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EPISODE 94:

Underwriting from the Windshield

with Summation 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. 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 thrilled to introduce our audience today to Roger Vincent. Roger, welcome to Philadelphia.

Roger Vincent: Robert, thanks for having me.

Robert Morier: Yeah, thank you for being here. Andrew O'Shea, my partner on the desk, thank you for being here.

Andrew O'Shea: Yeah, good to be back and excited to hear from Roger.

Robert Morier: Oh, good. Well, Andrew, what are you going to dress up as for Halloween?

Andrew O'Shea: My son's going to be a ghost, and he's obsessed with the Cookie Monster, so I don't know. I'll have to pick between one of those two.

Robert Morier: You might be the trash can that holds him?

Andrew O'Shea: Yeah.

Robert Morier: OK, good. Thanks for being here again, Roger. Roger Vincent is the founder and chief investment officer of Summation Capital. Again, welcome to

Philadelphia. We have a lot of questions to ask you. But before we do, we're going to read your background for our audience. Roger brings over 25 years of private equity investment experience with a background covering global buyouts, growth equity, and venture capital markets. He's worked at both the direct investment and fund levels, giving him a broad perspective on the industry. Roger is the founder of Summation Capital, a newly launched firm that manages an endowment style private equity portfolio. They've redefined the traditional fund of funds model by only charging performance fees on returns that exceed public market benchmarks. Roger and his team are reshaping the way private equity is accessed, offering turnkey solutions designed to give clients diversified exposure at a lower cost. The firm's core philosophy is rooted in the belief that a well-diversified private equity portfolio can lead to better returns. Before founding Summation Capital, Roger spent 12 years as the senior investment officer at Cornell University, where he led the endowments private equity portfolio. Before Cornell, he served as a buyout partner at Founder's Equity for eight years and started his career at DLJ Merchant Banking Group. Roger holds a BA in economics from Dartmouth College and an MBA in finance from Columbia Business School, and he calls Westchester home. Roger, congratulations on launching Summation. And again, thank you for being here.

Roger Vincent: Great, thank you.

Robert Morier: Well, we always like to start with the beginning for our guests. And now it's become for our audience as well. We have a lot of students and educators who tune in, and many of them are interested in how to find a career in private equity and venture capital. So how did you start out? How did you land at Dartmouth? What did you study? And what did that process look like as you were looking for the first gig?

Roger Vincent: Yeah, well, I grew up outside of New York City, and I think because of that, I always had an interest in financial markets. They were around me growing up. But it wasn't my only interest. And part of the desire of going to a place like Dartmouth was to be outside the city, be in a very liberal arts learning environment, and make sure that I was building a full portfolio of knowledge and interests and connections. And so, I was very happy to go to Dartmouth, lucky to get in, and had a great time there. But ultimately, I settled on what was my original passion, and that was finance and economics, and that's what I majored in. And that set me up for getting a position in a Wall Street firm as an intern. And again, it's everybody should be careful to acknowledge when they got lucky in their lives. But I got lucky. I was at a firm that had a very sophisticated, large, well-known private equity practice. And in the mid '90s, private equity wasn't well known by very many people. And through exposure to them, hard work, and determination, they asked me to join that group. And so, I really got to start my career in the private equity industry almost right off the bat. And that's how it started.

Robert Morier: That's great. You know, a question we receive often from students is, if I want a career in private equity or venture capital, do I need to start in investment banking? Do I have to find that private equity firm? Any advice that you could give to students thinking about that career?

Roger Vincent: Yeah, I think relative to when I started, there are a lot more firms and therefore a lot more jobs. So, it's probably more attainable for a larger number of people today than it used to be. You've got to be useful to the people that you want to give you a job. And so, remember not to go in and say why this job is going to be good for you, but why are you going to be good for them. So having some practical skills that you can bring to the table initially help to answer that. And some of those practical skills come from being an investment banker. But if you want to have a long career in this, being an investment banker is not going to take you all that far. There's a lot of other skills that have to come to the table, and some of the best investors in private equity and the best allocators don't have traditional backgrounds. And I think what that tells you is the further on you go, the more that diversity of knowledge and interest comes to be an advantage. And so, specializing in just being an investment banking all-star is perhaps a good way to get your foot in the door. But remember, it may not be a good way to have the longevity that you wanted to have that foot in the door to get.

Robert Morier: That's great advice. Thank you for sharing. Well, how about that MBA then? What spurred the decision to stop the journey and then take the route at Columbia?

Roger Vincent: Yeah, I've always had a joy of lifelong learning, so it had always been part of my plan to continue my education. And hopefully, later on, I'll be able to talk about how I've tried to continue my education outside of a formal school or degree process. So, it was in the cards. I'd say the answer will rhyme with what I just said. It will give you different things in the immediate term and in the longer term. And, for a lot of people, myself included, there were not as many benefits to doing it in the immediate term. I'd already had a lengthy, at that point, almost a decade of direct private equity experience. The number of things that gives you exposure to is tremendous because you're given a lot of responsibility very early in your career. And so, it's very easy to convince yourself that the opportunity cost of going to business school is too great. But 10 years down the line, what you might get out of business school can be completely different and it may be irreplaceable once you have missed your opportunity to go do it. So, I saw some benefits in the short term, but it was really just more about taking an opportunity to make sure I was continuing to advance myself educationally and understanding that it was going to pay dividends longer term for me.

Robert Morier: That's great. Thank you for sharing.

Andrew O'Shea: So, Roger, after eight successful years at Founder's Equity, you transitioned to Cornell, successfully led the private equity program for 12 years. How did you identify Cornell and ultimately end up in that role? And then, ultimately, how did that experience at Cornell change over time in terms of how you were investing the private portfolio?

Roger Vincent: Yeah, I'd say we found each other. I had decided at that point, I had about 16 years of direct private equity experience. I was a partner. I was leading deals. That's where I had aimed to be. But as the private equity industry was getting ever more competitive, I felt that the best way to differentiate oneself was to become ever more specialized. And I'm sure we'll talk about specialization versus generalist later on. And that just didn't resonate with how I wanted to leave my life. So, I wanted to be successful, but I didn't necessarily want to be increasingly specialized in one narrow segment of the market. I had been at this point in my career, in large cap buyouts, venture and growth equity and then small cap buyouts. I had enjoyed them all for different reasons, and I had this idea that knowledge could be put to very good use as an allocator. And I think at the same time, Cornell was looking to shake up its investment program, its staff, and they saw the value in bringing a direct investor into an allocator role. So, we were both looking for each other, and we got introduced and it was through a traditional channel. But once we found each other, we realized that this was... for each side, it was really the right fit and what we had been looking for.

Andrew O'Shea: Mm-hmm? And if you go back to that time when you first started, obviously, a lot of these institutions have increased overall allocations to private equity. Was that something when you came in that was an initiative to increase that allocation or is that something that just occurred throughout the 12-year period?

Roger Vincent: Well, I'm a huge believer in the power of the private equity business model, and so I understand the constraints within an endowment structure. You can't push it. You can't be an entirely private equity portfolio. But I'm generally of the opinion that more is better. At the time I joined Cornell, the target for private equity, which I'll just quickly define, the definition that we use, and I think is now industry norm when talking about it is to include venture capital, growth equity, and buyout. So, when I say private equity, I'm referring to those segments of the market. At the time that I joined, it was 15% of the endowment. When I left, it was 30%. We look at what all of our peers are doing for asset allocation, and everybody is within a point or two of targeting 30%.

Andrew O'Shea: Mm-hmm.

Roger Vincent: So that's pretty much industry standard. And I can tell you it's not going to go any higher than that. Within a constrained portfolio. 30% is really the upper limit of

what you can do without putting yourself at significant risk of having denominator effects and problems that are really going to destroy the type of return that you're seeking.

Andrew O'Shea: And can you talk about sourcing when you were at Cornell. What was your approach to sourcing? And we have a number of asset managers that listen to this podcast and are always thinking, how do I get in front of an Ivy League endowment?

Roger Vincent: Well, I can tell how you could have gotten in front of or can get in front of the Cornell endowment, and it's not that hard. I borrowed very heavily in how we did things from my experience as a GP. That was really how I was trained. It made logical sense and it's a very open-door philosophy. We don't and never wanted to be hard to reach. People are trying to bring you investment opportunities. Our whole reason for being is to evaluate and choose investment opportunities. So, restricting how many investment opportunities you're going to see seems like it's serving some other purpose other than trying to achieve your core goals. So, we had a very open policy. My email was easy to find on the internet. If you weren't smart enough to find my email, then that was a good test that you shouldn't have access to us. But then you're going to get a large number of managers reaching out to you, asking for your opinion on what they're doing. So, you have to think through how you're going to handle that. We took a very systematic approach to it. So, everything that came in through the top of the funnel. So, we used that same terminology that we used as GPs, which is have your top of your funnel, we would start to segment things into channels. And we wouldn't exclude channels. We even had... we had a channel which we called Over the Transom, which just means somebody found you. There was no connection there. They got your email address or your phone number, and they reached out and they said, would you take a look at what I'm doing? And that probably has the widest spread of quality in it. So, we would understand that that was a channel where we were going to get large volume and there were going to be hidden gems, but there was also going to be a lot of stuff that wasn't going to meet our criteria. And then there were other channels that might be smaller but have different characteristics to them. So maybe it was a referral from a highly trusted source, and that might be somebody in our immediate network. It might be an entrepreneur who really knows the venture capital ecosystem from that perspective. And we would use all of those channels. We found great investments out of each one of them. How much time we would spend on things and how we would try and winnow down what was coming into the top of the funnel was a little bit different, based on what we thought was coming into the top. And one of the things that can be very helpful, having been a GP, I mean, I think one of the things that really helped me distinguish Cornell as an asset... as a manager selector was having been a manager. And you see this trend all over the place. Many, many people in the venture industry these days are former entrepreneurs. It's really helpful to have sat in that seat. You can be more empathetic to these people, and that may cause some people to chuckle. But even private equity GPs need some empathy from time to time. Their job is actually not that easy. They get paid well for it if the results are

good, but it's not an easy job. They're competing against some of the smartest, hardworking, most motivated people in the world. And they're investing. And investing is inherently a probabilistic endeavor. You're going to get it wrong. It's humbling. And so being able to speak to them at their level helps in a number of dimensions. But one of the ways it helps is it allows you to winnow down your funnel very quickly because everything's not a bottoms-up analysis. You've seen it before. You can quickly identify things that can be problems and things that can be advantages. And that's really one of the most important things to be able to process effectively a large number of opportunities is to narrow it down quickly so you're spending your time in the right places. I think what a lot of allocators do, though, is they realize they have limited time. Maybe they don't have... or they haven't thought to apply that winnowing segment, and so they start with a small top of the funnel, and they don't have to do much winnowing to get down to a funnel... a number of transactions or opportunities that they can evaluate in depth. And so, they limit your ability to get to them. My view was you're limiting your opportunities that if you're doing that, we'd rather see almost everything out there, sift through it very quickly. People don't mind if you give them a quick no. And so oftentimes, we look at something and it's just not a good fit for us or we don't think it's a great opportunity for some other reason, we'll let them know if we can give them some honest feedback that'll help them. We're happy to do that. But we just move through things relatively quickly and we end up knowing a lot about what's going on out there, and that's been a huge advantage.

Robert Morier: We could do a whole episode on the value of a quick no.

Roger Vincent: Yeah.

Robert Morier: I know Andrew wishes—

Roger Vincent: Music to the ears.

Robert Morier: It really is for lots of people on both sides of the table. Thank you for all of that context and thank you for the historic perspective. It's very helpful as we move forward in the conversation, particularly toward the founding of Summation Capital, which was earlier this year. So, you focus on an endowment style private equity portfolio.

Roger Vincent: Yeah.

Robert Morier: I love a good founder's story, so I would love to hear, how did this come to be? What was the motivation behind founding Summation? I guess one way... the easiest way to ask it, is why.

Roger Vincent: Why? Well, when I took the plunge and switched from being a GP to an LP, I started this project of restructuring Cornell's private equity exposure. And it was really a very significant rebuild. The endowment had been in private equity for decades, but they hadn't gotten the results that they were looking for. And so, they tasked me with really coming in and setting an agenda, setting a strategy. And I loved it. I found that I had loved being a GP, but I loved being an LP even more. And I loved working for a mission-based organization. And I can't say enough great things about both Cornell as a university and the endowment office as a team. So, I wasn't looking to leave. And over the decade plus that I was there, I really came to hone and appreciate how an endowment style private equity portfolio works and why it's a very attractive way to invest. And I had a fairly collegial relationship with my peers at the other peer institutions. There's a fair amount of conversation that goes on amongst us. And I would say that everybody is pretty much executing a pretty similar playbook. There isn't a lot of disagreement about the best way to construct a portfolio trying to achieve the goals that an endowment is looking for. And if there are better ideas that come along, that cohort will quickly adopt them, and always be on the cutting edge of the best ways of doing this. And so, there's no disagreement on how to do it. And yet, if you look around at people that are allocating capital to private equity, very few people are actually... very few asset owners are actually doing that. And so, it begged the question of why this asset class, which is so important and so powerful, that that cohort of Ivy and Ivy-like endowments have made it the largest and by far the most important asset class in their portfolios? Why is that style of investing not being followed by other asset owners? And the answer is they can't. And so, I like to say it's almost never been easier to get into private equity because the access points are... with more managers out there and people trying to facilitate access, access has gotten easier, but it's probably never been harder to do it. Well, when I started in my career, I would say a decent estimate for the number of GPs in the world was 200 200 or 300. Today, I would say a good estimate starts with no less than 10,000. And so how you build a private equity portfolio is very different. And getting into one private equity fund or two or three private equity funds is a far cry from having the type of portfolios that we were building at Cornell and our peers are building. So, the motivation for starting Summation was to try and make this asset class, which I believe so strongly in, make it available to other people and not make it available on a one-off basis. But make it available at the quality and with the characteristics that the longest allocating asset owners with, I would say, the most sophisticated strategies make it available in the flavor that they are doing it at.

Andrew O'Shea: You mentioned other asset owners not having exposure in the same way. So, you touched on access. But there's another thing you identified really, this systematic approach of investing in private markets where you're not just taking vintage risk because you committed to one fund one year and then you wait another three or four years to find a different fund. Was that something as well when you thought about Summation, is the programmatic approach, not just the access, but always being investing in private markets?

Roger Vincent: Well, I would say the key characteristics of how an endowment style private equity exposure works is diversification. And now it's high-quality diversification but starting with diversification. And, of course, we're not trying to make these institutions, significantly wealthier than they are. We're trying to manage wealth that exists for multiple generations. And so that's what we're optimizing for. If you want to double, triple, quadruple your wealth, what you want to do is be ever more concentrated. But eventually, you'll find yourself taking that to the extreme and being an entrepreneur. And you'll put everything you have into a single company, and you'll hope it's a winner and not a loser. And hopefully, you can take either one. A diversified portfolio is trying to optimize for expected return, and so it's trying to get the highest expected return with the lowest volatility or range of outcomes out there. And you get that through diversification, you get that narrowing of the band of outcomes. And then how high of a return you get, that comes back to the quality with which you're doing it, your manager selection, your portfolio construction. So, diversification for us is thought about in a number of different dimensions. One of the very important ones is vintage diversification. That's a very difficult one for many asset owners to achieve. I'm very proud of how we did it at Cornell. We never suffered from a denominator effect over this last interest rate cycle. I think that distinguished us a little bit. And just to give you a sense for how well diversified we were, when we talk about the cash flow characteristics of the portfolio, we're looking at distributions, less calls. So, if I say we're cash flow positive, it means we are receiving more distributions than we are getting in calls. And our portfolio never went cash flow negative in '21, which was a cash flow positive year for everybody. Never went cash flow negative in '22. Never went cash flow negative in '23. Year to date '24, never went cash flow negative. So, the diversification and that vintage diversification really helps not just in returns, but in your cash flows. And we understood that IPO window shut and the amount of distributions you're going to get fluctuate over wide ranges over the time horizons we're talking about. But let me pause. That's one form of diversification. There are other forms of diversification as well, everything from what we call sub-asset classes, so venture, all the way up to buyout. There's geographic. There are many other dimensions as well. But one of the main ways that we think about that is how many manager relationships are you going to have? And if you look at data from colleges and universities, just to take one subset of asset owners, and you graph the number of manager relationships relative to the AUM, what you find is that there's a perfectly correlated relationship. The more AUM you have, the more diversification you have. And what's happening there is the organizations that have the resources are striving for ever greater amounts of diversification. And to the order of magnitude that the largest endowments are managing in the neighborhood plus or minus 75 general partner relationships. You go and look at other asset owners, very few people are even attempting to do something half that scale because they don't have the resources to do it. So, to achieve the types of results that these peer organizations are achieving, or we achieved at Cornell, which were particularly good, you have to be striving for that kind of diversification. And that's a

principle that comes right out of standard market theory. If you look at the progression of public market indices over history, what you find is they are getting increasingly larger. So, there was a point in time where 30 industrial companies was considered a good broad index, a.k.a. the Dow Jones Industrial average. And then the S&P came along and said, well, let's have 500. And now that's really been supplanted by at least in the endowment world by other larger indices that have many multiples number of underlying exposures to that. And a good example of why this can be important, the best performing stock in the US stock market in 2020 was not in the S&P 500, and, of course, that was Tesla. And so, you have these outlier returns that aren't going to be captured if you're not covering the whole market. And so, we're trying to increase our coverage of the high-quality segment of the market to capture as much of the asymmetric upside return that exists. And let me stop there, because I think we'll come back to some of the nuances in there.

Robert Morier: Thank you so much, Roger. Can you touch a little bit on the mechanics of diversification? What's so interesting for Andrew and I in this interview is that most of the allocators that we've been speaking to over the last two years have a relatively mature portfolio. So, they're adding or reducing at the margins. Maybe they're introducing a relatively new asset class. You had a white board, so you really got to start from the beginning. You built the car before it came out of the box in some ways. So, could you talk to us a little bit about how you approach diversification more from a procedural perspective? What were you thinking when you were building this?

Roger Vincent: Yeah, so the twin objectives of an endowment style private equity portfolio are high returns. It's the only asset class where we really think we can strive for significant alpha and also outperform in just private equity beta relative to the other asset classes. So, we're not doing this, we're not doing it at Summation, we didn't do it at Cornell to get mediocre returns. We really have to strive for the world's best returns. But we're also managing money for multiple generations for very important causes. And we don't have the luxury of saying, whoops, it didn't work out. We've got to aim for high expected returns. So that diversification, these are the twin objectives that we're after. And they can sometimes be in conflict with each other. When you're starting with a white sheet... and this is not the first time I've done this. When I joined Cornell, it really was a white sheet. We had barely allocated to private equity for three or four years when I joined because of a very significant denominator effect coming out of the GFC and team turnover, and I had to really start from scratch... you've got to try to achieve those two objectives right off the bat. And so how you think about diversification in your first couple of years will evolve over time. Once you have a mature portfolio, you have that diversification built, and now you're maybe refining it around the edges. So, an analogy I use is if the private equity ecosystem were thought of as a chessboard, and I said, look, you've got to get great returns, but you really have to get good diversification. And here is the market. A good way to cover it, if you could only invest in one GP, would be to get a GP that was so large and so broad in every dimension that they covered the whole

chessboard. But if I told you that you could have 64 manager relationships, you could put one in each chest spot, you'd have the exact same diversification. But I think we would all intuit that you would have better returns because you're going to have a specialist focusing on just sell A1 and a different specialist focusing on box B2. And so, we can only underwrite at a pace that we can underwrite well to, and that's one of our constraints. And so, when you're starting a new portfolio, how you think about the merits of diversification and return seeking shift over time. Another way of saying that is, first couple of years, you've got to shoot with a shotgun. When you have a mature portfolio, it's a little bit more rifle shooting. You know where your white spots are, and you can target them more effectively.

Robert Morier: How do you source those chess pieces? So, you're going out to the managers for the first time. We're going to talk about risk management as well, protecting the king, but as it relates to the managers and how you get access to those top managers when you're building something new.

Roger Vincent: Yeah, so I started talking before about the open-door policy. So, most managers want to talk to you. You don't have to work very hard to start that dialogue. You're providing something that they need to run their business. But there are some managers that have plenty of capital, and those are the resource constrained, the capacity constrained ones. So, my view is you could build a world class private equity portfolio without ever having to have unique access. But if it's a tool you have in your tool set, why not use it? It's a great tool to have. And so, we had some pretty good access at Cornell. It wasn't perfect. I can tell you when I joined, they had a closed-door policy that had turned people off from working with them for a very long time. So, we had to rebuild our reputation as allocators to make us a compelling LP. And there's no LP out there that gets access to every GP that they want. So, 100% access doesn't exist. But you can do a number of things to make yourself more attractive as an LP. And it's not just one or two things. There's probably a dozen things that you can do. I mentioned one of them before. If you've been in the GP seat and you can speak to them about the challenges that they have, if you can take the conversation two or three levels deeper, that can make you more attractive. And so, we can lean into that as at Summation. And there's actually a dearth of high-quality LPs in the world. And this will resonate well with a lot of the GPs that may listen to this, but returning phone calls, returning emails was something I was taught very early in my career as just the right way to do things. If you're a GP out there and you find that it's hard to get your emails returned from an allocator, it should give you a sense for the fact that there probably aren't as many high-quality allocators out there as there need to be. And the endowments aren't filling that role at the level that they used to fill it at when they were going from 15% when I joined, but a 5- or lower-percent allocation a couple of decades ago in private equity, on that journey up to 30, the expansion of the asset class allowed them to grow somewhat in line with the industry. Now that the large endowments are all at that 25 to 30 plus or minus target allocation,

there's really no growth left in there. So, GPs are finding that, yes, it's great if I can go get a brand name IV institution in my LP base, but it's one in one out for most of these organizations. I think GPs should reevaluate how much of their time they want to spend on that once they understand those constraints. And as they do, they're increasingly looking for other sources of capital. And as they journey further out from the people that have been doing this for a long time, I think they are finding that the quality of the LP and the quality of that interaction becomes much more variable. So not to say that there aren't other high-quality allocators out there, but if you look at them as a cohort, those good ones are the outliers within their cohort. They're not the average. And so, we think we can have as good access as I've ever had in my career because there is this desire to have more institutional quality, professional, good communicating LPs out there. And that's been our experience so far. Across the board, GPs have been excited to have Summation in the market as a new source of capital. They like our approach, they like our long-term thinking. They like some other things that I think we can bring to the table as well.

Andrew O'Shea: You've sourced and diligenced tons of managers through the years. I'd be curious. A lot of managers are very good when it comes down to it. So, what specific criteria gets you the conviction to move forward with one manager versus another. I imagine at that point it becomes a little more qualitative.

Roger Vincent: Yeah, well, I would start off by saying that we meet with lots of great managers that we think will have terrific funds, but there's not a spot for them in our portfolio. So, at least 50% of the decision is portfolio construction. And so oftentimes, we'll say they're a great manager, but they overlap with something we already have. We already have somebody in the A1 square going back to that chessboard. And what we really need is somebody who we think is as good, but filling something that's different that will help us diversify. And so, if you're fundraising, just realize that it's not an opinion about whether you are... it's not solely an opinion about whether you're a good GP or not a good GP. You've got to fit into a portfolio construction. And particularly for institutions like... that are doing endowment style investing, that portfolio construction is given a more important role than other allocators who might be just entirely bottoms up. So, my advice to somebody who is fundraising is, be prepared to talk to a lot of people. Be good because you've got to convince them all that you're good, but then realize that you're not going to be a good portfolio fit for many of them. And so, it's a numbers game, and that's advice that most people should already know. On the manager selection side, how did we get down to that group of funds that we thought were all good enough to be in our portfolio that we could now start doing our portfolio construction work? Well, we started with the wide funnel, the good winnowing. But then the real manager underwrite is what I think your question is driving at. Sometimes people ask me, well, is it a quantitative analysis? Is it a qualitative analysis? If it's quantitative, is it IRR? Is it multiple? And my answer is always, can't we do all? And so, we're looking at these things holistically. But to

put some numbers on it, it's probably 25% quantitative and 75% qualitative. Or said differently, it's not that the quantitative isn't a really important component here, but once you cross that hurdle, it comes down to the qualitative. On the quantitative side, we probably employ some tools that are beyond what the average allocator is doing. And so, there's some more sophisticated analyses that can be employed. If you're thinking of allocating a private equity, you should try to bring those tools to bear, either internally or help source them externally. And there's new ones that are always coming up all the time. So maybe we'll get back to this lifelong learning comment I made earlier, but every year or so, there's a new way of analyzing private equity that is coming out. And we're always evaluating those to see, OK, is this a new tool that we want to add to our tool set? And there have been some really important ones that have come out in the last decade or two that we incorporated into our underwriting process at Cornell. But then the qualitative side is ultimately where the rubber meets the road, and that's where having been a GP I thought was just a huge advantage because you're trying to see inside these organizations that may or may not want to be totally open kimono with you. If the partners are at odds with each other, that's certainly not something that they're going to readily tell you. And so, you have to have an ability to go in and try and figure out whether everybody's rowing in the same direction or it's a bunch of individuals who would like to present themselves as a team, but they're really kind of sometimes working at odds with each other as much as possible. And that's the harder thing to tell somebody how to evaluate that. I think repetition helps. At Cornell, while I was there, I led the underwrite of over 170 funds. So having a lot of at bats can really be helpful. And then having feedback on how they did, how those decisions worked out is essential. And one of the challenges of private equity is a very long feedback loop. And so, one of the mistakes I've seen asset allocators make over and over again... and candidly, I think there's some of this existed at Cornell when I joined... was they weren't good at selecting managers or their process wasn't good at selecting managers. And more often, it's that because at a place high quality institution like that, you've got a lot of smart, knowledgeable, connected people around the table. But sometimes a committee is not the best decision-making body for selecting a manager. And in the case of Cornell, historically, I think that was one of the things that was going on there. But it takes five, six, seven years to find out whether your manager selection was good. You may be familiar with some of the research about how many quartiles of fund will travel through before it will ultimately end up in its final quartile. So, you want to get a first quartile fund, but it's going to be second, third, maybe even fourth quartile at some point along that journey. And it takes four, five, six years before things are starting to settle. And now when you're talking about a portfolio where it's not one manager, but you want to know if the program is working and it's happening over multiple vintages, it may be six, seven, eight years before you really start to have solid data that says, yes, this is working. Well, the problem with private equity is if it's not working, you're dead. You've just put a ton of money into a highly illiquid asset class that's going to weigh on you for a decade plus. And the bad funds hang around forever. And they really frustrate the fiduciary of that money because they look at that line item for year after year or decade

after decade. So, getting into private equity and doing it badly is arguably a much worse outcome than never getting into it at all. And that goes back to that comment. I said, it's never been easier to get in, but that's not necessarily a good thing. Private equity done poorly is nobody's idea of a good investment. And so, getting into private equity well is really what people should be looking for. I think the endowment style of doing it is the answer to that. There wouldn't be so many high-quality organizations all doing it the exact same way if it didn't have a lot of merit to it. So, people should really think deeply about what that model looks like and how they can replicate it.

Robert Morier: One of the areas that the quantitative attributes of a process can break down or maybe not be as effective is with emerging managers, so newer managers who are new to market. The data is just not there. So how do you approach emerging managers, those managers who are themselves earlier stage?

Roger Vincent: Yeah. Well, let me start by whether we did it or didn't do it, and the answer is we did it. We actually thought great opportunities within the emerging managers. I think, a reasonable definition of an emerging manager is somebody raising a fund one, two or three. But then I also like to look at, OK, well, what about just that very first fund, the fund one? And so, of the managers that we built relationships with over my time at Cornell, about 40% of them fit that definition of an emerging manager. So, 40%, I think, is a pretty meaningful number to show you that we thought it was attractive. And there was probably a little North of 10% that were pure fun ones. So, there was little to nothing to look at. Rarely would we spend a lot of time on somebody that had no investing experience. So, we really are looking for people with some demonstration of being good investors. It just doesn't have to be wrapped up into a fund structure under the same banner that they're currently raising money at. So if you're trying to raise money and you've never invested before, I think you've got a whole larger group of problems. And the allocators that will consider you is probably a very small subset, and that would not really have included a lot of our focus at Cornell and probably not at Summation either. So, narrowing it down to people that are just getting started, they either have some investment experience at a prior firm and/or at their existing firm, but things aren't mature enough. Hey, maybe they're even on fund two, but fund one is sitting at a little above cost because a lot of the portfolio was just invested in, hasn't had time to mature. That's where my experience as a GP really could come to the fore. If you can underwrite out of what I call the windshield and not just the rear-view mirror, you have an opportunity to look at opportunities. You can look at the opportunity set that includes people that have more of a vision of what's coming and less visibility on what's behind them. And that's far more important, just like in a car analogy, you care much more about what's on the road ahead. We are committing money for the expected future return where we never make a dime if they have a 5x fund in the rear-view mirror. And so, we're fundraising... we are underwriting expected future returns. You can do that if you have that skill set by looking at not fully mature, but existing investments or investments that

people have done historically by understanding the thought processes by which they made that investment. And if you have a deep enough history of underwriting at a deep level, you can understand whether that process is repeatable, whether the process should lead to good, expected returns. As a corollary, you can also underwrite people who have had a lot more investment experience, a track record, but have some blemishes in it. And that's really important. I think it's not a great way to build a portfolio by only investing in funds with unblemished historical track records. More often than not, they're going to learn a mistake... they're going to learn a lesson at some point, and now it's going to be on your dime. You really are better off having them had some scar tissue, had some mistakes, and underwriting the fact that they've learned the right lessons from them. If you have fund after fund after fund is high performing, you're starting to build up another risk, a latent risk here, which was... is hubris. And I think we can all agree that an investing, hubris is a really dangerous characteristic to have. So again, going back and being able to underwrite in a differentiated way at the deal level, at the investment level, as opposed to at the fund level, can be a great resource to an allocator.

Robert Morier: I was going to title this episode "Underwriting from the Windshield," but I think I'll let you save it for your book because I think that is a wonderful title and a really interesting way to be thinking about sourcing and underwriting managers, particularly emerging managers, which is also a large segment of this audience. So, thank you for sharing all that.

Roger Vincent: Yeah.

Robert Morier: Usually at this point in the conversation we like to take a step back, so we're thinking more philosophically about your focus specifically on global private equity. So how do you assess risks across different regions and sectors? You had talked about generalists versus specialists, but when you think about the economic climate today and you're building something relatively new, how are you assessing those risks across these different opportunity sets?

Roger Vincent: I think we start with the philosophy that the world is always uncertain and probably in those times where it feels like it's steady and not uncertain, you're building up the most risk, so it's probably the most uncertain right then. When was the risk of a pandemic the highest? Not today, but right before COVID hit. We just weren't thinking about it. So, one of the... I think, core philosophies that an endowment style approach takes is to acknowledge the fact that the future is unpredictable and to try and protect not by outthinking the future, which is incredibly difficult, but by having good diversification. I would say to people, if you thought there was going to be a recession in the last two years, if you thought... if you went around and said, we've got to prepare for a recession, you should think candidly about how often you have been right and how often have you been wrong about some of these big things. And we try and be very self-aware

and introspective. And I would say I've gotten lots of big things wrong over what I thought was going to happen in the future. And the protection against that is to be well diversified and to think about diversification in much more... in a much more sophisticated way than geographic and sector. There's a lot of other things you can envision could happen that could hurt your portfolio. And you want to be diversified against. So, we're not trying to be geopolitical experts, but we're trying to be geopolitically smart. And if the risk profile of an area has increased, we can underweight that over time or we can overweight better opportunity sets. But we're going to maintain diversification as our core protection against uncertainty going into the future.

Robert Morier: Summation aims to address the issue of unfunded capital calls.

Roger Vincent: Yeah.

Robert Morier: So, can you explain how that approach differs from traditional private equity structures?

Roger Vincent: Well, I think I would start by saying, if you are thinking about being an investor or soliciting investors in private equity, a starting point is just making sure that you're thinking about this issue. When a GP raises capital, they get a free capital call on the entire commitment over a period of years. And anybody who studied any finance theory understands that calls have value. So, the GP is getting something of value and the LP is giving up something of value. And so, when an asset allocator or an asset owner commits to private equity, one of the things they should be thinking about is, what is my holistic return here? I'm getting the advertised return net of fees that the GP is providing, or the portfolio of GPs is providing. But there was an additional cost that I bore, and that really needs to be accounted for. I wrote them a call, and that call wasn't accounted for in that return. That's one way of thinking about it. The other way of thinking about it is a private equity portfolio can't exist by itself. It has to be paired with some other liquid asset because you have to have a funding source for your capital calls. And so, I realized early on in my time at Cornell that however we did in our private equity performance wasn't a full accounting of things. We had to acknowledge the fact that we had liquid assets elsewhere in the portfolio, without which, we couldn't have produced the private equity return. So, the starting point is to understand that your real private equity return is a blend of what your funds do and what you were able to achieve with your other assets that supported those funds and what proportion of those two things you had. Not enough people think and talk about this, and I don't think there's a very good well-accepted industry framework for doing this. We had to research ways of thinking about this when I initially started confronting this problem and develop our own framework. But before I tell you how we solve it, let me just set up the problem a little bit. Expected returns for liquid equities are generally agreed to be about 7% over a very long-time horizon. And the illiquidity premium for private equity is generally accepted to be about 300 basis points

today. And a lot of people will take issue over that. But let's just leave that for a second. So, you have an expected return in private equity of 10%, and you're hoping to get manager selection alpha on top of that. But the industry as a whole can't achieve any manager selection alpha. So, if you really start at a top down, you're going to say, OK, fine, I'm going to get a 10% expected return here, plus positive or negative alpha from manager selection, and that's a portion of my portfolio. I'm also going to have liquid assets that I'm going to use to fund those capital calls. Now, one possible approach to that is you're going to hold cash, and that's great. You've got this fixed liability that you owe somebody. It's nice to match a fixed liability with a fixed asset, but the expected return on cash over a cycle is probably going to be about 2.5% So you're blending two asset pools, one with an expected return of 10, one with an expected return of 2 and 1/2. And depending on the proportion that you have there, let's just for simplify the math... you said 50/50... you're going to get to a blended return that's now below your liquid equity return. And again, I come back to this comment I made before, your access to private equity has never been easier. But whether it's worth having that access is a very different question. If you have a higher expected return just being in liquid equities versus what I just proposed, you should just stay in liquid equities. So, there are other ways to think about it. You can blend it not with an asset that has as low a return as immediate cash. You could ladder, your cash out, take some duration risk, you could take credit risk, or you could do what we were doing and what we're doing at Summation and thinking about a like-for-like framework. So, if you are going to invest money into private equity, a.k.a. equity, because somebody has called capital to fund a deal, then a like-for-like philosophy suggests that you should pull it out of other equities. And if you don't do that, one of the implications is that you are now going to be changing your asset allocation, and maybe for one deal that doesn't matter. But if you're running a large portfolio with large quantities of capital costs that are always happening, you're always going to be getting pulled off your asset allocation. And for most asset owners, the starting point for how they think about investing is that asset allocation. So many people probably are already thinking about it this way, and many of the institutions, I think, are already doing like for like. So now that you are... if you accept that framework, you're now securitizing your unfunded liabilities with liquid equities. And now you have a problem, which is that you've got a fixed liability and you've got a variable asset and you have to start having philosophies on how to do that. And it ends up becoming really important. And so, this is something that most people don't think about until they've been in private equity for a really long time. And God forbid, you've been allocating for a while before you think about this. You can paint yourself into a pretty bad corner. But let me say this, we spend a lot of time as an industry talking about manager selection and how important it is, but I would argue it may not be any more important than thinking through this issue. So, imagine you had a portfolio that was nothing but equities, you just had an equity portfolio. And you could decide how much was in private equity and how much was in liquid equity, but the liquid was just going to be passive. You weren't... you weren't going to try and outperform by timing the public markets or beating public markets. And in private equity, you were going to try and

manage or select your way above average. Well, if you had 10% of your portfolio in private equity and 90% in public equity and you check back in on things in 20 years, which is the kind of horizons that multigenerational investors should be thinking over, did your manager selection matter? I would say not really. It was only 10% of your portfolio. It probably didn't really make that big a difference at the end of the day. Flip the equation, let's say you had 90% of your assets in private equity and 10% in liquid equities, did manager selection matter? And the answer again is no, it didn't matter at all. You defaulted on all your capital commitments the next year and your entire position got wiped out because there's such a punitive penalty for defaulting on capital calls. So, understanding how to manage the assets that aren't in your private equity portfolio, what they're invested in, what quantum of them have, how you adjust that ratio over time as markets move ends up becoming an incredibly important part of being an allocator. And so, one of the things I thought when I was starting Summation is, OK, I've got more than a decade of managing through this problem, developing this framework, and doing it well, optimizing performance by managing that effectively. What if we offered to do that for our clients if they didn't want to do it themselves? Now, some of them did want to do it themselves, but others did not. My view was a dedicated set of professionals who were looking at it and managing it every day would do a better job than dozens of individual asset owners who were maybe checking in on their portfolio periodically. And then if that group of professionals also had a demonstrated history of having done this very effectively in the past, wouldn't that be better? And the answer is yes, if you don't have to pay too much for that. And so, our answer was well, if you don't have to pay anything for it, it would seem to be significantly better. And so, what I wanted to do was try and take as much of the burden off of the asset owner as possible and say, look, this is probably not what you want to do for a living. It is what I want to do for a living. I enjoy doing it. I've got a team that loves doing it as much as I do, and we're doing it every single day. And most nights we're thinking about nothing but this as we go to sleep. Wouldn't you like us to do this? And wouldn't that be a more comprehensive solution to say, hey, look, it's not just manager selection and manager access. There are a lot of much deeper and arguably as important issues that an allocator to private equity needs to confront. If you don't want to confront them yourself. Here is a way that you can have them done in a very high quality and professional manner, and we'll get into this later, but in a very low cost and well aligned manner.

Robert Morier: That's very helpful. Thank you for those insights. Speaking of costs, I've read you stress the importance of co-investment opportunities and lowering fees. Can you explain your approach to co-investments and their role in the portfolio today?

Roger Vincent: Well, let me start by stressing that the reason is the importance of fees. And so, what we care about as asset owners, as investors is not gross returns, but net returns. And so, we're very focused on the fees that we're being... that we're paying. And that does not mean that we're afraid to pay high fees. 2 and 20 are high fees. And there's

some misalignment in there, which is a whole other topic. But we're very focused on getting good value for what we pay and trying to improve the net return as much as possible. One of the ways that is pretty common in the industry these days is, try to reduce that fee burden by doing some co-investing. And there's probably two ends of a broad spectrum that people take in their approach. One is more opportunistic. They think they will select the best co-investment opportunities, lean into them and their knowledge and views about where the world is going will help get them outperformance there. We've talked a little bit about my perception of the limits of anybody to predict the future that well, I also feel having been a GP, where I was used to knowing companies for 9 months, a year, two years, three years before we would invest. The level of knowledge that I would have before making a direct investment as a GP relative to what opportunistic co-investors are doing, where they might see an investment memo, do a phone call or two, think about it, run at it hard for a weekend, you start to appreciate how little you know. And knowing that the tip of the iceberg incredibly well, which is what you can quickly in a week as a co-investor, actually exposes you to a lot of danger. The other end of the spectrum is systematic. And here you're not trying to outthink the underlying GPs. You're just saying that the fee saving of being able to co-invest at no fee and no carry will average down my fee load, and the deals are all being done by people that I've already written as a GP in general. And a large portion of the market has adopted this philosophy. For many years, people were held back. Some people were held back by concerns that there was adverse selection, that GPs were going to show you their worst deals. That didn't really stand up to the smell test from somebody who had been in the industry for a while. GPs don't go into deals thinking, I'm going to do a good deal this quarter, and next year, next quarter I'm going to do my bad deal. And then I'm going to syndicate it to my LPs. Every deal at the time it gets through investment committee is considered to be a good deal. And it's only later that you find out that some were good, and some were bad. So, GPs aren't biting the hand that feeds them and, of course, they wouldn't. That makes no sense. So, we have the logic that there's not going to be adverse selection here writ large. We now also have enough data to say, yeah, and the data shows that there's no adverse selection. So, there's been some pretty good studies on the performance of co-investments. And what they find is, on average, co-investments outperform funds by the amount of the fee savings. So exactly what you would expect. There's no adverse selection there. But you did save a lot of money on fees. To capitalize on this, though really need a deal engine. You need people that are showing you that fee free-carry, free co-invest. And so, what the larger investors and the more sophisticated investors in the market are able to do is build that co-investment deal engine and then do enough at a diversified enough level that they're capturing that fee savings and averaging down their fees. This is something that we'll employ at Summation to keep our fee level as low as possible. And it's a way for the industry to price discriminate and give the more sophisticated investors a free fee break without ever coming off the headline fee. And, of course, if you go back to economics theory of the firm, that's an optimal way to maximize

revenue, is to get your highest paying customers still paying list price and only cut the price for some small subset that you have to.

Andrew O'Shea: You've clearly put a ton of thought into operations and structure and diversification. Is there anything else you would want to highlight that's different about Summation than, say, a traditional fund of funds?

Roger Vincent: Well, when I look at a fund of funds, I see a model that's been around for four or five decades. And there's been some evolution, but not a lot of evolution. And when I compare a fund of funds to what a private equity team within an endowment does, they're very different. And so, they have some similarities in that both vehicles are allocating predominantly to primary commitments to other GPs, and so they are investing in funds. But what's happening within an endowment is more holistic, and that's what we're trying to offer, it's portfolio construction, which is across that entire chessboard. Most fund of funds are going to specialize in one segment of the chessboard, and then it's going to be up to you to figure out what you're doing with those other segments. That's an important part of it. It's manager selection. I think that's where the commonality sits. And anybody who makes it their profession to study private equity underwriting and get good at it, I think can be reasonably good at it. It helps if the DNA within that firm has that experience that was so valuable to me in a number of ways and that I've talked about before. But then there are other things that go into what an endowment style exposure is. It's that vintage diversification, and not across two or three years, but across a very long-time horizon, if not an infinite time horizon. And so, one of the things that we bring to the table, and it's a little bit complicated to go into, but is to help people get that vintage diversification and to simplify that process. A lot of asset owners can't do what the endowments are doing, or at least, many of them are trying to do, some successfully, some not successfully, and that is commit a very consistent amount year in and year out. And so, we developed a solution for people where they could get the benefits of that vintage diversification but have the optionality of committing money to vintages that they wanted to commit money to or only do it once and never again. And so, we built the vintage diversification into the structure of the fund. And then, finally, managing unfunded liabilities. Most other solutions in the market, I dare say, almost no other solution in the market can provide a comprehensive solution there. I talked before at length about how important that is. So, what I was aiming to do with Summation and why I thought it was important that this type of vehicle be in the market, it's not that everybody has to use it, but I felt it was important that people had an option to have this level of high quality, low cost, well aligned, outsourced. We're trying to turn it into a vehicle where you could show up and say, I'm an asset owner. I want exposure to private equity. I have that type of risk tolerance. I have that type of long-term horizon, but I don't want to do any of the work. I want somebody else to do all the work. We are the solution that does that, that says, hey, we will do everything soup to nuts. We'll do it in a very high-quality way. We'll only be compensated if we have been successful in achieving

something of great value to you. And now I feel you have a full solution that hasn't previously existed.

Robert Morier: I think this will become a master class for my Drexel students in private equity, asset allocation, and manager research. It was really insightful. Thank you very much for all of your answers. We always like to finish the conversation with a question about the mentors, the people who have helped you along the way when you think about your own career. We welcome to hear of those insights as well.

Roger Vincent: Well, that's great. Well, I'd love to give a shout out to my college economics professor. I had a wonderful corporate finance professor who was very influential, and I stay in touch with him, and I reached out recently. I've written an essay about why private equity is sort of, I said, eating the world, paraphrasing Mark Andreessen, who came up with that term for software. And he said he was going to share it with his high-level econ class. It's still a class I remember taking well. And so, a lot of fun for me to be able to continue that conversation, have the things I'm doing be relevant to students today. In my age, when I was doing it, one of the things that he introduced me to was this great body of academic literature that was out there in the world. And I think, at 19 years old, I just had no idea that people were out there studying things that I was interested in. You could go and read what they had done and work your way through it. And it takes a little bit of training to get good at that. But that's where I developed my appreciation and comfort with interacting with the academic community. And there's a wonderful academic community that focuses on private equity, and we owe a great deal of gratitude to them for my success at Cornell, for what I'm doing at Summation. We really have borrowed a lot from there and benefited a lot. So how we think about benchmarking, how we think about the right way to compensate an allocator, how you measure alpha against public markets and align yourself as an organization to be focused on generating alpha and pay for generating alpha. These are all things we took out of the academic world. And it all goes back to a college professor of mine who was very influential.

Robert Morier: That's wonderful to hear. Thank you for sharing that.

Roger Vincent: Yeah.

Robert Morier: Well, we greatly appreciate your time here in Philadelphia, coming to the studio, sitting with us at the desk, sharing your insights on private equity and your experiences. It was really a pleasure for both of us to hear your story. So, thank you so much.

Roger Vincent: Robert, thank you. Andrew, thank you.

Andrew O'Shea: Yup, it was great.

Robert Morier: If you want to learn more about Roger and Summation Capital, please visit their website at www.summationcapital.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 follow, and share these episodes. We welcome your feedback as well. Roger, thank you for joining us. Andrew, thank you, as always. And to our audience, thank you for investing your time with Dakota.