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EPISODE 124:

Reentering with Rigor: Sean Poe on Manager Selection at Key Private Bank

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, 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 very pleased to introduce our audience to Jamie Biddle, founding partner and CEO of Verdis Investment Management, a single-family office managing capital for generations 7, 8, 9, and 10 for a branch of the DuPont family investing globally from their offices outside of Philadelphia. Jamie, welcome to the show.

Jamie Biddle: Thank you. It's great to be here.

Robert Morier: It's great to have you. Before we get started, I'm going to read your background for our audience, but I also want to say hi to my partner on the desk, Andrew O'Shea from Dakota. Andrew, welcome back.

Andrew O'Shea: Thank you. Great to be here, and excited to hear from Jamie.

Robert Morier: Yeah, we're looking forward to it. Jamie Biddle is the founding partner and CEO of Verdis Investment Management. He sets the strategic direction of the family office and overseas investment activities, operations, and finance. Jamie is also behind portfolio construction, managing sourcing and selection, due diligence and risk management, as well as an active member of the investment committee. Jamie brings more than two decades of investing and operating experience across asset classes and industries. Prior to forming Verdis Investment Management in 2004, Jamie was president and CEO of Orcom

Solutions. Orcom was an outsourced customer care and billing service for electric, gas, and water utilities across North America. The company was originally purchased by a group of private equity firms, including the Blackstone Group and Thomas H. Lee partners, led by Jamie, and was sold to alliance data systems in December of 2003. Jamie began his career as a VC at EnerTech Capital Partners, funding technologies in energy and power. He earned his MBA from the Wharton School of the University of Pennsylvania, and a bachelor's degree from the University of Pennsylvania.
Finally, Jamie is the president of the Andalusia Foundation and Vice Chair of the board of the Pennsylvania Academy of the Fine Arts and chair of its museum committee. Jamie, congratulations on all your success. Thank you again for being here. We're very much looking forward to the conversation.

Jamie Biddle: Terrific, yeah. Glad to be here.

Robert Morier: Well, we usually start with the beginning. If I were to do that, I would have to go back to the 17th century, with your family. They've been here for a very long time. Full disclosure, I was a history major at the University of Vermont, so I had a lot of fun researching your family, as well as the DuPont family. So, thank you for that walk down memory lane. But when you think about legacy and your family's history and the DuPont family's history, both personally and professionally, how does that shape your work today, at Verdis, in this family office environment?

Jamie Biddle: The Biddle's came to America in 1681. They were Quakers fleeing religious persecution in the UK, came to America to start a new life, settled in New Jersey originally, then came to Philadelphia, and bought what's now our family home called Andalusia, which is about 13 miles north of Philadelphia, in 1794. So, I'm a little odd that I actually Live in the same house that my family has lived in for over 230 years. So, when you put that into perspective, I'm living in the same house that my great great great grandfather built. So that history surrounds you all the time and makes you very cognizant of time itself. And how does that all tie back to running a family office? My partner, Steve Kim, likes to remind us of all the time of the formula for compounding capital, which is 1 plus R raised to the T. R is the rate of return, and as investment professionals, we spend most of our time thinking about R and how to drive higher risk-adjusted R. But, really, time, which is the T here, is the exponent. It's the most important component of driving compounding. So, when you're thinking about a family office that's multi-generation. It's really time that gives you the most bang for your buck. The DuPont family, they came to the US in 1800. They fled from France, arrived in Wilmington, Delaware, and started a gunpowder manufacturing business, and grew that over the next 150 years to be at one point the largest market cap company in the world. So, they also have a tremendous legacy of history and time. And I think that's something that we take into what we do here in the office every day.

Robert Morier: Thank you for sharing that. Well, speaking of time, can you walk us through your early time in your career? So, you think about that journey out of the University of Pennsylvania. What initially drew you to finance, and specifically venture capital?

Jamie Biddle: So, when I graduated from Wharton, I was very fortunate to get introduced to a wonderful guy named Don Caldwell. Don was then president of Safeguard Scientifics. Safeguard was a venture capital firm, but it was publicly traded and was one of the leading VCs in the '80s and '90s.

And Safeguard had also spawned a number of traditional LP-GP VC funds. And all of those funds and Safeguard were all located on a corporate campus outside of Philadelphia. And so, I arrived right out of grad school at the age of 30, in 1997, right as the whole internet dot-com frenzy was lifting off. And it's an extraordinary time to be there, surrounded by all these incredible venture capitalists investing in these amazing companies, all these entrepreneurs, and to be at the ground floor of all of that. It was an exciting time. It was a dynamic time. I learned a ton. But by 1999, things had really gotten a little crazy. The market euphoria had taken off. And remember, I was a Wharton-trained, deep cash flow kind of guy. Looking at the valuations that were applied to these businesses and how the people were thinking about valuing businesses no longer in terms of multiple of cash flow or even revenue, but now we were talking eyeballs and clicks and even multiples of burn rate, which was my favorite, the idea that if you weren't spending enough money weren't working hard enough to capture enough market share. So, we applied a multiple to burn rate. That all seemed like a little crazy to me, at the time. So, I did a deal with a group of investors, including Blackstone and the Thomas H. Lee partners, and we bought a software company that was owned by a Midwestern utility, and we also bought a data center and a call center that went with it. And the vision was to create a software-as-a-service model for customer care and billing capabilities for the energy utility industry. That seems very obvious today, but around 2000, software as a service didn't really exist as a model. It was still you bought software licenses. And so, we were going to move to a subscription model and move it all to what we now call the cloud. So, after we bought all these assets, it didn't have a CEO. So, the investor group turned to me and said, hey, because this was your idea, why don't you go run this thing? I was 36. I had never run anything in my life. I thought, wow, this is a pretty exciting opportunity. And so, I left and went to Orcom. And having gone from running nothing to suddenly having 600 employees was a real change. And I was very fortunate to meet two people, Steve Kim and Jennifer Garrison, who I recruited into Orcom as part of the senior management team, who are still my partners today, 25 years later. So, it was a great journey. We ultimately sold it to Alliance Data Systems in late 2003. So, it was great. It was a wonderful journey.

Robert Morier: It's wonderful. Thank you for sharing that. I'm curious, are you a glutton for punishment, or do you decide to do something all over again, you sell the business when you start a new business? You start Verdis Investment Management. So, when you think about having to put on that entrepreneurial hat again and start this family office from the ground up, what inspired you to take that leap for the second time?

Jamie Biddle: It was really a timing thing. So, my mother is a member of the DuPont family, and my grandfather was CEO of the business. And when he passed, my mom took his board seat. And she's a member of generation seven of the DuPont's. And so just about the time we sold the company, my mom was about ready to turn 70 and would be required to step off the board of DuPont at that time.
And so, she thought it was a good idea that generation seven should pass responsibility for the family office to generation eight. And so, I was asked whether I would be willing to do that. And I had just sold my company. I had a one-year non-compete, so I was on the sidelines for a year. I had made some money myself in the transaction, and so it was a good time to start thinking about investing. I'd been a venture capitalist my whole life. I'd never really thought much about investing proceeds. So, I decided I would do it. I thought I would do it for a year, and 20 years later here, I'm still sitting in the chair, doing the same job.

Robert Morier: At Drexel, we talk a lot about mindset, especially in venture capital. Did you find that you had to change your mindset, going from a VC-type of approach in terms of investing, trying to scale up a business over time for a potential exit, relative to the family office model that you've designed?

Jamie Biddle: Yeah, in, I mean, a number of ways. I mean, when you're running a company or when you're a venture capitalist, you're very focused on the micro. You're in one business, and that business is everything you think about from the moment you wake up to the moment you go to bed. If you're running a venture portfolio, maybe you have a dozen or two dozen or three dozen companies, but you're super concentrated. So, your thoughts are very focused on those individual businesses. Today, what I do is I sit at 100,000 feet. We own interests in thousands and thousands of things. I don't even all of the things that we own pieces of because we invest primarily through managers, and those managers are investing in various assets, whether they're public or private. So, we keep a record of all of those, but literally, it's thousands of things. So, I don't worry about individual details in that way, in terms of specific assets or even timing. Our perspective is very, very high-level.

Robert Morier: So how do you think about strategic direction then? So, the granularity, obviously, it means that there's a lot more to oversee. There's still a strategy, a direction, a compass that you have to follow. So how do you balance the strategic direction with the day-to-day management of the investments?

Jamie Biddle: Whether you're running a company, I think, or whether you're investing a portfolio, I think it all starts with setting that strategic direction, so having a vision for where you're trying to go and making sure that vision is really clear, and then setting out a very clear path of objectives and making sure your organization is aligned on how you're going to achieve them. That sounds simple, but it's hard to get the right people in the firm, whether it's a big or small, and then get everybody in line with the same vision and rowing in the same direction. That's really critical. Once you get past that, now you're getting into the tactical execution. And I'm blessed here to have a terrific team of people who are expert in all the things that I'm not expert in. And that was something I learned running Orcom, was quickly discover what you're not good at and surround yourself with people who are really good at the things that you're not good at.

Robert Morier: Speaking of the team and the evolution of the team, when you think back to 2004 and putting the pieces together to ensure the success and the continuity of the family legacy assets, how did that team build out come together? What were those strategic pieces that you felt that were most important to the long-term success of the office?

Jamie Biddle: So, when I started the office, I had no experience as an asset manager, certainly not as an asset allocator. So, the first thing I did in that first year was I went around, and I met with the CIOs of most of the large university endowments. At the time, when you picked up the paper, the Wall Street Journal, everything you read was about David Swensen at Yale or Jack Meyer, then at Harvard. And I thought, boy, these guys are really smart. They know what they're doing, and I don't know what I'm doing, so let me start there and let me figure out what I can learn from them. And I was really fortunate to meet Narv Narvekar, who now runs Harvard's endowment; and Larry Kochard, who was at Georgetown University at the time; Jason Klein, who runs Sloan Kettering's endowment. They were really helpful in getting me to think about how to set up a family office in an endowment style. So, we decided that we would follow the endowment model, which is, meaning broadly, allocated across asset classes on a global basis and implemented using managers. I'll use that as a simple explanation of the endowment model. But that's how we began. And then to implement that, I went and recruited people from outside the endowment community. So, I brought in our original investment team from Brown University and Vanderbilt University. My current CFO has been with me since the beginning, Kevin Gaffey. I brought Kevin in from Princeton's endowment, and he had been at Princeton for a long time, and then before that, at Blackstone. And then I asked Steve Kim and Jennifer Garrison to join me. Steve was our chief technology officer at Orcom. So, it was a software company. Steve was responsible for systems architecture, overseeing all the coding. And so, Steve was originally brought on, in my thinking, to help me build out systems when we managed the office and to think about compliance. But very quickly, Steve became a really integral part of the investment team and now as our chief investment strategist.

And as I mentioned, my background, I'm a Wharton-trained investor. Steve is a data scientist, and he taught me a lot over the years about using data science and data analytics in what we do. So, Steve became a really important component of our team here and how we think about investing. And then people is a big part of running a family office. We are responsible for a family, and we also have a lot of employees here. And Jennifer is our COO, and her great gift is understanding people, listening to people, making sure people feel heard. And she's very good at telling me when I'm off-course. And that's an important skill to have and valuable in my role, to have somebody who has that ability.

Robert Morier: I'm curious, those early conversations you had with endowment CIOs, what were some of the pitfalls that they warned you against? What were some of the things that they-- not just in terms of structuring and sourcing and building out a portfolio, but lessons that they learned that they may have passed on to you in terms of thinking about areas that they made mistakes in, that they would like you to avoid.

Jamie Biddle: Back then, we were probably thinking-- It's sort of hard to think back 20 years ago. What were we all worried about 20 years ago? But it was probably thinking about asset allocation, back then. Asset allocation meant mean variance optimization. We think about it differently today, at Verdis, but that was the thinking. There was a lot of assumptions that were made about asset classes and how they should behave from an academic perspective that now, 20 years later, when we have the benefit of a lot of data now on how both public and private markets function and operate, we didn't really then has proven that some of those things we knew for sure turns out to be not so true. And the data has shown us that to be the case. So, there's a lot of lessons learned. And shortly after we opened the office, which was really in 2006, the GFC hit. So, I stepped sort of right into the seat and into the fire.

Robert Morier: Thank you, Jamie. And that leads naturally to our next question, which, understanding you implement the endowment model, how does the asset allocation look today within Verdis?

Jamie Biddle: So, when we think about creating an asset allocation, our long-term mission for the family is to compound their capital on an after-tax basis at the highest possible rate that we can. But we are also subject to a maximum 10% drawdown on a rolling three-year basis. So why is that? So, the DuPont's owned, really, one company for 150 years. In fact, they actually owned two. A lot of people don't know is the DuPont's were early and major investors in General Motors. Pierre DuPont was essentially running DuPont and General Motors at the same time in the 1950s. So, the family owned two stocks-- DuPont and General Motors. And in my grandfather's day, the marginal capital gains rate at the high end was 90%. Nobody sold stocks. It was just punitive to sell anything. So, the family lived off of the dividend that was produced by those two companies. And so that's the culture of the family, was this idea of living on a dividend. So, the endowment model fit us really well because the family's capital is still, today, even though we no longer own any DuPont stock or GM stock, it is still one large corpus held in a number of trusts. So, we pay a fixed dividend to the family on a quarterly basis. And it's based on a 12-quarter rolling AUM, just like an endowment. So, the family really relies on that dividend, and so we can't have a lot of volatility in that dividend. So, we have to think about how to smooth drawdowns. And so that's where we have this maximum 10% drawdown on a rolling three-year basis. That makes things really complicated, because if you think about it from an asset allocation, what we're trying to do is optimize the right tail of the distribution to drive return but hedge the left tail of the distribution to minimize drawdown. And the two are in conflict. It's impossible to do both perfectly at the same time. So how do we do that? We try to engineer that outcome through our asset allocation. And instead of using a deterministic model like a mean variance, we use a stochastic modeling. Here we use a lot of Monte Carlo simulation. And we're looking at the historical returns of asset classes and the distribution of returns, and particularly what is the skews of those distributions, what are the tails look like, how fat are the tails. And then we put that into a model, and we run hundreds of thousands of simulations to look at the possible outcomes, over time, of what any given portfolio construction might look like. And we try to optimize for those two things and develop a portfolio that will allow us to maximize the right tail and minimize the left tail. So how does it implement itself? We basically look like an 80-20 passive allocation. 20% is some form of low vol credit risk and 80% is some form of equity risk. The credit risk for us is municipal bonds. We actually run negative cash, similar to the Yale endowment. We don't want to hold cash. So, we run slightly levered using lines of credit. And then we use very low volatility hedge funds in that bucket. And why do we do that? They're super tax inefficient. So, the managers have to produce us a bond-like return after tax. So, they have to match the return of our municipal bond portfolio. And then the reason that we add it to the portfolio is because our hedge fund portfolio is almost perfectly uncorrelated to our municipal bond portfolio. So, we're getting the proverbial free lunch by getting the same expected return, but with a 0 correlation to assets on an after-tax basis. Then the 80% of the bucket is in long-only equities, private equity, venture capital, and historically has also been in real estate and natural resources. We're doing less of that now than we did.

Robert Morier: How has your thinking evolved over time on the balance between public markets versus private markets?

Jamie Biddle: The private markets, most of them, are going to give us an expected return that's 300 to 500 basis points higher than our public market. In a search for compounding, we want private market exposure. We want as much of it as we can get. The problem is that we pay a fixed dividend to the family. We pay a fixed dividend to the federal government in terms of income tax every year. Then we have the fixed cost of operating the business. So, we have a liquidity requirement that we have to pay out every quarter. So, we have to manage liquidity tightly, and so we take as much illiquidity in the portfolio as we can, subject to those liquidity constraints. So, we are about 55% illiquid today. And that's about as much as I can push it.

Robert Morier: Jamie, prior to this conversation, we discussed indexing early-stage venture capital exposure. Could you explain that strategy for our audience and what approach you took specifically as it relates to venture?

Jamie Biddle: Yeah. So, I guess we think a little bit differently, maybe, then other allocators, with a very long-term history of a family that's been around for over 200 years. When you look at the data, most asset classes are normally distributed. They follow a classic bell-shaped curve. Your mean and your median converge. Your tails fall away pretty quickly. The law of large numbers is going to drive all of us as investors, over time, to the average. And the more you sample in the distribution, the faster you decay to the average. So, for a family that's investing over 200 years, it is impossible for us to not be average. Sometimes we're aspirational, and we could talk a little bit about how we try to be aspirational, but basically, our view here is that we are going to get the beta of whatever asset class that we're in.

So, we do our portfolio construction, our asset allocation modeling, based on those long-term betas. And we assume that that's what we're going to get. And so, we try to build the portfolio asset class by asset class, trying to get to the beta as inexpensively as possible and as efficiently as possible. So how does that relate to venture capital? Well, it's easy to get the beta in the public market. You could just buy an ETF and now you own it. And it's really efficient, incredibly low cost. It's very tax efficient. I can own the S&P 500, essentially, for almost free. And I don't pay taxes on it unless I sell that ETF. Venture capital is the other end of the extreme. When you look at the distribution of early-stage venture, it doesn't look at all normally distributed. It's what's called "power law distributed." And in a power law, your mean and your median diverge, and your mean can be up in the first quartile of the distribution. So, if you look at the long-term returns of early-stage venture, your median return is around a 10%, 11%, right? About what you get in the public markets, so not particularly attractive. But your mean return is close to a 50 IRR.

So, when you look at those two distributions, well, you want the mean. You don't want the median. The other challenge is the dispersion of returns of investments within early-stage venture's incredibly wide. So, your probability of hitting on a unicorn or $1 billion company when you invest at that first check at early-stage venture, it's about 1% when you look at the data, 1% to 2%. And it looks random to us, in the data. So how do you invest in an asset class that has such a low probability of success and such a wide dispersion? Most venture managers will walk into our office, and they'll tell us that they have some particular edge. Maybe it's their operating history or their network or something that allows them to pick into that massive sea of investment opportunities and pick out the 1% or 2% that are going to matter 20 years from now. We look at it and it looks like randomness in the data. So, our approach was instead of trying to pick, what happens if we invested in every single startup in the country? If we invest in every startup, we will get every unicorn. And in a power law distribution, all that matters is the winners.

The losers don't matter at all, because the magnitude of the winners is so huge that we'll cover all of your losses in the losers. So, we started thinking about, well, how would we go about indexing early-stage venture so we could get that really attractive long-run mean? And we do that through a hyper-diversified portfolio that we implement by investing in lots and lots of early-stage venture managers. So, we are probably, I'm going to guess, the largest-volume early-stage venture investor in the country. We're doing a manager a month, in terms of commitments. So, it's very high-volume. It gets us exposure to thousands and thousands of companies at the first check. So, we own about a piece of about 20% of every startup in the country, and we've caught about 25% of every unicorn that's come out in the last 10 years. So, the strategy has worked well for us.

Robert Morier: That's very interesting, Jamie. Thank you for sharing that. Andrew is going to ask you a couple of questions about that due diligence underwriting process. But since we're on the topic, when you think about a manager a month, what does that due diligence process look like specific to that volume of managers that you're trying to capture with venture capital?

Jamie Biddle: Yeah. So, we have a team dedicated to it, and you have to think about it both in terms of an investment side of the house and an operations side of the house. So, our investment team really focuses on understanding the networks of our prospective managers. They need to meet some criteria. So, we invest in managers that are focused on California and New York only because that's where the lion's share of the unicorns is produced, globally. So, we focus on those markets. We like generalists rather than specialists. We like diversified portfolios rather than concentrated portfolios. So those are the high-level criteria. And then we map the relationships of each of the managers to understand where they sit in the venture ecosystem. So, we don't want to add a manager that overlaps with networks we already have. We want to add managers that have new networks that we don't have exposure to, because think about this-- we're randomly sampling across the distribution, so the more diversified our sample, the closer and closer we're going to get to that mean. So that's what we look for. On the back-office side, these are often solo GPs and Fund I's just getting started. So, Kevin Gaffey, our CFO, and his team spend a lot of time with the managers, helping them to understand best practices in terms of back office. We have requirements that we need in terms of audit and tax, et cetera, that they have to be able to produce for us. So, we work probably as hard on the back office as we do on the investment side.

Andrew O'Shea: Just elaborating on that manager research process, are there specific qualities you look for, from a qualitative point of view, or red flags that you look for specifically?

Jamie Biddle: 20 years ago, we developed a very intricate assessment process, and so we scored every manager on a 100-point scale. And 50 points was on their investment process acumen and 50 points was on their-- call it a "partnership score," how well they function as a partner. And that included back-office capabilities and reporting all those things, but also just how were as people. We call that more qualitative side of the assessment versus the more quantitative side. And we were diligent at compiling this score. We did this for hundreds and hundreds of managers over 20 years. We more recently looked at our own data to assess how our scoring had worked and how successful we had been in predicting outcomes for managers. And it turns out there was absolutely no correlation at all between our score and the actual outcome of the managers, which told us that all these things that we thought were so incredibly important 20 years ago about how we underwrite managers and what we pick turns out to not probably really matter that much in the long run. At least it wasn't very predictive. So, we've always struggled, therefore trying to come up with factors that we could identify that would help us determine whether a manager was going to be a better manager than another in the future. And it gets back to the law of large numbers and a normal distribution. Most of these asset classes other than early-stage venture are normally distributed, and most of these managers are going to make investment selections within a distribution, and over time, they're going to pick a bunch of selections. So, it's not surprising that they all begin to converge towards their own relative average over time. So, there are some specific things that we might look for that would be red flags from a due diligence perspective that might eliminate somebody from consideration, but we've yet to find sustainable factors that would allow us to say, oh, this particular manager is likely to outperform in the future. And one way to think about it is-- my partner Steve talks about this all the time-- luck versus skill. So as allocators, we're trying to determine, when we see somebody's track record, was that track record produced by luck, or was that track record produced by skill, and how would we know? And unfortunately, there's just not enough data to generally know, in most cases. So, we know a coin flip, for example, is a 50/50 odds. But you have to flip a coin 1,200 times before those 50/50 odds become stable. There's a lot of volatility in outcome for them. So, here's a manager that maybe is on a Fund I or a Fund II. They're, I don't know, a private equity fund. Maybe they did nine deals in Fund I, they did 12 deals in Fund II. Their track record has been terrific. But what is that track record indicative of? Is that telling you that manager is skilled or is that manager just lucky? Because the unlucky manager never made it to Fund II. They're out. So, survivorship bias means that the lucky manager and the skilled manager made it from Fund I to Fund II. But we can't tell whether that manager is, in fact, lucky or skilled. And they won't make enough picks, probably in the history of their entire firm, on the private equity side, for us to be able to determine that. So, we end up looking at the portfolio construction and making sure that our portfolio is diversified enough that we are going to get that long-run mean of, in this example, buyout, private equity buyout because our portfolio is diversified enough. Interesting, if you look back at our 20-year history in private equity, as an example, buyouts, we've actually selected more managers in the top two quartiles than we have in the bottom two quartile. So that would suggest that there's some factor that is working in our favor. But if you look at our long-term return, it's smack on the mean return of private equity buyouts for the last 20 years. And it's because you could be right most of the time, but all it takes is a couple of bad choices, a manager, that, for whatever reason, does not produce that will pull your long run average right back to the average. So, it's caused us to move away from a firm that was probably super focused on alpha generation and manager selection to now one that's very much focused on beta and asset allocation. David Swensen at Yale famously said he thinks that asset allocation accounted for 100% of the return of the Yale endowment, and maybe, in fact, more than 100% because he suspects that manager selection and market timing actually destroyed value along the way. I think that's probably true for us.

Robert Morier: Interesting, Jamie. Just a follow-up question in terms of those factors. How do you factor in the people behind the process? So, when you think about those behavioral attributes, it could be categorized as almost as character science. So how do you know you are investing in not only the right securities, the right strategy, the right asset class, but also the right people?

Jamie Biddle: Yeah, this is tricky. So, I mentioned our old 100-point scoring system, of which 50 points was allocated to the people. The people were really important to us in that evaluation process. The problem with that is that we may have been creating inherent biases in our manager selection because of the criteria that we thought was important to us. So, I went to Wharton. Does that mean we tended to over allocate to managers who happen to go to Wharton? Were we not considering managers that maybe didn't go to Wharton? These are the kinds of biases that creep into your decision process when you start to focus on those factors. So, in recent years, we've been really trying to move away from that. We used to have a requirement that we had dinner with a manager before we would invest. And the argument was to get to know them really well and make sure that we were all we were good partners, a good fit. We were going to be partners with these people for 15, 20 years. We really wanted to get to them well, and we were starting to wonder whether or not we were actually falling in love with our own managers, and it was skewing our bias towards people who looked like us, who sounded like us, thought like us. And that was probably not the right way to pick managers. So, we have criteria around requirements of infrastructure. And we do background checks, and, obviously, we don't want to see any kind of criminal history, those kinds of things. But in terms of a lot of the things that maybe we thought were important 20 years ago, where you went to school, where you worked, we think those are probably a lot less important today than we used to.

Robert Morier: Just to push on that a little bit. You talked about, earlier, with early-stage venture, that you tend to orient towards California and New York. Obviously, that is where the largest proportion of unicorns have come from. But have you thought about expanding, or has your research led you to expand beyond those two geographies? So, when you think about that first date, are you thinking about maybe going to a different city or somewhere where there may be an increase in activity-- cities like Austin, Philadelphia, Boston?

Jamie Biddle: Yeah, so we'll let the data take us there. We would rather be late than early, because if we're early, we're most likely to be wrong. So, we'll let the data tell us that the unicorn production and capital allocation has moved to Austin, Texas or Philadelphia. Right now, it hasn't. It's still very much in California and New York. Now, Boston is part of our investment horizon because of the concentration in biotechnology and Therapeutics. So, we do invest in Boston. But until we see a significant movement in the industry, away from California and New York, and it's prominent in the data, we'll stick where we are.

Robert Morier: We were talking about asset allocation before. So how are you viewing the current macroeconomic environment as it relates to investment opportunities that are coming across your desk today?

Jamie Biddle: We're thinking about a 200-year-old family who hopes to be around another 200 years. So, I tell the team, we're steering an oceangoing freighter here. It's very, very difficult for us to make any kind of tactical shift, partly because we're 50% illiquid, partly because we pay 25% percent capital gains tax. So, if we're going to take something off the table, we're going to take a 25% loss right away.
So, if we think that there's something tactical that we want to do, we don't like-- I don't know, US exposure. We want to rotate our exposure to Europe; it would cost us 25% to make that. And we would have to make that up in compounding in that tactical asset allocation decision. We just don't believe that's possible. So, we're not going to make that decision, and we're going to focus on the long-term asset allocation. And that allows us to tweak at the edge, mostly around liquidity management. So, managing for liquidity becomes our biggest challenge.

Robert Morier: Based on your philosophy, I would love your opinion on active management and public markets, or more specifically, equities. Is that something you believe in, or do you apply a passive approach there as well?

Jamie Biddle: Great, fascinating question. We have an investment committee meeting here every other week, and we vigorously debate these kinds of topics, and we've been debating that one for 20 years. I mentioned that the asset classes, most of them are normally distributed. Of course, public equities are, too. So based on my law of large numbers discussion, the answer is it's really hard to beat the public market, and over time, you're going to decay. So how are you going to beat the public market? Well, theoretically, if you're skilled and you had a super concentrated portfolio and you didn't turn it over. So, the opposite of making lots of picks in the distribution. You made very, very few picks and you held those picks, and you were successful, then you should be able to beat the market. So, if you had 100% skill, that means every pick that you make, the first pick you made, would be way out on the right tail of the distribution. It would be the very best investment you could think of. Your second investment would be the second-best investment you could think of, and every investment you made after that would just be one worse than the one you made before, until you eventually decayed to the average. So even if you had 100% skill, if you kept selecting, you would eventually come to the average. So, we want you to be super concentrated and keep those-- hold those positions for a really long period of time. So, we do have a portion of the long-only portfolio that is actively managed. It is aspirational, I have to tell you. It's an intellectual exercise here because over 20 years, the after-fee return is smack on the long run average of the passive beta portfolio. So, they are highly correlated, but they actually do move differently in different time periods, which is interesting. And we keep thinking that, boy, in theory, because they're running super concentrated portfolios, they should be able to beat the market. And there are periods of time in which they do. So, to put that in perspective, our active managers, we have four of them, and they run basically five stock portfolios.

Robert Morier: That's great. And then just with one topic that's coming up a lot with investors as the world has moved much more passive, is the concept of a market cap weighted index versus equal weighted? Be curious for your thoughts there, as well.

Jamie Biddle: It really depends on your philosophy on investing. If you look at the long run, the long run return is pretty much the same between the two. Depending which time period you look, one can be slightly outperforming the other, but basically, they're roughly the same. If you're in the SPY market cap-related index, you are riding the winner. You're just doubling down on your winners. But, of course, you're also riding your losers. If you are in RSP, the equally weighted index, you are always selling your winners to buy your losers. So, think of it as almost a value-ish approach embedded in RSP, maybe versus a growthy trend approach in SPY I would think for most professional asset allocators, they want to be an SPY because RSP can diverge from the index for an extended period of time. And then you've got to explain to your client why you're not generating the market return. There could be good reasons why you might want to do that, but that's hard to explain. I think, probably, the optimum answer to that is own both because they're not going to move-- they should get to the same direction eventually together, but they're going to move-- the pattern will be different, so you're getting some diversification benefits by owning both. And so that's, in fact, what we have, is we own both, 50-50 in our passive allocation.

Robert Morier: Jamie, just really quickly, toggling back to the private markets based on the way that you approach managers and opportunities, what's the feeling around co-investments? Is Verdis actively approaching, or I should say investing in co-invests, alongside your managers?

Jamie Biddle: We are not, for a variety of reasons. For our non-venture portfolio, I think co-investments make sense if you had the ability to do them all. I think selecting within that distribution is a challenge, particularly if you're an allocator. You lack the skill set in-house to be able to make those decisions. And from a probabilistic standpoint, cherry-picking within your distribution is likely to give you some kind of random outcome, which I don't want. I want that long-run mean, and I don't want the associated volatility with picking. Now, if I could do them all, and I could do it without the fees and the carry or reduced fees and carry, well, then that makes a lot of sense. So I think if you're a big pension or a large endowment and you have the capacity to do them all, so you're not trying to pick, but you're just going to do them all, I would think you would end up with a diversified buyout portfolio at a lower fee and expense, it would make a lot of sense to do. If you're not that large, that you could do the funds and all the co-invests, I would stay away from it, rather than trying to pick and choose among the distributions. I would just fear we would be wrong. On the venture side, we want every dollar invested at the first check, because that's the point where we get the highest compounded annual growth rate over time. So, every follow-on round is just lowering our expected return. So, we would rather take that dollar and put it back into first check investing and take another shot on another company, rather than double down or reduce our return by following on into the co-investments.

Robert Morier: When you're making those investments, particularly going back to venture capital, how important is your fellow LP network? So, when you're thinking about a new manager-- and I know it sounds like it's quite often-- how important is it for you to and understand who else is investing along, and how do you develop those relationships?

Jamie Biddle: It's probably changed over time. 20 years ago, it was really important. In fact, it used to be one of those criteria in that 100-point system that I mentioned, who were the co-investors were, and we were really following the big endowments. So, if we saw Penn, Yale, Harvard as an investor, that was really compelling to us. Today, I think that's less compelling, particularly if you're in a lock-up structure. The vehicle is going to be locked in a long period of time. I think your concentration in who you're investing with is a little less important. I think where that does become important is when you're looking at your liquid portfolio. We lived through the GFC, and when markets get into a serious route and there's a run on the bank, that can be a scary place to be, when you don't your limited partners and they have access to the exit. So, I think we focus on it a little bit more on the public side.

Robert Morier: So that must have been put to the test with Silicon Valley Bank, then, I would assume.

Jamie Biddle: That was interesting. Of course, it was in our private portfolio, so we didn't have-- there was a run on the bank, but not literally a run on the funds itself. But yeah, it was a super challenge, I think. I don't what would have happened if the government hadn't stepped in to guarantee those deposits, because you had the entire venture ecosystem unable to access its cash accounts. They could not make payroll. This was the entire tech infrastructure of this company, of this country, that almost got debanked overnight. That was a really frightening moment. Thankfully, it was solved in a weekend and things moved back to normal, and, of course, everybody diversified their banking relationships after that. So hopefully that crisis is behind us.

Andrew O'Shea: Natural follow-up question here. As private markets have become more democratized, with broader access through interval funds, semi-liquid products, how do you view this trend for family offices?

Jamie Biddle: Yeah, it worries me, I have to say. It ties back to our global financial crisis discussion. Those products that are designed to be evergreen or semi-liquid. They are only evergreen and semi-liquid when markets are liquid, and things are going well. And that's usually the time when most people don't need access to their private portfolio. When they really want it is when things are not going well, and they panic and they're trying to get to sources of liquidity and cash. And I am pretty sure that when those that moment comes, those vehicles are going to become illiquid quickly. They'll gate their investors, and they will not be as liquid as advertised. So, I worry about what that does to an industry. I worry about, particularly, the smaller investors who might be in those kinds of products, who don't really understand and aren't really planning for liquidity droughts. As I mentioned here, it's my biggest worry, is liquidity management. I don't care about market volatility. I expect it. I construct the portfolio to tolerate it. I have left tail hedges in place. What I worry about is liquidity and being able to meet all my liquidity requirements in periods where liquidity dries up. So those vehicles worry me. On the flip side, it's going to create some opportunity when and if that terrible, 100-year drawdown moment occurs. Those seem to occur a lot more often than every 100 years, at least in the last 20. But I worry about the impact it will have on smaller investors, but it will create an opportunity for those who have liquidity, who will be able to snap up those kinds of assets in a panic, when there's blood in the streets.

Robert Morier: Jamie, thank you for sharing so much. A large portion of our audience are asset managers, and I suspect after hearing this, they're going to learn not just a lot about Verdis, but a lot about the family office industry. What advice do you give asset managers who are trying to build relationships with you and your staff?

Jamie Biddle: So, family offices are unique because they look quite different from each other and quite different from institutional investors. Not all of them. So, there are offices like Verdis, that would look very much like the Yale endowment, the Penn endowment, function the same way. But most family offices are managing capital for generations one to three. In fact, it's 90% of families don't make it to generation four. So, what does that mean for you, as someone trying to raise assets? It means that the entrepreneur is probably either the decision maker or is having heavy influence over the decision maker. So, family offices generally are going to be a lot more entrepreneurial than an institutional investor. They will be a lot more gut-driven than data-driven, and they will be much more personal, I think, than an institutional investor will be. The positive to that is decisions can get made quickly, because the decision-maker usually is the money owner, and they can make that decision really fast. They might make that decision on the fly, and they may make that decision because they like you, they have a personal relationship, and they trust you. And trust is really important, I think, to families. It's their money versus for institutional investors; it's not their money. It's the institutions. They're hired to manage it for family offices. It's their money. It becomes much more personal, visceral. So, there are pros and cons to that. What are the cons? Family office capital can be less sticky than that institutional capital because the winds blow. And if you're a private equity fund and you're raising a fund every three years, three years could be a long time in a family office or an entrepreneur's life. Maybe they're interested in something else. Maybe they've passed away. Maybe-- Who knows? But it's not like coming back to Yale and re-upping for Fund XV. So, I think those are some of the challenges. Personally, here, one of my frustrations is we're really clear about how to present your fund to us. It's on our website. We have specific emails for specific asset classes. IR folks and third-party marketers love to just go to the guy at the top of the org chart and just send it all to me. And, guys, I cannot process all of this information that is coming into my inbox. So, I promise you, I process none of it. So, I would advise don't send the CEO all your materials, particularly if they're clear, if they've got asset class specialists running certain verticals. Send it to them. They're the ones who will ultimately make the decision. I'll see it at the end of the process, but not at the beginning of the process.

Robert Morier: That's wonderful, Jamie. Thank you. That is great advice, and advice to adhere to for all of our asset managers listening in. Jamie, I wasn't kidding. To research for this podcast, I dove deep into your family history. I found a quote, actually, from someone in your family. He was the president, Nicholas Biddle, the president of the second bank of the United States. He was a central figure in the bank war against President Andrew Jackson. He was advocating for a strong, centralized banking system-- very important in today's markets. He once said, "There are but two truths in the world-- the Bible and Greek architecture," which, to me, highlighted his appreciation for enduring principles. So, I was thinking about that as I was constructing these questions, the whole idea of enduring principles, hundreds of years of family history, and another 200 years of the future, as you just said. So how do you identify and adhere to those enduring truths in your investment philosophy as it relates to the family office?

Jamie Biddle: It's funny. I'm not sure how the Bible and Greek architecture taught us to do investment management. Maybe I'd call on Ben Franklin's enduring truths of death and taxes as probably being more relevant. Maybe I'd add one more, which is the law of large numbers that we here, at Verdis, believe in very much as an enduring truth for family offices, is that, boy, you're not going to be able to beat the average in the long run, so spend a lot less time trying to beat the average and spend your time trying to find better averages.

Robert Morier: That's great. Thank you for sharing that. You mentioned Andalusia in the beginning of the conversation. It obviously stands, given its history as a symbol of resilience in history. So, if you actually wouldn't mind just telling us about the importance of Andalusia. I know it's also accessible to the public, so when you think about your responsibilities, not just to your home, but to the people who have the opportunity to visit, how do you see that in terms of the legacy of not just the office, but the family overall?

Jamie Biddle: Yeah. So, I mentioned that we've lived in the same place for 230 years, or something like that. And it's a special place because of that history. The building itself is considered the finest example of Greek revival architecture in the United States. So, itself is an artwork in the landscape, and there's a lot of history around the building and its contents. But the family's history going back to 1681 is pretty unique in the country, not that the families don't have a history, but that because we've never moved, we've kept all this information. So, we have all of this history that allows us to tell some stories about what it's like to be an American and what that journey has been. And all of us have a different story and a different journey. We could just point to ours and give some examples from 1681 through the American Revolution to the present time. The 250th of the country's anniversary is next year, and we're going to be doing an exhibition talking about what various family members were doing during the revolution-- not just those who fought, but those who stayed home, those who were working in the community. What was it like to be an American at the dawn of the country? So, I think that history is important to keep and to make available, but the location is also spectacular, and it is surrounded by trees that have been there before the house has been there. So, it's now an arboretum. There are also extensive formal gardens. So, 60% of our visitors come just to see the arboretum and to walk in the gardens and to escape from Philadelphia and get a chance to get out and be on the banks of the river and get out into to a really beautiful place.
And they don't think very much about the history and where they are, and that's fine with me, too. So, there's a little bit of that. I think that it's an interesting history. Nicholas Biddle was an extraordinary man. He really developed what's now our central banking capabilities. Think of it as the Federal Reserve before there was a Federal Reserve. So, he was the Jerome Powell of his generation, except it was a private bank. So, think of the Federal Reserve and the Federal Reserve's chairman was actually a private bank. So, the bank wars were fascinating because Jackson thought the money supply of the United States should not be run by a bunch of rich guys in Philadelphia. And he was right. But he was wrong about eliminating the need for a central banking function. So, the bank wars, I

think they were both right. The country needed a central bank, so Jackson was wrong, but the bank should not have been privately owned and controlled by one man. So, after Jackson revoked the charter and the central bank went away, the country plunged into a depression, and it wiped out Nicholas Biddle, and he went bankrupt. So, he was a rags-to-riches-to-rags story in one generation. So, what's the legacy is his house, this property, Andalusia. But unlike the DuPont's, who built a company slowly over 150 years, and their wealth has now extended to 10 generations, the Biddle's were a flash in the pan. They had it and they lost it all in one generation. So interesting comparison.

Robert Morier: That is very interesting. It's conversations like this that I regret that we limit these talks to only an hour. I could have absolutely gone on. Jamie, thank you so much for being here today. Congratulations on all your success, your family, and the office. It was really a pleasure.

Jamie Biddle: Terrific. Well, thank you both. It was great to see you.

Robert Morier: If you want to learn more about Jamie and Verdis Investment Management, please visit their website at www.verdisinvestment.com. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We're also available on YouTube if you prefer to watch, rather than 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, share these episodes. We welcome your feedback as well. Jamie, thank you again for being here today. Andrew, thank you, as always, for taking time on the desk, and to our audience, thank you for investing your time with Dakota.