capacity rights, for instance, on behalf of investors. We actually… when it comes to co-investment, because that's always a big topic for people, we intentionally don't retain co-investment at the fund level and charge for it. That's a straight pass through to our investors and others in our network. We think that's a very valuable tool for them and the managers to get to know each other in a live transaction scenario. So, there's things that we do proactively like that, mechanically like that, along the way to make sure that, come fund two, there's a strong level of trust because the worst thing we can do is give them an important ticket in fund one and then leave them with a hole in fund two. And I think if you look across the deals that we've done historically, the partnerships historically, some of them have come back with fund two. And I think, luckily, it's, in every case, worked out very well where it's a seamless transition from us being the anchor in fund one and the manager still being very successful raising money in fund two.

Robert Morier: Interesting. Thanks for sharing all that. We talked about this interview and the importance of doing it in person rather than over Zoom. So, when you think about your managers getting to know them, how important is it for them to visit you in St. Louis? How important is it for you and the team to get out on the road and meet these managers in their offices?

Daniel Pogue: I think it's definitely important. This is a little bit like the pandemic-era Zoom question. I mean, I think we certainly take a lot of calls virtually, over Zoom. It's efficient, especially for intros, things like that. But in terms of the real people hours that we spend getting to know them, we're typically going to them, candidly. I mean, it'd be great if they came to St Louis. We would welcome that. But I think it… and some of its logistically. If they're doing their job, they have management meetings they have to go to, they're out on the road sourcing, it's typically easier to get all of them in their home city. And I think, to some degree, too, you want to see them in their element, in their office. There's value-add to doing that. But there's also the social element. You're not just going to their office. Like, we take our managers to conferences, and we'll co-host happy hours, and we'll put them in the room. And that has a lot of value for them. But candidly, it also kind of helps you evaluate how they manage a situation like that, because at the end of the day, it's all about the softer side of networking and relationship-building. And we care about that directly ourselves. But it's interesting to observe how they do it independent of us as well. So, there's a variety of settings that we try to evaluate those characteristics in and the potential fit and partnership, et cetera. But the punch line is, we want to do it in person. And if we're going to spend 200 plus hours before we make an investment, getting to know someone, a very small fraction of that comes virtually. I think it's impossible to truly make good decisions long-term doing that.

Robert Morier: Yeah, I appreciate you sharing that. As you remember, in the heart of COVID, it was very much, we're running efficiently, actually. In fact, our time is being better managed. So, there was a lot of positivity around what can be done virtually versus in person. But it's, in some ways, kind of nice to see the pendulum swinging back the other way and the frankness of saying, yes, you've got to get out on the road. You've got to go see these managers. And whether they come to you, or you go to them, it's that in-person that makes it so much more dynamic, like this interview. So, thank you very much. So, speaking of dynamic markets, what are some of the opportunities that you all are seeing now? Are there any specific areas that you're focused on, any emerging managers that have come through recently… not by name, but maybe just by topic… that you're starting to spend more time with?

Daniel Pogue: Yeah. So, it's interesting. We tend to be… and I think it hopefully has come through in some of the conversation today. We tend to be more bottoms-up and find the right team who's executing very thoughtfully in a particular market where they've been successful in the past. And then if that happens to be in health care, great. If it happens to be in business services or industrials and manufacturing, great. We're sector-aware in terms of, we still have to manage a fund and a portfolio. And so, we want there to be some degree of sector and strategy type diversification. But in general, we tend to be agnostic on what that looks like within reason. It's a lot more about the team executing the strategy and then making sure that they're doing that in a compelling market opportunity. Now, with that said, that's sort of a way of saying that I wouldn't say we have any obvious thematic bets or calls today. I think health care is a space where we'd like to find an opportunity in the near term. I think we've struggled a little bit there with just the roll-up nature of that space. And I think there's still value to be had with a strategy like that. But we'd like to find something that feels a bit more differentiated and a bit less trafficked versus the groups that have already kind of carved off an edge for themselves doing transactions like that. So that's just one example. I think we've spent time in areas like sports, for instance, like a lot of people have. I think also, some people have come to the conclusion, we want to play in inefficient markets. I think sports is not that big of a universe, and so this notion of buying minority stakes in teams, franchises, or leagues is not interesting to us at this point. It may be a great return opportunity. I don't know. But I'm not sure there's anything new that we can bring, or a manager can bring there. So, we've played around with some tangential ways to access that. Haven't quite gotten there.

Robert Morier: So, we're not going to see you floating around the Danish Soccer League anytime soon or—

Daniel Pogue: We're not… no, no, no. You're not going to see me floating around there at all. I think, ultimately, if we had a macro call, it would tie less to the Danish Soccer League, more to just the notion of the independent sponsor space again. And I think specifically, there, there's been some very thoughtful strategies raised where they actually raised pre-committed pools of money to provide equity financing to independent sponsor deals. That has a lot of value for independent sponsors in terms of the speed and the certainty of the capital base, because it's really hard to raise money on a deal-by-deal basis. That's at least one primary reason, I think, why people don't want to stay an [INAUDIBLE] sponsor at times for forever. They want the certainty and the efficiency of knowing they have a pool of capital there. I think what we struggle with a little bit with that model, historically, is there's a lot of. layers of fees embedded in that because the independent sponsor gets fees… naturally, as they should… management fee and incentive. Then you have the manager that's actually providing them. They're getting a management fee and incentive. That starts to feel very expensive at some point, despite the fact that, from a pure return standpoint, it's a super interesting market. So, I think, selectively, we will continue to look for opportunities to potentially find a slightly different, lower-cost, but still very compelling high-conviction model around providing those equity financings to independent sponsors. But time will tell.

Robert Morier: That's great. So how do you see this landscape evolving? So, when you think about private equity, emerging managers, and the evolution that's been happening over the last 10 years… not to pull out the crystal ball. I'm not sure if we have one at the conference anyway. But when you think about the next 5 to 10 years, how do you see the landscape evolving, maybe as it relates to your strategy?

Daniel Pogue: Yeah. I mean, I think, naturally, there will probably continue to be more and more emerging managers. It's still very hard for emerging managers to raise. But I think, especially in this climate, there's a lot of reasons why someone, I think, would want to leave their firm and start their own thing and sort of control their own destiny. And we've seen that play out over the last handful of years. I think that will continue. I think one thing that we spend a lot of time thinking about is the spectrum of GP-focused solutions. On the one end, you have private equity seeding. So, you provide foundational LP capital for an emerging manager… a lot of times, a fund one. The seed economics associated with that can vary, but in general, that's a specific market. Let's just say, on the other end of the spectrum, you have GP staking, which tends to… versus seeding, where you may see some permanent equity deals, but it tends to be more of a minority rev share model, where it's not permanent. So not cheap capital but lower-cost capital, and I think better aligned with where the manager is at in terms of their evolution. Then you have GP staking, which is very established at this point. Good market. Very value-add market for, frankly, some of our managers down the line. Could potentially tap into that market. But very different model in terms of larger established managers, different incentives around the asset base, revenue from fees versus carry, just the expected performance mix, things like that. So good market. Not at all where we play. But if that's the two ends of the spectrum, I think, potentially, what you could start to see… and this is where, as we think about how can we continue to be front-footed with our strategy without straying from our core focus and competency DNA in terms of delivering value to investors, is I think you will start to see GPs look to have one-stop shop solutions, potentially, that close the gap on that spectrum. So, they may need seeding today. They may, 10, 15 years from now, consider the staking space. But are there GP-focused solutions that… a seeder, for instance, or maybe a [INAUDIBLE] coming down-market, could provide them in that interim, eight years or so? So not that we're going to get into this, but just using examples of things that we see. So, you have NAF financings. That can help with GP commitments, help with liquidity. There's a number of ways that you can use that. Continuation vehicles or GP-led secondaries. These strategies all exist, but I wouldn't be surprised. I'm not necessarily hearing it from GP today, but I wouldn't be surprised if, as the space continues to evolve, you see managers say, OK, the seeding thing is really interesting to me today, but can you offer me these other things as well? What happens in eight years, when I need to make my GP commitment to fund three, but I'm already all in on funds one and two? What do I do? There's a variety of solutions that, conceptually, someone in our seat could be well-positioned to provide. Again, not something we're considering today, but wouldn't surprise me if those types of conversations start to come up more with managers who are looking for value across the spectrum.

Robert Morier: Wonderful. Thank you for sharing that. So, you're spending up to 200 hours per manager. You're traveling to see them. You're coming to conferences. How do you find time for yourself?

Daniel Pogue: That is a very good question. So, I think we mentioned at the beginning, I have a wife. I have three kids. I have a daughter who's one. I have a son who's three and another son who's five. That is my [INAUDIBLE]. That is my non-work life. I wish I could say I played pickleball or golf or something like that. We're trying to get my son in the tennis. So, at some point, hobbies like that will exist and I'll have a good excuse to go out and do it myself. But I think, at this point, it's prototypical family man. I mean, you're on the road a lot. You're here at a conference, a great conference, for three days. You want to get home. You want to see your wife. You want to see your kids. And you want to spend quality time there.

Robert Morier: That's wonderful. Tell me your professional decision that you've made that you're most proud of.

Daniel Pogue: Professional decision I've made that I'm most proud of. It's a great question. I think, honestly… and it'll sound simple, but I'll expand upon it. I think it truly is the decision… so I joined Moelis Asset last May, and in some form or fashion, it was that professional decision. And I think it really ties to this notion of knowing when to take a calculated risk. So, the way that Moelis Asset had historically executed the strategy, it was actually part of a joint venture between Moelis Asset and a multi-family office. Part of the rationale for adding additional people to the team on the Moelis Asset side was, about 18 months ago, the decision was made to streamline it 100% within Moelis Asset. And so there was an opportunity to be more entrepreneurial, much more so than you typically get on the larger side of investment consulting, and really continue to… but in some ways, truly build… a business within a business. Not something I've done before, but something that, I think, when I got to more of the Moelis Asset team, understood the context of what they'd done historically and the vision and the buy-in, from leadership down, on where this thing could go and the value that we could create. There's always risk in building a business, but it felt like a very calculated risk. And so, it was by far probably the riskiest career decision I've made, but a very thoughtful risk that I think has a lot of personal upsides in terms of fulfillment and where I derive energy and our ability to create value for managers, create value for investors. That is easily one that I would make again, and something that was very different than what I had done before, but something that I think we're very well set up at this point to have a lot of success.

Robert Morier: And our final question. So, who along the way helped you with those types of decisions, some of the mentors that were most important to you as it relates to those more difficult professional decisions?

Daniel Pogue: Yeah. So, I'll maybe give one personal, one professional. The personal side is easy. It's my father. But specifically, I remember… he probably won't listen to this. If he does, he'll laugh at this. But I think there was one line growing up. You're a volatile teenage boy. You're frustrated with things. You're impatient. You're trying to find your way, all this stuff. And it was a very simple line. He would always tell me that the cream always rises to the top. In other words, slow down, be patient, trust the process, put your head down and work hard. Things will work out. And I think, now, I don't know if I'm 100% mature now, but I'm a lot more mature than when I was in high school, for instance. I think that general motto or philosophy, whether it's personal life or professional life, has played out really well. I think, to some degree… it's not like we tell managers the cream always rises to the top. But that mentality of, be patient, and let us be that patient partner who will give you the time and the space to make the right long-term decisions. And sometimes, that takes time. It doesn't happen overnight. Having that mentality personally is great. I think having it professionally has helped me throughout my career, but in some ways, is very much in line with how we operate, partnership-wise, with managers today. And then on the professional side, it's probably not fair to name one person in particular, but I think that there's been a couple of… Chris, for instance, on the team would be one. But there's a couple others as well throughout my consulting days, specifically on the professional side, that… it tied back a little bit to what I was saying before. Be willing to take calculated risks. At the same time, like always be intellectually curious. I think a lot of times, those things can go hand in hand. If you're intellectually curious and you're always trying to learn and evolve and get better, then when it comes time to potentially take a risk, it can be more calculated. You can be more thoughtful about it because you've done the homework to understand the context and know, full-fledged, what you're getting into. And again, I think part of my rationale for taking the calculated risk, a very good one, a very rewarding one, to join the guys, again, at Moelis Asset and do what we're doing now. But again, I think by definition, our strategy is constantly taking calculated risks on people who themselves have taken a calculated risk to bet their careers on what they feel they can build, independent of wherever they came from. And I think a lot of times, forming the right partnerships, the right structures, that's additive for everybody. When we think about our interactions with managers… frankly, too, our structure and our interactions with investors that we talk to… that takes intellectual curiosity. It takes thinking outside the box. And I think hearing those is one thing. Seeing certain people professionally embody those things day in, day out, it's a great learning experience, and something that has absolutely served me.

Robert Morier: That's wonderful. Yeah, there is something about eating your own cooking that goes a long way. So, Dan, thank you for being here today. Thank you for sharing your insights. Thank you for taking time away from this conference and spending time with our audience to share more about you, more about Moelis, and more about Catalyst. So, thank you.

Daniel Pogue: Yeah, I enjoyed it. Thank you.

Robert Morier: If you want to learn more about Dan and Moelis Asset Management and the Catalyst team, please visit their website at www.moelisassetmanagement.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'd like to take time to catch up on past episodes, check out our website at dakota.com. Finally, if you like what you are seeing and hearing, please be sure to like, follow, and share these episodes. We welcome your feedback as well. Dan, thank you again for joining us here today. And to our audience, thank you for investing your time with Dakota.