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EPISODE 126:

Seeding Next-Gen Venture Managers with Main Character 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 know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, and other important players in the industry, who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and 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. Main character capital is a private investment firm. This podcast is intended solely for informational purposes and should not be construed as investment advice or an offer to sell or a solicitation of an offer to buy any securities or investment products. All opinions expressed are current as of the date of recording and are subject to change without notice. Certain information has been obtained from third party sources believed to be reliable, but main character capital makes no representations as to its accuracy or completeness. All investments involve risk, including the potential loss of principal, and there is no guarantee that past performance will be indicative of future results. 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 Andrea Lo, managing partner with main character capital, a GP seating strategy based in Silicon Valley. Andrea, welcome to the show.

Andrea Lo: Thank you so much for having me, Rob. Delighted to be here today.

Robert Morier: We're very excited you're here. We have so many questions to ask you. But before we do, I'm going to read your background for our audience. Andrea Lo is the founding and managing partner of Main Character Capital, a Silicon Valley-based investment firm partnering with the boldest next generation fund managers across venture capital, private equity, and crypto. With a focus on navigating uncertainty over the next decade and beyond, Andrea has spent the past decade as a founder startup operator, VC, and fund operator growing and investing in new markets. Andrea draws from over 10 years of operating in alternative investments, helping launch two venture funds and turn around two venture style fund strategies. Most recently, she helped build up the investment arm at Stellar Development Foundation, where she helped grow a market for stablecoin usage in emerging markets, deploying $100 million into VC-backed fintech and blockchain infrastructure companies. Her career spans early-stage venture capital in both London and Silicon Valley, leadership roles at blockchain pioneers like Harbor, acquired by BitGo, and founding Piggybackr, a venture-backed crowdfunding platform for K through 12 students. In addition to her investing leadership, Andrea is deeply committed to financial education and future workforce development. She serves on the board of directors for Junior Achievement of Northern California, where she helped launch one of the first high school level cryptocurrency education programs in partnership with leaders across blockchain, Fortune 500 companies, and the Federal Reserve. Andrea also contributes her expertise as an advisory board member of Women at Digital at Kearney, working to build a more inclusive digital economy. Throughout her career, Andrea has been at the intersection of finance, technology, and education, helping to bridge access to capital and innovation. Her work reflects a deep belief in empowering emerging leaders and building ecosystems that unlock opportunity across sectors and geographies. We're excited to welcome Andrea to the Dakota Live Podcast to share her insights on building in volatile environments, investing in the next wave of fund managers, and the future of financial innovation. Andrea, thank you again for being here. Welcome to the show. It's great to see you. How are things in California?

Andrea Lo: They are good. It's sunny today, but it's been quite overcast. But I'm looking forward to wearing only shorts at my home office because you don't see below.

Robert Morier: You don't see the below the fold here either. I'm in jeans. I'm not in shorts today, but it is a beautiful spring day. So, we're excited to have you. We're glad to be in the studio speaking with you and especially talking about main character capital. As a GP seating firm, in particular, we're curious what drew you specifically to the GP staking model versus launching a more traditional fund to funds.

Andrea Lo: Given my background, you can see that I'm more trained as a venture investor. I'm used to high growth and high upside. I did start investing in managers both personally and professionally alongside startups, and I started to see an opportunity in backing managers in particular, again, with the eye on this next decade was seeing firsthand how quickly very specific industries were moving, whether it was crypto or AI and that it's hard to cover a whole industry unless you're full in it. And so, I started eyeing different managers to help me get exposure to different niches that, again, were moving even too fast for me to cover. But because I'm a trained investor myself, I needed to have good reason to want to pay fees. And so, I thought about maybe investing on the side with a more traditional fund of fund. But being the entrepreneurial investor that I was, I realized there were actually some large market opportunities to more aggressively back some of the managers while also designing upside for myself. Again, the fund of fund model exists, and there's more players there. And I was just interested in building a strategy that could, perhaps, reward me for taking more risk in managers. And so that's how I got into GP stakes and seeding and in particularly really understanding that model to adapt it to venture.

Robert Morier: That makes sense. Could you take us through your career path just a bit? Can you share how your experiences best prepared you for backing these managers? I don't want you to have to go all the way back to your college days, but it helps for our audience. In addition to asset allocators and asset managers who listen in, we have a number of students and educators who use this program for the classroom, so it's always helpful for them to understand how someone gets a start in this business.

Andrea Lo: Absolutely. So, if you asked me 10 years ago, I would not have known that I was going to start a GP seeding strategy, but I always knew I was entrepreneurial and very investment minded. I was doing deals since I was a kid. My goal was always to learn and to follow problems in the market and solve them. And so, you can see from my background that I have a full stack experience as an allocator, having been a founder, a startup operator, as well as trained VC. That has been instrumental in helping me understand all the pieces of how to invest in startups and operate a fund, right, because I've done a lot of that. But I would say I started realizing about eight years ago that I wanted to start my own investment firm. But I took my time to really think about what my unique value add would be and what kind of firm needed to exist in the world. And so, I think a lot of people probably expected me to launch a more traditional venture strategy, maybe even specific to Blockchain. But if you Zoom out on my career, it's really been a knowing that I wanted to actually make venture capital better and create a firm doing that. And so not wedded to what part of the stack I invest in. That came about in the last few years as I started understanding private markets better, liquidity better, and how the market is moving. But I guess to be more specific, I became a founder a few years out of college, and that-- I highly recommend that as an experience for young folks because you get to see firsthand how difficult it is to start something from scratch. I think a lot of investors who went back into operating also really value that experience. Because it's one thing to get your pick of the litter of the best investments. It's another thing to be humbled by trying to start something or sell something that no one wants, right. And so, I'm very thankful I did that early in my career when it was more OK to fail. So, I did that just a few years out of college and took a company from napkin to exit. It wasn't a huge success, but I learned tremendously because nothing was handed to me, right. I was always in the funding side of things. I already at that time was teaching youth how to raise capital and sell themselves. And so, I let that curiosity-- I followed my curiosity after I sold the business into figuring out more on the investment side. My question was why it is so hard to raise capital for ideas that I thought need to exist. And then I started seeing dynamics specific to venture capital. My questions were why do 99% of companies need to fail because venture only supports that 1%. Why is everyone chasing that 1% of companies? Does that actually make sense? And so, these questions actually led me to get into venture capital. And then you can see I followed that by trying to work under really experienced folks in venture. And if not, then being on the ground helping launch something from 0 to 1 because, again, you learn a lot from that. I've always taken risks in my career and optimized for learning over security, for better or for worse. By the time I got tapped to lead the investment strategy for Stellar Development Foundation, I was one of the few people who had global experience investing, founding experience, as well as experience in new markets. Because when you're in a new market, there's no one you can hire right. So, you really have to optimize for adaptability and learning. And so proved helpful in navigating my career. But I will say since eight years ago, I have been very intentionally trying to learn very specific aspects of investing to get me to a place where I could start my own firm.

Robert Morier: Now, that all makes a lot of sense. Thank you for sharing that. I'm thinking about your own background and those qualities that you clearly possess. Are those the same qualities or the same signals that you look for in a potential GP stake as it relates to those long-term, kind of, franchise level investment opportunities that you're hoping are going to materialize over time.

Andrea Lo: So, we are called Main Character Capital because we look for this one out of one character. But definitely long-term mindedness is key to building a franchise. Now having been a founder, startup operator, and VC, I would say starting a fund is not for the faint of heart. It's actually more difficult to launch a fund in some ways than launching a startup from a fundraising perspective, especially in this market. We've just seen, I think, sometimes people start funds because it's hot or it's the thing they think they should be doing after being a serial entrepreneur, or they go there to retire. But again, if you look at the math, it only makes sense if you're in it for the long haul. A lot of people realize, oh, getting 2x over 10 years is actually not what I signed up for. And they go back to operating. And so, it definitely, I think, especially in this next decade, it's no longer enough just to be a successful founder who now wants to launch a fund. Your experience gets stale. Your hunger makes it hard to compete with some of these younger folks that are just knocking on doors and pounding pavements all day. And so absolutely, we look for someone who's ready for this to be their last career, actually, and someone who does not get fazed when we ask for them to hit basic AUM targets as well because that proves that they've really thought through what a fund three, four, or five looks like. But that's what it takes to succeed in this market today, I believe.

Robert Morier: Yeah, I agree. So, I guess it's, kind of, the million-dollar question, but it's a question. How do you source these main characters? I heard you say the only person in the world strategies. So how do you identify--

Andrea Lo: Absolutely. Absolutely.

Robert Morier: How do you identify them? I mean, it's a particularly before the broader market finds them because it's one thing to source. It's another thing make the commitment.

Andrea Lo: So, it helps that given my kind of diverse background, I've run two sales teams and run two end-to-end diligence processes for VC firms as well, right. And so, I've always been filtering and running, kind of, a lead generation process. And so, this is no different. Here at Main Character Capital. We are very, very specific and focused on what we look for. I would say it's three things, three criteria. We have a big emphasis on returns because we're really focused on generating upside for LPs in a risk-adjusted way maybe compared to other asset classes. And so that's the minimum bar that you can be the top 5% or aim for the top 5% returns of being a manager. That's very specific to us. The second is we look for people who want to build franchises and can hit very specific AUM targets that I think are reach. So, it displays ambition, but it's not unrealistic. And then I would say the third is we've gotten down to even the criteria of funds being, specifically, on their funds two through four that are between 20 to 100 million because that signifies to us that they have learned quite a bit, and they have made a lot of the mistakes that you do when you're early in investing. But they're also ready to scale but not too mature that they already have a lot of institutional investors on board where they don't need our help. That's the first criteria we run people through. And that actually cuts down the pool by quite a bit. And so, if you look at the kind of pool of emerging managers, in some accounts, it's like 3,000 to 4,000. And you're trying to aim for the top 5%, right. We only back 10 managers. And so, we don't have to see every deal. We just have to see the deals that fit our criteria. And so, our criteria help us avoid adverse selection because, again, it's very returns-focused, but it's also very long-term minded. And so, again, we don't have to see every deal in the world. We just need to see enough to get us to 10. And so, by the time we get sent deals or referred deals, they're pretty qualified already. We are also, I believe, one of the only ones out there specifically hunting for very niche strategies that require a lot of bespoke diligence and work. And so oftentimes there is nobody fighting to do these deals because they have been passed on because it's too much work or it's too out of the box. And that's what we love. We love working with these managers and helping them sort through these early issues to then scale because we think that if you have a strategy that is one out of one, and there's less competition out the door.

Robert Morier: So how do you align incentives then with those GP staking partners?

Andrea Lo: That's a great question. So, we really focus on understanding incentives. I personally will spend hours and hours getting to the managers, both online and in person. We talk about their childhoods. We talk about what their visions are for the firms. And I would say every firm and every manager is a little bit different. Some folks have visions for growing through follow-ons. Some folks really think they can deploy a lot of capital because they're in new markets. Some want to aggressively pursue acquisition down the road. And so really understanding their unique vision for the firm is the first step because we have to understand where they want to go. Our job is to help them get there and also provide them feedback if that vision is achievable. So, after we understand that long-term vision, we try to understand where it is they need the most help, right. Sometimes that's fundraising. Sometimes it's just having an anchor investor to lead the charge when no one else has conviction. And so, depending on that, we then look for a few levers that we can structure to also reward us for the extra work that we do and for taking that risk. Because again, I'm happy to take risk, but it has to have a good risk reward. And so, I think there's a few levers we think about. First of all, we are an anchor investor. So, we double down on these funds, and we concentrate into them. So, we'll take 15% to 30% of the fund. But then additional levers we look at include things like being admitted to the GP and what that looks like. Obviously, if there's more heavy lifting, we might like up the amount of GDP that we look for. Again, we think of ourselves more as minority owners. And so, we never step in to deal with the day to day, but it's always more strategic, especially around the gaps that the firms have. And so, as I mentioned, sometimes it's around fundraising. Sometimes it's around pitching. We're very good at storytelling and helping the funds differentiate because we also see a lot in the market. And so, again, getting admitted to the GP is one lever. We don't typically join the management company because it's very permanent and costly. And we like to see ourselves as kind of passing the funds off to the institutions when they're ready. So, we're not trying to be there forever. But if they want us to be, that's great as well. And then other levers include potentially participating in management fees or having discounts as an anchor investor, as well as potentially ways to participate in follow on or SPVs or opportunity funds. So, we think about it very holistically. And again, how do we get the firm to where they want to be and really emphasize the strategies that they want to build on long-term.

Robert Morier: I'm curious in those early conversations when you were identifying those alignments, not to ask for the secret sauce in your recipe, but what are some of the questions that you've asked historically that you find yield the most information or the information that's most beneficial to understand whether they'll be a good partner. And the other side of that is what questions help you disqualify those managers who you just feel may not be a good Main Character partner.

Andrea Lo: So, I'll be honest. Our investment process is pretty comprehensive, and it spans anywhere from two to six months. And I think that's probably on the quicker end for institutional LP. I see the entire investment process is almost like getting to them. Because our model is a little bit more unique and we need to discuss how to align and create kind of terms together, I actually get to see a lot of how a manager thinks and works, right. And so, one of our managers, I still stand by this, that he's one of the best negotiators I've worked with. And that came through negotiating with him on this one-of-a-kind deal that no one's ever done before. Like, how do we figure out how to partner for the next 25 years, right?

And so that is by design, part of the process, working really closely with these managers to understand how they work because how they negotiate with me or what they're up front about with me is usually how they are with other people as well. And so, for some of the more bespoke strategies, that also gets involved with questioning their model or building it up from scratch because there aren't any other benchmarks. And so again, we get to see how they actually operate in uncertainty and when there are no other examples. We also spend those six months watching them to see do they do what they say right, do they learn and do they adapt. So again, that's always happening more in the background. Specific to the questions I ask more up front, again, I really like to understand why they're doing this and what their vision is for the future. One of the things that turns me off the most, or is a red flag, is when people don't have a good reason for why they need to start a fund. And that usually comes across when the strategy is not differentiated or there isn't that much founder market fit. Everyone wants to invest in AI, but why you? If you've invested in a different sector your whole life previously, why are you suddenly pivoting to AI, right? Oftentimes, I will run them through scenarios like, are you still in this if you only return to X in 10 years. And those are hard questions to fake, especially if you haven't thought it through, really understanding that they are in it for the long haul and they have thought through why this needs to exist and that they're ready to double down on it through thick and thin. So that's one piece. Usually if you ask someone about where they see their firm in the next 10, 20 years, they can't answer that unless they've really thought it through, right. And so, the amount of detail that someone can go into where they see their firm long term usually correlates with also how thoughtful they have been about thinking about the firms. And that's actually rare. Some immediate red flags, I would say, because we do have a very returns focused criteria, we often get folks that are very salesy about their returns. And we all in private markets and especially PNBC, it takes-- at least for venture, it takes seven to eight years to really have a track record settle. And so oftentimes we think that the returns is a lagging indicator of process and discipline and actual investment skills, both entry and exit, right. And so, when people are overly emphasizing their early return upside, that's usually a red flag, because there's so much more than that. And they think, oh, because Andrew is looking for a top 5% return, I have to really sell myself. That number can change drastically in the first seven years, right. And so, we in general don't like it when people are very salesy or name dropping. We like folks that focus more on reality. Like some of the best investors that I've come across, they're very upfront. They're like, I actually don't who's going to be a winner. And I think 50% of the companies are going to fail, and I'm just trying to build enough process and discipline to be able to identify this, so being very honest. The second red flag is I tend to pass on funds that are in very crowded markets without specific distinction or moats. We don't shy away from crowded markets because obviously sometimes it's crowded because it's actually a big growth area, for example, like AI. But we don't try to pile into other firms based on FOMO or whatnot. And so even if a fund has really good returns and top LPs, we may not participate if we don't think that they have a moat that really differentiates the firm into the next decade. And then the last thing this is a long-term partnership. We end up being the closest LPs to our fund managers because we're such a big stakeholder and because we become thought partners, really having been there from day one. Like, we are happy to help out, even if it's hard and even if nobody else wants to help. But we do look for people who want to work with us. And so, if you don't need our help, then that's OK, but it needs to be a partnership.

Robert Morier: It all makes a lot of sense. Thank you for sharing that. Just going back to that second point around crowded markets, could you give us an example of what you would define as an uncrowded market? So where is an opportunity that you've seen that there isn't as much traffic and there is something there that you need to either do more work on, better understand, or you have the understanding and now you're sourcing?

Andrea Lo: Some people ask us, like, oh, are you contrarian investors. And I would say, no. I think we strive to be independent thinkers. And so, we do have some strategies that are very popular and crowded. And then we do have some where this is one of one because we are trying to build a pretty diverse and uncorrelated portfolio folio ourselves. When you dig into the uncrowded markets, again, I'm more of an investor. And so, some of it is opportunistic, right. Sometimes we do set themes like we think there's opportunity, maybe in education given in the age of AI. And we haven't seen any firms double down in the way we want to. Or if it's blockchain, maybe there's a specific piece of a sector that's moving really fast. That's more of the wild, wild West. And there isn't anybody working on that. And so crowded markets can have specific subsectors that are less crowded as well. We, typically, look for people who are experts. And so, again, in a crowded market, if they are clearly the best at what they do or have a very deep differentiation, we won't stray away from that. But I think uncrowded markets are almost easier to see because literally there's no other person that's pitching this strategy. Both my partner and I have been in the industry or adjacent to the industry. So, we have seen more models, and we've seen stuff across asset class. And so, we, typically, do if something is more distinct or unique as well. Obviously, we'll do our work to make sure. But I would say it's actually easier to identify the uncrowded spaces because they don't have many comps. A lot of times people are left with this just-- I don't how to do this, right, or this is not going to work. But then you look at their numbers and there's something there because they're able to generate returns. Uncrowded strategies can be found within crowded markets as subsectors. It could even be a GO. It could be an out of favor market, or it could be something entirely new, where in that case we're more opportunistic, and we let the managers show us the strategy.

Robert Morier: Earlier you said that you thought of backing GPs like being a minority co-founder. Can you walk us through those first 90 days after Main Character makes that investment? We spend so much time on sourcing and due diligence and the underwriting process and, frankly, not enough time on what the actual relationship looks like, particularly, at the onset, arguably, the most important time.

Andrea Lo: So, I would say, again, our process, and I would say our 90 days starts even earlier because we're already testing out the partnership when we're doing the diligence. And so, a lot of these managers, we're helping them institutionalize. And so, we're identifying gaps. A lot of times we help out with storytelling even alongside while we're investing because we're trying to make them more appealing or help them better articulate their bespoke strategies, right. And so, again, I think our 90 days actually starts earlier, and we're happy to provide value while we're even in diligence. And so, by the time we get to more serious diligence, we are pretty serious at this point with the managers. We are pretty lean ourselves. And so again, we're very serious by the time we're digging in. And so again, I think the clock starts earlier for us. I think the first thing that we work on with managers is differentiation and articulating that differentiation. And so, what I will do, typically, again, I spend hours with these managers asking them exactly how the sausage is made from every part of their process. And oftentimes-- because I'm also trained as a marketer and I've been a salesperson and BD person in a prior life as well but also as an investor. So, I, oftentimes, am able to pull out pieces of their strategy where they have any even identified is a differentiator. And so, I collect those stories and those skill sets through the process. And then we will, oftentimes, weigh in on how they position themselves, especially in mind with the broader market, both in terms of other funds they might be compared with, as well as how to talk about the market and how it develops, right. Pretty hands on with the fundraising and pitching. I think at the end of the day, the managers have to be comfortable with selling in a way that's authentic to them. And so, oftentimes, they learn from us in terms of what LPs actually care about, and then they adapt it to a way that's more authentic to them. But again, we get started on this very early on. And this is actually another point of assessment, being able to sell your strategy and articulate even a bespoke strategy well is part of the equation. As we dive deeper into diligence, I think a lot about investment skill. We've had a lot of conversations with our managers around the fact that we look for people who not only have experience entering deals but also exiting, and that's quite rare because it takes at least 10 years in a lot of cases to have that track record. But again, we think what worked in the last decade of just getting access isn't going to work again in the next 10 years. So, people who have shown the ability to exit is a different skill set than entering. But we always say the first skill you learn is entering an investment, and then you learn how to exit. But another upskill is like learning how to concentrate and double down into the right deals. And so, we talk very openly about how their portfolio construction leverages the skills they have. And which skills they still need to develop around this, really push them to think about their skill set and how that applies to their fund two, three, and four, like, in the series that-- we invest in like fund twos and threes. So, you can imagine two, three, and four might be four, five, and six, right, really try to tie the portfolio construction to their skill sets and identify where they still need to upskill. In this market, this day and age, being an anchor investor itself is a huge, huge value add. And so, we do, kind of, our anchor investor duties. Again, we're very thorough with diligence. And we hope that other LPs can rely on our diligence. We like to think of it as institutional quality. But oftentimes, the funds because their funds one, twos, or threes even don't have a lot of the materials. So, we're very patient in helping them build that out. But I would say our anchor investor duties is to sometimes help them close some of the investors to be the final reference. We've been known to go to events with our managers to pitch them. It's very different to be introduced by someone who has serious skin in the game and knows every part of your fund. But I would say our duties kind of fall in those three categories, and that's happening even before we close the investment. The 90 days starts earlier.

Robert Morier: And that all makes a lot of sense. I mean, I think it's great to have that type of support, that type of encouragement and coaching. I always used to joke around that the F word for investors is not what you think it is. It's fundraising Because it's tough-- It's tough for them to put that hat on and have to promote their strategy and do that type of extraction that you just mentioned.
So, it's very helpful. Thank you for sharing all that. You did mention portfolio construction for your managers. How do you manage portfolio construction for your own fund?

Andrea Lo: I'm aware that our GP strategy is unique. And while folks have pursued GP stakes in the hedge fund world and buyout world, it's not been as actively or successfully adapted to venture capital. And so, when I set out to work on this strategy, I did a lot of customer development myself, talked to hundreds of managers to understand what is a financial product that actually solves a lot of their problems and how do we structure it. And so, a lot of our structures are unique based on those insights, we work with our attorneys to come up with some of these structures. At the same time, we've been very, very thoughtful about portfolio construction. My goal for main character capital was, kind of, threefold to create a fun product that better aligns GPs and LPs. And I've talked a lot about what that means in terms of risk and reward, right. The second piece is there's a lot of market uncertainty and turmoil this next decade with geopolitics, with AI, with a lot of unknowns. We designed main character capital from day one really with that in mind. And so, part of the reason I was so interested in investing in funds is because that allows us to Zoom in to markets and bet on markets more than when you're at the startup level. Again, I mentioned we backed 10 strategies. We look to construct a portfolio that is more diversified from the sense that these strategies are uncorrelated with each other, hopefully, as much as possible. Because if we're doubling down on a partnership for the next 20 years, we can't sell like two of the same ones. So that's one part. Again, we really think about how AI is going to impact every industry and strategy. Again, we think about leaning into certain trends because it's a no-brainer that it's going to happen. But then we also look for strategies that may be more immune to AI disruption. From a portfolio construction piece, we right now are 70% US, 30% global, partially to get some of that diversification. We tend to look for early stage because that's how you generate the return dynamics we're aiming to get.

But again, I would say that's also why we actively invest across venture capital, what I would call micro-PE, as well as newer asset classes like digital assets and search to get some of that diversification. But the common thread is all of them are aiming for the return profile of what you would consider a top tier venture fund, as well as building a franchise and being able to grow AUM in a responsible way because they're breaking into a new niche or market. For our construction, in particular, we anticipate half of them will be, kind of, fund twos and threes, more mature, so closer to the 75, 100 million. And then some of them will be closer to 50 and below. And so that check size is different. And then we also look for strategies that will provide more diversification around cash flow. Some of the strategies are shorter duration. You can imagine a micro-PE strategy would be at the short end five to seven years versus a pre-seed strategy would be 10 to 15 years. We try to diversify across the strategies, but we concentrate by being really large checks that double down on these managers because we don't believe that many that can fit our criteria. And the definition of top 5% is small, right. Not everyone can be that. And so, I think with that construction, we are able to keep nimble and weather the ups and downs of the larger macro as well.

Robert Morier: You mentioned 30% global, so presumably outside of the United States. What types of opportunities are you seeing right now outside of the US, whether it be in Europe or traditional emerging markets?

Andrea Lo: So, I think what's a little bit unique about my background is I have invested globally. And I was in Europe for two years. And in private markets, the names don't always change. People just kind of rotate chairs. And so even though I didn't have a fund to fund back then, a lot of the names are familiar at this point. We are happy to go into new GOs. The less crowded the better. We have no problem doubling down on someone, even if we don't have an active network in those regions. When I first started, I got a lot more non-US strategies, a lot of Latin America, for example. Europe is always popular as well given my background. We decided to take a pause on some of those strategies more because, again, there's a lot of uncertainty around geopolitics. The reason people invest in the US is because we have the most established capital markets, and we have healthy exit market. But even we are struggling with that right now. And so, some dynamics you saw outside of the US in the last few years was the valuations and prices ended up being the same as the US. But then on the flip side, they have even less exits. And the US is already struggling with exits. So, in the last few months, we've actually focused a bit more on US deals because they're also struggling. So again, it's a little bit more opportunistic. But we have one non-US strategy that is specific in the GCC because we think that's an underdeveloped market that's not well understood. But in terms of some of the more-- the markets like Latin America or Southeast Asia, they are actually quite crowded more than you would think. And so, we take time when we're looking at more crowded markets, right. One area I am excited about is backing some of these new models to help them then grow into new markets. Again, with the geopolitics, like, we've been getting incredible US and non-US deals alike.

Robert Morier: And that makes sense. It's refreshing to hear. And even new geographies also mean the United States, most investors who we speak with--

Andrea Lo: Yeah, absolutely, right. So much capital is concentrated to the coasts, right.

Robert Morier: There really is. And there is increasingly more in what you would consider smaller cities. So, most VCs, whether they're GP staking fund to funds, they do tend to orient towards Boston, New York, and Silicon Valley. But increasingly, we're hearing from investors who are seeing in other cities-- I don't want to call those cities emerging markets. They're far from it, but maybe they're emerging for VC. So, thank you for sharing that. That's very helpful. And as I said, I'll say it again, refreshing.

Andrea Lo: It's more about can that manager build up an ecosystem and leverage unique assets and, oftentimes, if they can pull in talent, right, that other people haven't gone to. And so yeah, there's always a pro and a con.

Robert Morier: Yeah, absolutely. In researching for this episode and in our questions, something really stuck with me that you said. It's having both an artificial intelligence, an AI offense and an AI defense. I love that with AI defense. What is an AI defense?

Andrea Lo: I personally-- and I probably echo this for a lot of people-- I don't what's going to happen in the next 10 years. But how to structure strategies to orient around that. And so, I think the truth is, AI is going to be a huge part of this next decade for better or for worse, right. Even if you ask the experts, they don't fully even how fast or how deep it's going to impact different industries, right. Right now, it's very obvious that some industries are getting reoriented as we speak, right. I don't think people expected software development to be one of the first touched. I think everyone expected to be bluer collar. And actually, if I had to say AI defense, some of these blue collar and service-oriented industries are, I say, defensive in that they will be slower to be touched. And so, as I mentioned before, you have to bet on AI this next decade. There's going to be a lot of failures we say. But picking strategies that can navigate that is important to get exposure because there is going to be tremendous upside. But the other opposite strategy is to look for sectors and areas that are less touched by AI. And again, what that means is it's just harder to automate or there aren't as clean data sets. So, they will probably be the last frontier of AI. And so, I alluded to some of those industries, but I would say one of the powers of being in that role is now you get to decide how you leverage AI for your strategy and for your industry. And so, this is particularly interesting for very regulated or fragmented markets. And so, if you have some kind of advantage from a distribution standpoint, that is going to be very interesting, especially in the age of AI, where maybe doing due diligence or picking is easier than ever. And it's like how you actually grow your companies. And so, again, that's what I would consider falling under the bucket of more AI defense, where you're protected sometimes naturally or through specific moats that your firm possesses, but also then you get to call the shots of how you want to leverage the AI. So, we have several strategies doing that. We also look at how the firms themselves are incorporating AI into their own strategies. And so, we have one manager who is-- he's figured out how to leverage AI to pretty much count as a full time FTE, and so we're also eyeing ways that AI is going to make investment firms more agile. And so, again, adaptability is a trait we look for in managers where maybe traditionally people weren't looking for that. But again, in the age of AI you need someone who can continue to adapt as markets dry up or change or competition moves in.

Robert Morier: Yeah, absolutely. I'm curious your thoughts on this. Arguably, the technology around AI is further along than the infrastructure that's needed to support it. So when you think about our own utilities and the electrical grid that's necessary to support this type of development and growth at the pace that it's currently being implemented, how do you see the next 5 to 10 years looking as it relates to the technology and the infrastructure, kind of, as maybe it's a little bit like the tortoise and the hare? So, what does that race look like from your perspective?

Andrea Lo: I mean, I think this goes back to what I would say ecosystem development and infrastructure building. I think my experience, actually, in blockchain has some parallels where when I was working in that industry, we had a lot of ideas and a lot of end products and ideas for applications, but the basic infrastructure was not there. And so how do you invest to build up that ecosystem and that credibility? I think in the bio you mentioned that I was investing in stablecoin infrastructure in emerging markets. And that was very intentional from a go to market perspective because, oftentimes, you have to prove things out in smaller markets before it comes back to more mature markets, where there is more legacy infrastructure. So, I think that kind of, falls go to market strategy, which is why we're so interested in firms that do have some of that go to market and distribution as a part of the strategy. I would say in terms of AI, it's following a similar evolution in that people got really excited about the large language models and the basic infrastructure, and then now that's becoming a commodity. We knew that pretty early on, and so we were already looking at funds that were investing more on the application layer for very vertical specific use cases where there are proprietary data sets. And so, one of our managers invests in that, in particular. And he was doing this before it was popular again. It was popular, and then it became out of favor. That was a similar strategy employed in blockchain where it's like what are the applications and how. And once you invest in those applications, what's the infrastructure that you then need to build your way back into that. And so, in particular with AI, there's even more complexity because it's become kind of a nationalist movement where each country has its own strategy. So, you could get completely different exposure by backing AI in one region versus the other. But energy, as you alluded to, is one of the biggest bottlenecks for AI. And so, we're, by no means, energy experts or energy transition experts. But my partner and I both are very aware that this is a huge, huge gap. And so, it is an area that I'm monitoring. Again, I'm not an expert, and that's what makes the job delightful. We back experts, but this is an area we are taking our time in, right. We only back one manager in each space. And so, we have to think that they're the best or it's a pretty comprehensive strategy. So again, in more crowded markets or newer markets, we take our time to really understand and see how things play out. And so again, in terms of AI, we have some investments more at the application layer. We're starting to look more at some of the infrastructure like nuts and bolts of what is required. But you're right, the biggest issues are the gaps of infrastructure with energy and nuclear. And so, an area that we're very interested in looking at, but you can imagine there are probably more bespoke strategies that can be created in this industry. And so, part of the reason I started Main Character Capital is also to encourage more investors to think outside of the box with investing. Not everyone has to chase the top 1% of deals. There are serious problems in the world that need innovative ways to fund them. And so, I mean, this is a call for existing folks, as well as folks that have not created their investment strategies yet, right. So that's how I think about that. And again, I'm not an expert, but we're looking for experts who are thinking about things in a very long term, solutions-driven way.

Robert Morier: Absolutely. I like the call to action. And I also like the fact that you are soliciting advice from outside and experts who are looking at it because there is this infrastructure gap which we'll likely close.

Andrea Lo: We know it's important. But again, as an investor also need to have patience. Because if you jump the gun and bet on one strategy, you're stuck with it for 20, 25 years, right.

Robert Morier: Yeah, absolutely. Yeah, it's going to have to happen quickly because I know things are changing when my 76-year-old father calls me and asks me how to use ChatGPT. So, it's time-- It's, kind of, alongside the commercials for gold that he's seeing. So, its time, I think. Well, thank you for sharing that. You've given us a lot to think about as it relates to Main Character, what's going on today in the VC industry, and why GP staking is such an interesting area for both LPs and GPs alike. So, I'm just curious, when you think about your years doing this and some of the advice that stayed with you, that you then pass on to these emerging managers, what are some of those key pieces of guidance that you received that have really, really stayed with you.

Andrea Lo: I've jumped across a lot of different roles and industries, and I've always been asked for career advice to even break into some of those roles or industries. And my advice has always been the same, know why you're doing it and be in it for the right reasons. That sounds very basic, but a lot of people don't think that through. A lot of people tend to want to optimize for what has high status or what everyone else is doing. And so that holds true also for managers. This is not a game. It is not easy to raise a fund. It is not easy to build a lasting franchise. It's very grueling. It's even more grueling than the fundraising process of a startup. Obviously, startups have different challenges, and they're very difficult in their own, right. But building a fund is a very specific path. I really advise people to really think through is this what you want to do, and can you differentiate. Because the worst is to maybe have one or two funds under your belt and then realize you can't continue on because you can't adapt, or you don't have the fit in the market. It was different when it was easier to raise a fund, but I think that parallels my own experience. When I left the blockchain industry in 2022, I think everyone thought I was going to launch a VC fund focused on blockchain. And that was far from what I wanted to do because, again, I was thinking about the broader market. And so even in blockchain, you're seeing a more reversion to the mean for returns. When you are early in the market, there was a lot more upside. And now it's gotten more competitive, and they're competing with fintech investors, right and so really understanding the market dynamics. And so, I asked myself at that time, could I be a VC and return top tier returns to my investors. And I didn't even think that was the case because there was so much competition, right. And even some of the best investors, they're still hoping and praying they get a few exits, right You can even be the best and be at the whims of the macro cycles. It took me like a year plus to even decide to start main character capital because I was doing my research, and I was really trying to convince myself out of it. And so, again, not to beat this into folks a million times, but it's really important to be certain that this is what you want to do. There are a lot of very unglamorous parts. A lot of managers I talk to tell me, oh, gosh, I didn't realize half of being a fund manager is fundraising, the F word. And it's actually more of a sales job. So, if what makes you excited is actually working with founders 100% and getting into technical challenges, maybe you're better off being an advisor or a founder. I actually this is not common, but I actually tried to dissuade a lot of successful founders from being investors because I'm like, are you sure you want to do this. If you're an incredible founder, chances are you're still going to be better than most of the startups that you look to back. And we've seen this. A lot of operators hop back into operating after their first five, 10 years as a venture partner. And then on the flip side for more career investors thinking about launching their own firms, I say, are you prepared to build a business. Like, the same way when you back a company, people don't like taking chances on first time founders, you're taking a chance on a first-time founder because they've never necessarily built a fund before or sourced without a brand. And so, I actually think that's risky in different ways, especially when so much is changing in the environment because operating is still different than investing, and so, again, really alignment on long-term. And then the last piece I'll say that I always advise people is to just be really transparent. I think investing is a journey for a lot of us. You make a lot of mistakes in the early years. You have to sometimes make those mistakes to learn. And that's why a lot of people don't like betting on fund ones and zeros or twos. Being up front with learnings like maybe you made mistakes before. But telling people what you learned from those things, whether that's through valuation policies or through portfolio construction or the types of companies you back, failures are OK. And I would say a lot of times funds they will have one area of weakness, whether maybe it's entry valuation or exit time frame or something. I just say just address it front on, full on, right, and be very thoughtful about that. And that, oftentimes, goes a long way with investors, rather than them finding out about it.

Robert Morier: Where does your strategy fit into an asset allocation model?

Andrea Lo: That is a challenge.

Robert Morier: If you're talking to an institutional investor who is starting to explore GP staking, maybe not for the first time, but they're thinking about building this portfolio, complementing potentially their VC book, where's the fit? How do you categorize that?

Andrea Lo: So, I would say there's two ways of thinking about it. You could see us as just a venture fund by itself because we are trying to achieve the same, kind of, net returns, even though we have more fees. We have preferential economics. And so again, our goal is to rival the returns of a top tier underlying fund as well. And so how we pitch ourselves is we scour the world for niche strategies that can scale up. It's not competitive with how the allocators are investing. They oftentimes pass on these strategies because they just can't invest in them because they're too niche or there is too much handholding, or the checks are too small. But at the same time because we're a basket of them, we can scale up faster than one of these funds themselves by themselves can. And so that's been interesting. Allocators were like, OK, interesting. I'm getting a basket of funds that I wouldn't otherwise be able to bet on or would not bet on. And so, again, there's no competition with their existing portfolio. We're also venturing into newer asset classes. And sometimes that breaks people's model of thinking because they're like, OK, is this venture or not. But I think we like to think of ourselves as a bucket within their asset strategy. And we are probably the most alts of alts. We're not trying to be private credit or real estate. But if you're trying to get these really high upside returns, why not invest in our strategy to cover some of that. Because we are specifically scouring the world. And a lot of people get stuck in is this venture or what is this, and I would say, I truly believe the definition of venture is going to evolve and that some of these other alt strategies, like, a micro VC where it's lower than lower middle market or some of these new asset classes that are very esoteric would fall under that bucket of venture like returns, even though it's not traditional venture.

I don't know if that answers your question, but it definitely requires a little bit of open-mindedness. But we think there's tremendous opportunity here now.

Robert Morier: It's very helpful. And it does answer my question. Thank you so much. Andrea, thank you so much for being here today. Best of luck with Main Character Capital. Congratulations on all the success you've had so far. It's really been a pleasure speaking with you.

Andrea Lo: Thank you so much and really appreciate the thoughtful questions.

Robert Morier: If you want to learn more about Andrea and Main Character Capital, please visit their website at www.maincharactercapital.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 decoded.com. Finally, if you like what you're seeing and hearing, please be sure to like, follow, share these episodes. We welcome your feedback as well. Andrea, thank you again for joining us today. And to our audience, thank you for investing your time with Dakota.