dakota

EPISODE 75:

Private Equity Investing

with Abbott Capital

Robert Morier: Welcome to the Dakota Live! Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better the people behind investment decisions. We introduce you to chief investment officers, manager, research professionals, investment consultants, 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 our Dakota Live! content, please check out our website at 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 am pleased to introduce our audience today to Jonathan Rubiana, Managing Director with Abbott Capital. Jonathan, welcome to Philadelphia.

Jonathan Tubiana: Thanks for having me.

Robert Morier: Thank you for being here. It's really a pleasure for us. Firstly, I'd like to say congratulations on all your success. It's really wonderful for us to have someone who's been in the role as long as you have speaking to us about manager research and what you and your colleagues are doing at Abbott Capital. So, thank you for being here. We have a lot of questions to ask you, as you know in advance of agreeing to come on to this podcast. But before we do, I want to quickly share your background with our audience. As a leader at Abbott Capital, Jonathan's role is centered on formulating high performing private equity portfolios and fostering close client relationships. As a member of the firm's investment committee, John plays a pivotal role in guiding the firm's investment strategy and execution. Since joining Abbott Capital as an analyst in 2009, Jonathan has honed his experience in sourcing, due diligence, and manager selection, consistently developing the firm's reach to funds with top quartile potential. His remit of research stretches across upper mid-market domestic buyout specialists to growth equity and venture capital managers, assessing established and emerging managers within and outside of the United States. Prior to his tenure at Abbott Capital, Jonathan was part of Altius Associates, where he focused primarily on European private equity offerings. His academic background includes a Master of Science and Management from Grenoble Graduate School of Business in France, and an MBA in Finance from NYU's Stern School of Business. Fluent in both English and French, Jonathan's international perspective is a key asset in his role. Abbott Capital Management, established in 1986, focuses on creating exceptional value for its investors through carefully crafted portfolios of private equity investments. The firm is known for its strategic approach to primaries, secondaries, and co-investments, emphasizing not only the depth of its market insights, but also the strength of its global relationships. The firm has seen $25 billion in commitments since its inception. Jonathan, thank you again for being here with us today, and congratulations on all your success.

Jonathan Tubiana: Absolutely. I've never been called pivotal before, so I thank you for this little ego boost.

Robert Morier: Well, we are very excited that this pivotal conversation is also happening. So, thank you for sharing all of that. And thank you for being here. So, having lived in London, New York, and Paris, what unique aspects of New York City have made it your chosen home?

Jonathan Tubiana: Yeah, that's a difficult question to answer. I would say Paris has not really had a fair shake because I grew up there. And I was basically a kid and a very young adult. I was at school. I was living with my parents. And I didn't experience it as an adult with a job and friends, et cetera. And I do have some of my closest friends in Paris today that are living this life that I actually never lived. So, it's hard for me to actually to actually judge. I enjoyed London a lot. I made a lot of friends. I made a lot of lifelong friends over there. It's a vibrant city as well. New York has always had a particular… a particular place in my heart because it's a city that has a lot of energy. And the energy that sort of transpires is really agreeing with me. It's a very dynamic place, a very energetic place. And I actually love… actually, I still feel as excited today in New York as I was when I arrived for the first time.

Robert Morier: What part of New York City do you live in?

Jonathan Tubiana: I Live on the Upper West side. I've lived, like almost everyone who spent time in New York, in 5 or 6 different neighborhoods. But we settled to the Upper West side when we started a family.

Robert Morier: I was up there for a little while as well, 68th and Columbus. It's a great neighborhood.

Jonathan Tubiana: It is.

Robert Morier: And where are the offices for Abbott Capital?

Jonathan Tubiana: The offices are in Midtown, on 51st and 5th Avenue.

Robert Morier: Wonderful. Well, I should say congratulations on your recent promotion to managing director—

Jonathan Tubiana: Thank you.

Robert Morier: … at Abbott Capital. So, could you start by describing to us your journey to the firm? So, a lot of our audience has increasingly become students who are thinking about careers in asset management, manager selection, even just the industry as it relates to thinking about ways to enter this big world that we work in. So, what did your career journey look like?

Jonathan Tubiana: I was a finance major in grad school in France. I was never really… it was never really a calling for me to work in finance. It just sounded interesting as far as the curriculum was concerned. And I sort of stumbled upon the LP world accidentally through an internship that I had after my first year in Grenoble. And that… my second year, actually. And that was at a French financial institution called Caisse de depot, which is basically one of the financial arms of the French government. And I was in there from the funds team, and I found that very exciting. Because it had a very strong qualitative component to the quantitative aspects that you expect to find in finance in general. And it's a very boring story, but I've never really done anything else. After that I moved to London, upon graduation, and I started working in private equity as a junior person. And I joined Abbott in London in 2009 right after they opened the London office.

Robert Morier: So, what attracted you then to Abbott Capital? And how was the firm's remit within private equities aligned with what you wanted to do in terms of your goals in the industry?

Jonathan Tubiana: So, the job itself was pretty much what I had been doing as a junior professional in the LP world. Abbott is a private equity asset manager that focuses exclusively on that. So, we do primary, secondaries, and co-investments in the US and Europe primarily. The office was opened in London by my partner. Today he is my partner, Matthew Smith, who was basically looking for a junior resource to work with him as he kept developing the activity over there. And that's what I found really interesting about the role. I was very junior professional. But Abbott is an organization that had a brand. And I figured that even as a really junior person, if I was alone with a managing director in the London office, I would probably have more exposure and do things that were a little bit beyond, beyond the remit of an analyst role. And I was, I was right. What I didn't expect, which was a very nice surprise, that Matthew was a great mentor and a great…

became a great friend as well. And that was a very necessary component of this relationship because we spent… we spent several years in a room about this size of this corner, day in, day out, every day of the week, in an organization that is overall more than more than 50 people. Everybody else was London-based or New York-based.

Robert Morier: That's incredible you've been able to see that growth. How has the growth or the profile of your clients evolved over time, so when you think about those early days relative to what your clients look like today?

Jonathan Tubiana: So, Abbott started more, I think, on the separate account side of things. We evolved towards having a mix of fund to funds and separate accounts. But I would say the core business and the core client base has not actually changed that much. It's really ingrained in the firm's DNA at this point. We work primarily with institutions, so large pension plans in North America and endowment foundations, and a lot of institutional organizations that are looking to build or develop their private equity program. And that's been our main selling point from the beginning. And it's continued to be this way. Some clients use us exclusively for small buyouts because that's what they need from us. Others really want venture exposure. Others want Europe, et cetera. So, it's become very customizable.

Robert Morier: It sounds like a lot of optionality, as well.

Jonathan Tubiana: Absolutely, and that's the idea. The idea is that we do private equity. We don't do anything else. We don't do real estate. We don't do credit. But within private equity, we have expertise in a broad area of options that can serve a portfolio.

Robert Morier: Sometimes when you have that broad area of options, there's a lot of education that's involved at the outset. So, could you actually take us maybe to the table when it's being set? So, when you're sitting down with a potential client, what does that conversation look like, or sound like in terms of the benefits that are available to investors from investing in those types of private equity solutions?

Jonathan Tubiana: So private equity is but one component of a portfolio, especially if you think about larger institutional portfolios. It is a liquid strategy that calls for a pretty elaborate cash flow management, which is something that's important. You mentioned from an education standpoint, but from sort of a partnering standpoint, as well. We work with our clients on tactical plans, on projections, et cetera, to make sure that they're not over their skis in terms of their commitment pace, et cetera. And it's supposed to generate higher returns than public markets over a longer term and a less liquid term, which is kind of the idea from a diversification standpoint. And people who start thinking about private equity as an asset class have different ways of getting to it. From a J-curve mitigation perspective, you can start with secondaries and maybe even co-investment with a little bit shorter term than primaries. And then you can build your portfolio from there to have a return profile that makes sense from your program's perspective.

Robert Morier: Interesting. It sounds like when you're partnering with some of these larger institutional plans, particularly some of the public pensions, they likely have an investment staff already in existence. So how do you find that relationship between an existing staff and the services that you are offering?

Jonathan Tubiana: That's a very interesting point, actually. Because, yes, the industry has evolved a lot since… certainly since Abbott was created 40 years ago, and even since I joined about 15 years ago at this point. All of our clients, or at least the immense majority of them, have teams that are sophisticated, that understand the market, that do their own thing in a lot of ways, as you mentioned. And so, this is the reason why we've also evolved towards a more customized and a more diversified approach. We do have discretion over most of what we do from a deployment standpoint. So, we are the investment committee on the opportunities we commit to on behalf of our clients. But it is very much a partner-oriented approach. We spend a lot of time talking to our clients. They talk to us directly, to the managing directors on the investment side on a regular basis. They don't have an account representative or what have you. And they get to basically ask us to address certain pain points in their portfolio that they would need an organization like ours for. It's no longer we'd like to do private equity, and here's capital, and let us how it's going. It's much more I need to build an emerging manager program. I need more exposure to secondaries. I need Europe, et cetera. We talk to them. We work with them in terms of addressing this.

Robert Morier: So, based on that very customized approach, quite bespoke, how do you organize the team then in that regard? You said there may not be a product specialist. But when you think about your role in respect to your colleagues, how are you structuring the team to be able to cover and then work with these clients in a way that offers those solutions most effectively?

Jonathan Tubiana: So, the team is generalist. That has been something Abbott has been very steadfast on for a long time. So, we have one investment team that sits in a room every week for our investment committee meeting, which you will be shocked to learn happens on Monday morning or Tuesday morning. And we talk through everything that's been going on, either from a preliminary standpoint or final investment memo that leads to a commitment decision. We have several people, two managing directors, a VP and an associate, that focus a little bit more on the secondary side of things from a sort of an execution and management standpoint. But they sit in the same investment committee as we do. They get to vote on the primary side. We get to vote on the secondary side. And whenever there's a secondary deal, for example, that pertains to a group that I'm really familiar with, I'll be involved in the due diligence process. And that's the same across the organization and across our colleagues. So, we don't really have, as you said, a product specialist. But we don't have strategy specialists either. We are one team, and we learn from one another.

Robert Morier: It does beg the question, running with this setting the table metaphor, is who picks what's on the menu? So how is the agenda set that morning before you even walk in? Is it collaborative? Is it based on what each of you are experiencing, either on the GP side or maybe more on the market outlook side, or perhaps what clients are asking? How is the menu set in terms of what the agenda of items will be on that Monday or Tuesday morning?

Jonathan Tubiana: So, it's really very prescriptive. We start with the opportunities that are at a stage where a decision will lead to a commitment. So, commitment decisions come first, and we just go down the list all the way to the most preliminary opportunity, so the group that we've just met and that we find somewhat interesting, and we'd like to dig a little deeper. And whoever had this meeting and did the work will make a case to the investment committee. It's like, we think this is actually additive to our portfolio and we'd like to do more work on it. And then that person will answer questions, and based on that will decide basically if it's worth engaging the firm's resources moving forward with more meetings or if it doesn't. It is collaborative. We make the most junior professionals vote first, and that's by design. It is not meant to be cruel or to be mean. But it's actually meant to relieve the pressure of all the partners really like this opportunity and I don't. But I'm not going to vote "no" now, so I'll just I'll just go with the flow. They get to sometimes, more often than not, actually, they can be contrarian compared to the rest of the team. But they give a rationale. Nobody's judging them. Nobody's looking at them like, what are you talking about. And there are discussions that take place. And they maybe ask questions as well, like you mentioned what drove this decision. And why do you think this?

Robert Morier: I love everything about that. That's partly selfishly. I teach a… teach a class, it's called Venture Capital Due Diligence. And the students are taught to be analysts over the course of 10 weeks. And they're analyzing companies that are being considered for Drexel University's Innovation Fund, which is our venture fund. We have the students give their recommendations first without learning what the committee is either considering or deciding for exactly that reason. We want the students to go in it without the bias of what would potentially be the… usually is the more experienced person, whether it's a fund manager or someone who's an entrepreneur themselves. So, I think that's great. I'm happy to hear that you take that approach. It's very interesting. So, take a step back then. Can you help us understand how are you sourcing these opportunities? How are you sourcing managers? You've been in business for a very long time, so I assume that the Rolodex is sound. But there are new managers coming online all the time… either spin outs or earlier stage. So, could you help us understand the sourcing, from the less emerging to the more emerging?

Jonathan Tubiana: We have several ways to source managers. The one that is pretty much what a lot of managers would probably say is that we have an open-door policy. So, there are placement agents. There are brokers. They are very competent salespeople at these private equity firms that who we are and will reach out to us, present an opportunity. We tend to respond and talk to all of them. As long as their strategy is relevant to what we do, we try to make sure that we at least have a very preliminary discussion or email exchange or something. We try not to have anything go completely unanswered. It happens. It happens everywhere. We try to make sure that everybody is treated equally from being answered to prospective. That's one way to source deals. We have a fairly superficial CRM system that we call the Groups to Track List. It's not about the tech as much as it is about the discipline and the rigor in making sure that we follow up with every potentially interesting group that we may have found along the way, even if they haven't reached out to us. And the way we find these groups is a lot of outreaches and a lot of cold calling ourselves. We read the news. We look at what's going on around us. We look at who our GPs buy from and sell to. And if there's a group that we don't know very well, it's going to go on that list. And if it's somewhat interesting, it's going to stay on that list and become sort of a higher level of priority. I am actually the person who's in charge of making sure that the trains run on time here and make sure that people follow up. We meet as a team at least a couple of times a year and we go through that list. And if a group seems like it's highly ranked from being interesting perspective for any of our accounts… venture, buyout, et cetera… and it looks like there's not been much follow up over the past year, we'll ask why. We'll put people on the spot, and they know that. And I've been put on the spot myself more than once. And sometimes the answer is, we've been talking to them a few times and it's actually not that interesting. And they come off the list. So, discipline and follow up is really the main way to make sure that we address this. And we also ask GPs… every time we meet GPS, we ask them who do you respect that does what you do from a strategy perspective at your size level, and your geography, et cetera. And we build a lot this way, and that's very helpful.

Robert Morier: Well, since you're running the timetable, this is a good question for someone in your position. How long do you typically engage with asset managers before making a decision? And maybe what factors influence that timeline?

Jonathan Tubiana: That is a difficult question to answer. Because I actually did not respond to your second part of your question earlier about emerging managers. But we do have an emerging manager program. This program invests in funds 1, 2, and 3 in growth and buyout. We like to start early. We like funds 1, because if we find through due diligence that the team has a lot of potential, it's good for us to have time to build this program internally for our client. In these cases, we might make an investment in a group that we've recently met. We try to make… I mean, through our network, we see a lot of spin outs. We see a lot of groups that maybe have quit from another larger organization. And often they are people we know because we are invested in their prior platforms, or we've been following these platforms for a long time. So, we their track record. We all these things. But sometimes… and it happened at least a couple of times over the past 2 years on groups that I've worked on… I didn't these people. I just knew that through a lot of reference work that their track record… the track record at least they claim to have, was actually theirs, that they led the deals that they claim to have led, that they worked together as a team. And in these cases, we can very well invest in a first-time fund that we've not met for… that we've not met a long time ago. In general, however, it takes a couple of cycles of getting to them. It's pretty rare outside the Emerging Manager program that we commit to a group that we just met for the first time. And there are a couple of reasons for that. The first one is that we run relatively concentrated or high conviction. We do 4 or 5 things a year per strategy, and that includes re-up. So, 4 or 5 things venture and growth, 4 or 5 things small buyout, mid-market, Europe, North America, et cetera. That is a pretty tight portfolio construction framework. And because we try to be as prolific as possible on the sourcing side, we do meet a lot of interesting managers. And it leads to difficult conversations sometimes because GPs tell us, you tell me that you'd like to see that kind of performance, and that kind of team stability, and that kind of strategic cohesiveness, and check, check, check. So, you're going to commit. Well, you and 8, 9 other groups that match your strategy have these criteria and we can only do 4 or 5. So it goes a little bit deeper into the forced… the ranking. And some people just are a little bit confused by that sometimes, or frustrated is the better way to put it.

Robert Morier: Interesting. So, what are those characteristics then you're looking for to assess a manager's capability to both choose those value additive investments as well as their capability to provide that ongoing management guidance?

Jonathan Tubiana: It's pretty straightforward. I would say a lot of people that do what we do look for the same things. We try to make sure that the team has been together as a cohesive organization for as long as possible. We try to make sure that the track record that they present is theirs, first of all, especially in the case of emerging managers, and that it's consistent with what they're proposing to do going forward from a strategic standpoint. And that is not just is it still buyout or is it still growth. We look at fund sizes. We look at the amount of equity checks that they deployed in each portfolio companies compared to what they want to do going forward. We look at the size of companies they invested in. We look at the kind of leverage they had in these companies. We look at their value creation as well. We think about, in the past, how have you created values in these portfolio companies? And is it still possible to do that going forward in a different market environment where perhaps you benefited from significant multiple appreciation without actually doing much to these companies and you have great returns? But does it really mean anything in a contracting market? So, we try to make sure that the past is consistent with the present and the future.

Robert Morier: I am curious. It probably is a little bit more relevant just based on having not known a manager as long as it relates to the people behind that process. So, when you're evaluating people for a new manager that you have not met before, you haven't had exposure before, so you're thinking about the team… are there any approaches that you take as it relates to better understanding the people? I heard one of your peers, for example, talk about the importance of assessing cognitive diversity and really understanding that there are different thinkers in that structure on that team. I've heard some other managers in a similar position. As you talk about character. Are they good people? Are they kind? Are they curious? Are they forgiving? So how do you think about that qualitative aspect of understanding the people behind this process? And I always ask it because it's so important to what the business is all predicated on, people. But it's a soft skill.

Jonathan Tubiana: It is a soft skill, and it is critical. And this is one of the reasons why it's not that common for us to commit to a group that we've just met. Because it takes time to, as you say, to get to them, to see how they work together, and to see how they interact, how they're aligned with one another and with their investors, and how they treat their investors as well. We have a pretty broad reference database of people we can talk to that may have invested with these people at their current organization or their prior ones. And it's very helpful to talk to them, and to hear how the dynamics work from people who have been outside the tent for longer than we have.

Robert Morier: Makes sense.

Jonathan Tubiana: And what they say, as well, is the way they talk to you, the way they the way they treat you as a potential investor, and the way they talk to you about their prior investor. They actually don't realize that often, but it is extremely telling when I hear something like LPs keep telling me that they want exits. So, I've sold a bunch of companies and in a normal time I wouldn't have sold them, because there's still a lot of value to be added in the next 2 or 3 years. But I'm raising a fund and I need liquidity, and so there we go. Here are your exits. Yeah, well, what are your current investors thinking about this? You're basically shortchanging them. They trusted you. They gave you the capital and you're basically prioritizing your own business development objectives rather than the future of your existing investors. So, it's also critical for us to think about those things.

Robert Morier: Very interesting. Two things when I hear that, I say, one, words matter. So, the words you use to describe something are very important. And two, people will tell you. If you listen long enough, people will start to show you some of the yellow flags. We don't want to call them red flags, because in my opinion yellow flags can turn green.

Jonathan Tubiana: That's a nice, optimistic way of looking at it.

Robert Morier: I try to be a little bit… I'm a teacher. I try to look at the bright side of things. So, in addition to time, how do you manage risk within the portfolios? You mentioned mitigating J-curve effects and maintaining ongoing exposures. But what are some of the key ways that you're managing risk within the portfolio?

Jonathan Tubiana: We try to strike the right balance between having a high conviction approach. So, we don't do everything that looks interesting, because then you run the risk of what one of my partners calls "di-worse-ification." You're in everything, so you'll be fine. You won't lose your shirt. But it's also pretty unlikely that you'll actually achieve top quartile performance, even if you happen to be invested in the best managers out there. Because you also have everything else or everything else that seems like it could be interesting. So that's why we're very, very focused and very careful to set objectives from a portfolio construction framework and to stick to them, and to just be very, very disciplined. If we invest in a new manager, understanding that that means that probably at some point another one is going to exit the portfolio. One of our former partners used to use that analogy of a Manhattan apartment. Manhattan apartments, however rich you are, tend to be relatively small. And that means that if you're going to add a piece of furniture that you really like, something's going to have to go away. And that applies to a portfolio, as well. And this is kind of the way you make sure you generate returns. And from the depth of due diligence, you try to minimize risk as well. If you don't overlook important things from a due diligence standpoint, that's why we are very, very thorough in terms of meeting these GPs. If you talk to GPs that know us, they will probably tell you that we try to turn a lot of stones and we try to minimize risk.

Robert Morier: That's funny. You talk about Manhattan apartments. I found that in my 18 years in Manhattan, my apartment kept getting smaller every year. The neighborhood got marginally better.

Jonathan Tubiana: Well, your family is getting bigger.

Robert Morier: Exactly.

Jonathan Tubiana: And the apartments are getting smaller. Sure.

Robert Morier: Exactly. Very true. Very good point. I promised you I wouldn't ask for any crystal ball forecast, but I am just curious. We've talked a little bit about your clients, particularly the institutional side. But we've been hearing from a lot of our guests, particularly on the wealth management side, the proliferation of private market products for their clients, high net worth and retail investors. So, what do you anticipate the share to look like going forward between wealth and institutional investors with Abbott Capital?

Jonathan Tubiana: It's hard to give you a number, but it's a trend that we've seen as well. It's a trend that we have seen. It's been a very favorable 15 years in terms of market environment. On the venture side, on the tech side, a lot of people have come into a significant amount of capital. And also, private equity has democratized somehow. As technology has evolved and information has disseminated as well, we've seen a lot of… we've seen a lot of interest from a lot of private wealth platforms and high net worth individuals into what private equity can offer them for their own portfolio and their own estate management in the long-term. So, yeah, it is something that's grown. And we try to make sure that we look at these opportunities as well and talk to these platforms and see what they have to offer and what we can offer them as well as this grows.

Robert Morier: Makes sense. How about the evolution of custom funds for clients and co-mingled funds? We talked a little bit about the two. How do you see the composition of those two offerings evolving over time?

Jonathan Tubiana: It's been pretty steady for us for quite a long time. So, if I think about deployment, it probably skews more heavily towards the separate accounts when we look at investment opportunities that are relevant for their strategy. But we are a bottom-up firm. This is what we've always been. So, you know, if an opportunity comes through the door and it's a fit for a certain number of clients based on their strategic constraint, everybody will get access. And everybody's always asking us, does this mean that you might get significantly constrained in some opportunities because clients… the client list grows and the available space in existing opportunities doesn't necessarily grow as fast? And the somewhat interesting answer is that it's not been that big of an issue. We've been constrained in some really, really hard to access managers. But for the most part, we build deep enough relationships with these GPs that we are actually able to often get an allocation that makes sense for our clients overall.

Robert Morier: So, when you think about your last 15 years, what are some of the more significant changes that you've seen in client expectations? I would assume some of those clients may have been working for, for many years, so you've been able to have an insight in terms of where their focus is, in terms of markets and just generally what expectations are across a variety of parameters.

Jonathan Tubiana: That's actually interesting because our clients… we talked about that earlier in terms of their team being pretty sophisticated and their understanding of how private markets work. I don't if it's true across the industry, but our clients' expectations have remained fairly steady over a very long period of time. They expect a partner relationship with Abbott as opposed to a service provider relationship. We talk to them a lot. We discuss what we're doing with them, even in cases where we have the authority to make the investment decision. And we make sure that every concern that they might have is addressed. But from a deployment perspective, they understand that private equity is a long-term illiquid asset class, and that what you're doing today is going to be felt 5, 6, 7, 8, 9 years from now, at a time when the world will be a very, very different place and that today will be completely forgotten. Do you even remember what environment we were in 9 years ago, or 10 years ago, when the funds that are starting to liquidate today actually raised? The institutions and the groups that tell us this year is difficult so we're not allocating that much to this or that within their private equity allocation, I feel that this sort of suggests… that suggests that the program might look a little bit stranger in 5 or 6 years, more than it should.

Robert Morier: Yeah, that's refreshing to hear that expectations have remained relatively consistent.

Jonathan Tubiana: It's been a weird few years. Stock markets have been pretty volatile. There's something that a lot of people have talked about a couple of years ago called the denominator effect, where you're a big institutional private equity investor, and your portfolio has taken a hit on the public side. And so, the share of the private equity allocation in your portfolio is much, much higher than the guidelines that have been issued by your board. So, you have to invest up to 15% of your portfolio in private equity and you find yourself at 30% because the public market has taken a hit. And you know that's not going to last because public markets are volatile. But you just have to you don't have a choice. And that has happened to a lot of large pensions, corporate pensions, et cetera, out there. It's like, we just can't. We just can't commit because we're way above our skis in terms of allocation.

Robert Morier: You talked about those long-term expectations. But even with that long-term outlook, innovation isn't going to stop. So, managers will still continue to innovate. Allocators will still continue to innovate. So, what are some of the key trends or innovations you're currently seeing or watching within the private market space today?

Jonathan Tubiana: The rise of private wealth is probably the biggest one in terms of industry development. And that has led to product innovation that has been more significant than it has been in the past. From a tech platform standpoint, for example, you see more and more of these popping up where you get to build a private equity portfolio in 40 seconds just by trusting us to pick managers for you, et cetera. And some of them actually have been pretty successful and look pretty interesting. They way they've built the tech and the way they've built the platform is pretty interesting. There's obviously a lot of investment talent behind it from the people who are running it. But they have been making a lot of people's lives easier in terms of people who might be just high net worth individuals that would like some exposure to private equity without having a relationship with a broader mainframe organization.

Robert Morier: Digging a little bit deeper into your emerging manager platform, I think it would be interesting for our audience to understand what does that underwriting process look like for an emerging manager? We talked about sourcing. But if you could put yourself into the seat of maybe a recent allocation for an emerging manager, what did that process look like in general terms, as far as underwriting?

Jonathan Tubiana: From a purely process perspective, it looks very, very similar to everything else that we do. From a due diligence standpoint, what looks a little different is that you don't have a nicely packaged data room that has a track record spanning several cycles that you get served on a platter and you get to see, OK, you guys have 12 exits, and I think 9 of them are relevant to what you do, and sort of conduct the due diligence this way. There's a lot more sort of building the story yourself based on what you're told and reconciling a lot of different… a lot of different statements from a lot of different people. So, a lot of these people are spinning out from maybe larger organizations. And it's rare that they get to take their track record with them, which is understandable. You leave a firm… you've led 10 very successful deals. Maybe the track record without your deals is not that attractive at that platform anymore. They're not going to be like, sure, please market that as your performance. So, our job at that point is to find to find this out ourselves. And public data is pretty useful for that. There are a lot of press releases from deals that were done, et cetera, where some people are quoted saying, yes, I've worked with this person a lot. And we're very excited to partner with this entrepreneur, et cetera. The Abbott Primary Network… because we've been doing this for 40 years, and we've done a lot of work on a lot of managers… is actually very, very useful. It's pretty rare… even on the emerging managers we've not done work on, I would say it's pretty rare that we wouldn't have had at least 10 to 15 touchpoints that would have directly been aware of these people… either firms that they sold things to, firms that they bought things from, perhaps even entrepreneurs that they worked with, that we had in our portfolio through different managers, et cetera. And through this pretty rigorous reference process, you build what you think their track record is. And we do that for emerged managers, as well, but there are more obvious pointers. It's like, there are things… trust but verify, as we always say, but you actually get the information that you have due diligence. In the case of emerging managers, you don't have it. You have to basically do it from scratch, and it's much more difficult. Then you look at the team dynamics. So, we call it emerging manager profile. Some people actually get a little offended when they're in their 50s maybe, and they have done it for 30 years, and I call them an emerging manager. Like somebody told me once, yeah, I think I have emerged at this point. So, I try to call them more like, emerging companies. Because you are raising a fund 1 or a fund 2 or a fund 3. So, these are very young firms. So, I have to look at your body of work and who you've generated that work within the context of this new platform. And we like teams that have collaborated before. It's much more difficult for us to get comfortable with somebody that comes from this firm or that firm, et cetera, and they all come together, and they all have a story that they package nicely. We've known each other since college and we've always been best friends, et cetera. But when you've not actually generated deal flow and performance together, it is much more difficult to evaluate if this is going to be a firm that's going to hold for the long-term or not. So, it's more difficult.

Robert Morier: You mentioned Europe. I'm curious. Starting with emerging managers, are the emerging managers that you're uncovering predominantly out of the United States or are you finding opportunities in Europe, as well? And when you are in the European markets, what challenges have you seen investing in private markets, in foreign markets? And where do you see the opportunity set there?

Jonathan Tubiana: It is mostly to the emerging manager program itself is a North American program, so it's mostly actually United States focused. That doesn't mean that we wouldn't do something that looks emerging in Europe. We have a London office, as I mentioned. It's always been a 2 people London office when I was there with Matthew, and now it's 2 different gentlemen. The point of that office is to build relationships with groups that don't necessarily travel to New York every 6 months to meet potential LPs. There's no worse timing to get to a group than when they're raising money, which is when they're travel. Because there's timeframe, there's constraints, there are expectations, and it's much more difficult. So, my London colleagues, Jobst and Moritz, are there talking to these groups, making sure that they have a pretty good idea of which groups we would need to keep close tabs on. And they do all the work that we mentioned earlier, as well. They evaluate from a soft perspective if these people are good people to work with. When we travel to Europe, we are introduced to these groups by our colleagues like, oh, you really should go to Stockholm and meet that group or to Paris and meet that group. And when they raise money, they act as their champions. It's like, OK, we've been talking for a number of years. We think this track record is legitimate. We think these people are good partners to work with, et cetera. And we, the people in the US who are less familiar with the groups, will have a good opportunity to build a relationship with them. Outside these geographies, it has been a little more difficult for us for this exact reason. It's difficult to build relationships when you don't have boots on the ground, at least somewhere that is reachable. London office, you can pretty much cover Europe. But outside of that, it's been a little more difficult.

Robert Morier: Venture capital, you mentioned it a couple of times. I'm just curious. Any opportunities you're seeing there currently? It's been a tough couple of years, as everyone knows very well. But I'll remind our audience, it's been a tough couple of years… so when you think about venture capital today as it relates to your clients, expectations, and opportunities that you're finding.

Jonathan Tubiana: We do like early stage a lot. We do invest in late stage and growth as well. But we find that this kind of tends to take care of itself, as early-stage managers invest in follow on rounds of their portfolio companies or raised growth products that look interesting, et cetera. Not much has changed from our approach. Same as buyout and private equity, whatever the environment looks like today, we maintain a pretty prescriptive approach of what we commit to because things are going to change. And everybody knew that 2021 was a very frothy year. That doesn't mean that we invested less or more. No, we tried to do the same thing. Same for this year. People are saying that this year is going to be a great year for new VC firms because they're invested at depressed valuations. And entrepreneurs' expectations have tamed, et cetera, et cetera. Does it mean we're doing more? No. We're sticking to our guns and doing and doing the same thing.

Robert Morier: As it relates to sustainability and thinking about sustainability from the firm's perspective… maybe one way to ask this is what types of data sources do you rely on when you think about ESG and sustainability for your investment programs?

Jonathan Tubiana: So, we are UNPRI signatories since, I think, 2015. The good news is that I don't think it's changed considerably the way we are doing things. Because I think we're already pretty compliant with these principles. At least before that we avoid certain industries that could be considered harmful. We avoid investing in managers that have a history of bad behavior. Some of them re-emerge under different firms or different names, et cetera. We try to track that as closely as possible. We have a pretty robust operational due diligence process. It's a different team within Abbott. When we get close to a point when we are actually doing the work and doing reference calls, and it's becoming increasingly likely that we're committing to the group, then our ODT team steps in. And it's not really… I'm reading the due diligence questionnaires, I'm ticking boxes, and I'm done. They actually do quite a bit of analytical work. They have calls with the GPs where they challenge them on certain aspects of their materials or on certain responses to our standard questionnaire that we send. And the resulting operational due diligence report that we see that includes ESG and other factors, including cybersecurity and things as simple as controls and procedures, et cetera, is basically delivered to the investment team alongside the investment memo. And that's part of the decision-making process for us.

Robert Morier: If you can share, I'm curious if there is a contrarian either investment position or a view in-house that you would you share with us on our podcast.

Jonathan Tubiana: Well, I personally, usually, I am known to be the optimistic person on the investment committee.

Robert Morier: You're half glass full, huh?

Jonathan Tubiana: I am 2/3 full probably is what my colleagues would say.

Robert Morier: That's fair.

Jonathan Tubiana: Everybody agrees that an investment committee needs a little bit of everything. I also have colleagues that are glass 3/4 empty. Right? And it's fine. Because as long as we agree on things and we can discuss things, it actually leads to a better decision a cognitive diversity is what you mentioned earlier. That's true and that's very important. Personally, this year, I might actually be a little bit less optimistic than usual. Because first of all, I tend to think that disrupting events happen when people don't expect them that much. And we've been hearing for the past at least 10 years, it's been a long bull run, and things are going to happen, et cetera, et cetera, and we've been waiting for a long time. And you can argue that it somewhat happened. But I don't know, the GDP growth has accelerated last year. Public markets had one of their best years in 20 years, in spite of the tightening of monetary policy, et cetera. So, we've not really seen that big of a disruption yet. And I speak to GPs now that maybe have put things on hold for a long time and are now telling us that they're going to have that many exits, and that it's pretty much a sure thing in 2024. I was talking to one of my colleagues a few weeks ago, and I was telling him if I add up all the projected exits and realization events of all the GPs I've been speaking to, and take 50% of that number, this year is going to be the best distribution year that private equity has seen since I started in this business. It's unlikely that this is going to happen. And it suggests that there's a lot of optimism in the air. And that might be dangerous, because people adjust their own cash flow projections and their own investment-based projections based on these kinds of things.

Robert Morier: Well, we are in a presidential election year. I'm not going to ask you about politics. But when you think about geopolitics as it relates to expectations for the portfolio, how are macro assessments being applied to portfolio construction? Are you thinking about geopolitics? Are you thinking about other macro trends that may or may not affect the near term with the portfolio?

Jonathan Tubiana: Not really. Unless there's a cataclysmic event that really changes everything, we tend not to think about it too much, or at least not to change the way we do things based on that. And, again, a macro event is a point in time. Private equity, you commit to a fund today, and it's going to take at least 10 years to actually have a very clear view on how this is going to perform in the… ultimately. So, we obviously follow everything that's happening. But unless there's something that we think is… has the potential to really change the world in a massive way, we stay away from speculating in terms of how that's going to change this or that industry.

Robert Morier: I appreciate you sharing that. Thank you. Well, before we end this conversation, which has been wonderful, thank you for sharing all of these insights and all of the experience that you've had as it relates to the work that Abbott Capital does. You did mention one mentor in the beginning of the conversation, Matthew. But I'm always curious… just the people along the way who have helped you or affected your career, and what you've taken from those experiences.

Jonathan Tubiana: If I had to point out to people that have really changed my career path considerably, it would be my boys.

Robert Morier: That's wonderful. Yeah.

Jonathan Tubiana: There are real reasons for that. It's not just something to say. But the first one is that since they were born, I've been busier than I've ever been in my life. We don't have nannies or anything. My wife works full-time as well. So, during the day they're at school, and when they're not at school, they're with us. What I find through this process, which I kind of knew instinctively before but it's not… it's not logical at all… is that the busier you are, the more time you have. Because there are 24 hours in the day, as it turns out. There's not 6 hours or 8 hours. And 24 minus the amount of time you need to sleep is the available time that you have in a day, not necessarily just to work, but to do a variety of things. And that has helped me progress from a career perspective because I'm more focused. I'm more regimented. I think more about things because that at a certain time I have to pick up my kids, and I have to feed them dinner, and we have to do this and that, and I have to spend time with them. So that was the first point. And the second point, I would say, is they really retaught me to live in the present, which is something that we forget as adults because we project. It's kind of ironic to say that, because a lot of our job is to project, is to think. I'm working on a manager now and I think, in the future that's going to be a good or a bad manager. They have a view of the world that is a kid's view of the world, that is really anchored in the present in a way that makes it really wonderful to interact with them. And I'm a very anxious person. I hide it pretty well, mostly through self-deprecating jokes. But I've always been very anxious, and that has translated in my professional life as well. I identify my weakness and I obsess over them. And the more you obsess over a weakness, the worse it gets. And you feed a vicious circle that is basically uninterrupted. They made me snap out of that, first of all, because I now have other things to be anxious about, and also because there are these times when I do things with them, and I just disconnect because I basically sync… my brain synchronizes with theirs. I think these boys are one of the main reasons why my career evolved the way it did over the past over the past few years.

Robert Morier: We have that in common. My career also evolved because of my two daughters. For very similar reasons, I had very similar behavior patterns as well. I would reread an email 27 times before I sent it.

Jonathan Tubiana: I still do that.

Robert Morier: I've gotten better at that, thankfully.

Jonathan Tubiana: You're just 14 times instead of 27.

Robert Morier: But you're so right about the time, that the time is there. It's how you use it, if you appreciate that it's now. We were joking around before we started recording and the lights turned on, that I spent a lot of time looking for my wallet recently only to learn that it was in the refrigerator, where my 3-year-old put it. Talk about thinking in the present and also the importance of words. How many times have I told her that we keep things fresh in the refrigerator? So, she wanted to keep my wallet fresh in the refrigerator. So, I know that well. I appreciate that answer.

Jonathan Tubiana: Smart.

Robert Morier: She's very smart. I don't think it's a deflection at all. It was a very authentic answer. Thank you for sharing that. Thank you for sharing your time with us today. It really is an honor to have people come into Philadelphia, particularly yourself. You've had a very successful career. We hope for nothing but more success for you and Abbott Capital, and we hope to see you again soon on the desk.

Jonathan Tubiana: Thank you very much.

Robert Morier: If you want to learn more about Jonathan and Abbott Capital, please visit their website at www.abbottcapital.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 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. Jonathan, thank you again for joining us today. And to our audience, thank you for investing your time with Dakota.