



SEASON 3 EPISODE #19

DANIELLE BROWN

ALTRIARCH

Gui Costin: All investing is subject to market risk, including the loss of principal. Past performance is not a guarantee of future results. And there is no guarantee any investment strategy will achieve its objectives. This information is provided for illustrative purposes only and is not a prediction, projection, or guarantee of future performance. This podcast is provided for general and educational purposes only and is not intended to constitute legal, tax, securities, or investment advice or a recommended course of action in any given situation. All opinions and views constitute our judgments as of the date of production and are subject to change at any time without notice. What is up, everybody? It's Gui Costin, founder and CEO of Dakota. Welcome to the latest Rainmaker Podcast. I'm joined by Danielle Brown from Altriarch, CEO, founder. Welcome.

Danielle Brown: Thank you. It's nice to be here.

Gui Costin: Yeah, so excited to have you here. So, Danielle has been in the alternative asset management industry for nearly 25 years. Her career has spanned all facets of the industry, including manager diligence and allocation, investment team and client facing roles, as well as oversight of operational functions. At Altriarch, Danielle is responsible for day-to-day oversight of the firm's investment team, client development, investor relations, operations, and finance. Prior to Altriarch, Danielle was a managing director for Dyal Capital Partners, a leading GP stakes firm, from 2012 to 2020, where she played a key role in strategic planning at underlying portfolio companies. Prior to Dyal, Miss Brown was the global head of client development for Roundtable Investment Management Company from 2010 to 2012. Prior to Roundtable, Danielle was a senior research analyst at Wachovia Bank from 2004 to 2010. While at Wachovia, Danielle was responsible for oversight of the bank's sub advisory fund of funds relationship, which peaked at \$3 billion in AUM. Danielle was a member of the Milken Institute's Young Leaders Circle from 2014 to 2018 and became a chartered financial analyst in 2008. She currently serves on the board of directors for the Ronald McDonald House of Charleston. Miss Brown received a BA in Finance, Magna cum Laude, from Seattle University. You have quite the background. So, would you mind just giving us a little where you grew up, college, and what you did after college?

Danielle Brown: I've jumped all over the place. Actually, I'm from Minnesota, so good Midwestern roots. Grew up there in Minnesota, went to school on the West Coast at a small liberal arts school, Seattle University out in Seattle. We lived there for about five years

and then made my way down to the Southeast. Very brief stint in Atlanta but landed then in Charlotte, where I spent the bulk of my career.

I'm over 20 years now in alternative strategies. That's all I've ever done. I've held most seats in the industry from operational to investment team to client development and marketing. So, my time in Charlotte was very formative for me. I was there from 2004 to 2010, 2011 frame but then made my way up to New York and was most recently with Dyal Capital Partners, now Blue Owl before starting Altriarch in 2021.

Gui Costin: Yeah, and Dyal an iconic GP stakes, I mean, the originator of the GP stakes business.

Danielle Brown: Yeah.

Gui Costin: Any learnings, takeaways that you've applied to Altriarch from your experience at Dyal?

Danielle Brown: Absolutely. I think when I started at Dyal, we had three stakes that we had done. We had barely closed-- I don't think we had even fully closed fund number one. And so, it was a really fun, exciting time to be a part of that team. We were growing rapidly out fundraising, closing deals. And so, by the time I left in 2020, I think there were over 42 stakes. So, there was a lot of time to go witness different ways people ran asset management firms. It varies widely to see how they want to run their firm. So, some of the things that I took away from that, looking at firms that I felt were successful, firms I felt had a good culture, was, one, we wanted to create a sense of autonomy at Altriarch. We really wanted people to feel that they have the ability to grow and to run their own department, to add to the success of our firm. And one of the ways that we do that is every single person in our firm is an equity owner at the company to some degree. If you've been with us for a year, and everything's in good standing, you're granted equity in the firm on the one-year anniversary.

Gui Costin: So, when you talk about the variance of how asset managers, 42 that you experienced, were run, any things come to mind, 1, 2, 3, that stood out the most that probably wasn't good that needed to be changed?

Danielle Brown: Capturing too much economics by one person, too much decision making by a handful of people at the top. And one of

the bigger things that we saw is having an incohesive marketing message or a lack of strategic vision for the firm. I think a lot of firms really succeed when they stick to their knitting. You really become experts and specialists within one particular avenue, and there's variations within those avenues. But try not to veer too much. Try to be very consistent with your messaging to LPs. And kind of boils down to become expert at one thing and execute that very well.

Gui Costin: What made you choose the strategy at Altriarch? You could have chosen a lot of different strategies.

Danielle Brown: Yeah, that's a great question. And some of it was just the serendipity of meeting my partner, Megan.

Gui Costin: OK.

Danielle Brown: When I left Dyal in 2020, my most recent assignment at Dyal was working with a firm called Chenavari in London. Chenavari is a very interesting private credit shop, about \$5 billion public and private credit. And they did a lot of esoteric private credit. I loved everything I was exposed to there, from factoring to bank rate cap trades to trade finance, and knew that when I started my firm, I wanted it to be within private credit. I think private credit managers have a real ability to add alpha given their structuring capabilities, workout capabilities, and just the day-to-day operations of handling those loans. So, I knew that. I knew I wanted to focus there. And when I moved down to Charleston, which is where we're headquartered, I met my business partner, Megan Brook. Megan at the time was a portfolio manager at a company that did short term business loans and factoring. And she was lamenting the challenges of finding financing for these specialty finance firms. Banks tend-- the ones that do lend to the space have very low advance rates. They tend to have a difficult time with the nomenclature and kind of the in the niche and in the cracks where factoring and accounts receivable lives. So, it's not easy to find financing if you're in that industry. Megan and I sat down and started to construct the strategy. And we realized, default ratios in this space, 2 and 1/2% to 3% for a lot of factoring firms. They're earning 24% on their equity. You have a lot of high barriers to entry. There's a lot of specialized knowledge to execute in this space. And it felt like that was really kind of checking the boxes of things that would be attractive to institutional investors. Consistent cash flow, low default rates, high barriers to entry. Those are all reasons you hire an asset manager to run that pool of capital for you. So, we formulated that strategy over the course of 2020,

officially launched our firm in 2021, and found our first investor at the end of that year. So, we now have an over a three-year track record. And so far, so good.

Gui Costin: That's great. Could you describe the investment strategy?

Danielle Brown: Yeah. It's relatively straightforward on the face of things. Where it gets more complicated is when you get into the collateral analysis and the collateral monitoring and management. So, what we do is we lend to other specialty lenders, full stop. We do that in three forms-- a senior secured typical first lien position, 80% advanced rates. We'll do it as a subordinated position as well. So that's behind a regional bank. We'll attach at that bank's advance rate. Maybe they're up to 70%. We'll take that borrower from 70% to 90% or some circumstances up to a 95% advance rate. And then the third strategy is best thought of as doing a co-investment alongside that specialty lender in either a vertical slice or a horizontal piece of their portfolio.

Gui Costin: So, for me personally, just being much more of a distribution person than an investor, what I love about private credit is the alignment of interests. And I don't know how you feel about that. But to me, it makes so much more sense to have you making loans versus a bank because the person making loan-- you worked at a bank, and that's where you grew up. You could be in a different division. After you make the loan, there's no ownership. If it goes sour, it's not coming out of your pocket.

Danielle Brown: Yeah.

Gui Costin: If you guys make a bad decision, it's like you feel the pain.

Danielle Brown: Yeah. And what we do is operationally intensive. The way that we do loans is our loans are not lending it and kind of forget about it and let it run. We're talking to our borrowers in some circumstances weekly. We're monitoring collateral weekly. We have a five-person investment team and a five-person collateral monitoring team. So, they're constantly looking at that collateral every single day to see, are we fully secured? Do we need to talk to our borrower about some aging on a particular set of invoices that's starting to slip? Do we need to talk to our borrower about, oh, they had a client who declared bankruptcy. What's going on with this situation? So, our loans are heavily operational lift for us as a team. But we like that

because it kind of keeps, again, the barriers to entry quite high. And it takes a specialized knowledge to execute.

Gui Costin: That's great. So, tell me about your distribution strategy. How have you guys gone about raising capital? And then which fund are you on right now?

Danielle Brown: Our funds are evergreen.

Gui Costin: OK great.

Danielle Brown: So, we've got two products. The flagship fund was launched in November of 2021. And I'll say, because of what we do, because of the kind of specialized nature of what we do, our sales cycle is a bit longer than even normal in the industry. I mean, we are already it's about two years for a lot of LPs. Ours is probably a bit longer than that just because getting into the collateral analysis and understanding how we perfect that and how we recover when things go wrong takes a lot of time for LPs to really fully feel comfortable with. If limited partners haven't done specialty finance analysis before or specifically accounts receivable in those tangential assets, it takes them a long time to get comfortable with the nomenclature and how we're talking about it. So, we take a very educational approach to sales. We know that we're going to talk to potential limited partners 4, 5, 6 times before they even say, OK, yes, we want to move forward with in-depth IDD and ODD. So, we have a lot of educational materials. We do a lot of proactive outreaches. And we think about most of our LPs-- when they say, yes, we want to engage, we kind of spin up an internal project on all of those limited partners. Anyone who's been in our industry a long time knows that LPs touch every facet of your organization when they get into in depth diligence. So, we treat it that way. And that's centralized and controlled by our client development, Greg Antonelli, who runs that for us. And he spins up a project for an LP and assigns all the operational pieces to our head of ops, all the investment information to our investment team. And we run it like an internal project, trying to get information as quickly as possible to our limited partners.

Gui Costin: And that's clearly because of the uniqueness of the strategy. it's not just off the shelf. It's so unique. So, people's diligence-- it's almost like they've never seen something like this before.

Danielle Brown: Some of the language, too, some of the reports-- we talk about things like dilution in the factoring world, a lot of people don't what dilution is. But if you boil it down, it's essentially you can kind of equate it to defaults or you're being underpaid on an invoice and things like that. So, you start to get comfortable with the language. And then we send you a whole bunch of reports from our system that say, here's the dilution for this past quarter. They will now understand what that means. So, it takes us a while to start to get them into that process when we send them the data room so they can understand it and not feel overwhelmed.

Gui Costin: Yeah. And so, you treat it like a project, each LP. So essentially, you do a bunch of meetings. And then when you get that serious interest, that's when the whole thing happens, right?

Danielle Brown: Yeah, if you're familiar with the software called Asana, but--

Gui Costin: Of course, yeah.

Danielle Brown: We use Asana. And we'll spin that up, and we'll have literally every single thing that they've asked for and everything that we've sent them. And we can go back and click the links and be like, oh, we sent them the performance file as of December 2023. We'll be able to pull up that specific file and always reference historical information that we sent them.

Gui Costin: Great. That's great. So, you're leveraging Asana from a technology perspective.

Danielle Brown: Yeah.

Gui Costin: And did you say you're using what as a CRM?

Danielle Brown: Oh, we use Affinity.

Gui Costin: Affinity, right, right.

Danielle Brown: From our size, we didn't feel we necessarily had the resources to devote a Salesforce admin to building out Salesforce the way that it really needs the attention to be built out.

Gui Costin: Sure.

Danielle Brown: And we find Affinity works pretty good for our needs.

Gui Costin: Oh, that's great. That is great. So just comment on the CRM in general, the use of it, how powerful it can be, leveraging the technology, leveraging your time. Just would you mind commenting on that just as it relates to the distribution process? I mean, the sales process.

Danielle Brown: Yeah, absolutely. So, Greg and I sit down every week. And we kind of go over our top priority names and what's next. How do we keep people interested? We also pull in Andrew Schafer on our team, who does a lot of our marketing communications. So, we've been quiet now. We've had people who are genuinely interested, but we've been quiet now for about four or five weeks with folks. What can we produce that's informational, educational? What sort of aspect of what we're focusing on as a firm can we send out to continue to further that education? So literally every week, we sit down, and we go through those lists. And we say, OK, what's top of mind? Who's the top priority? And then we find ways to reengage with them if they've gone quiet. We hit that first. What's the low hanging fruit? What can we complete this week that goes out to the investors?

Gui Costin: So, it's pretty cool how you've created a very sophisticated strategy that takes a long time to get to narrow.

Danielle Brown: Yeah.

Gui Costin: But it's also such an advantage to be able to be so deep in the education business, because that's really what it is. I mean, even for large cap, 22 stock large cap growth, US, that's what's kind of been our thing for 20 years. Great firm. You still have to educate on-- maybe less so today, but concentration. But you're really, really deep in the education business, which means once somebody gets to know you, they know you, and they're going to stay with you is my guess.

Danielle Brown: Yeah. And in what we do, there are always challenges. There's always one of our borrowers probably has a difficult client or a set of debtors who owe them that aren't really performing. So, we're constantly working through those challenges. We've got a lot of interesting case studies that we talked to about with our limited partners about how we've helped our borrowers

solve some of their underlying challenges within their portfolio. And that's something that we really enjoy doing. A number of our borrowers are younger firms. So, they're younger startups using us as a resource to double check their underwriting, to double check their collections process. We have legal resources that we can bring to the table at times. We'd be like, oh, you need to start sending demand letters. And here's a form that it should take given the states that you're in, given your state regulatory environment. So, we take a very hands-on approach with all of our borrowers.

Gui Costin: Oh, that's great. Your history at Dyal gave you a look into the investment management industry that few people get because you have such that level of depth. How has that affected your leadership style now that you're running your own firm, everything that you've learned? Because you saw a lot of-- 42 CEOs or maybe even more even if you're diligent, saying, how does-- well, one, characterize your leadership style, but how much of that Dyal experience influence it.

Danielle Brown: That's a really good question. I smile because I spent a lot of time thinking about this. And in the beginning, I kind of had these ideas on how I wanted to run the firm and then in practice realized it's a lot harder to actually run it the way you think you should on paper. So, I always said--

Gui Costin: Well, tell me, what was the-- yeah.

Danielle Brown: So, I always said that if I had my own firm, I wanted to be able to give people the autonomy that they needed to make their own mistakes and to learn and to really say, I think this is how we should do it, and for me to be supportive of that. It's a lot more fearful when it's your own money on the line, and it's your own company. And you're like, oh, you kind of want to control a lot more. So, I would say when I first started the firm, the first year and a half to maybe two years, I probably micromanaged too much and was trying to do everything. And then it reached a point where the volume of our work from a limited partner perspective, the number of borrowers that we were trying to evaluate, the quality of diligence that we were doing, I simply couldn't keep up. And it kind of broke the system. But that was a really good thing, because when that happened, and I just had to finally let go, it really let me see how much the team can shine. And so, they kind of wrested that autonomy from me. And now I've realized that they have complete control of their fiefdoms, of everything that they're focused on. And I

don't worry about it day to day. And I realize now that my job is just to support them. What do you need? I try to ask more questions than give advice, help them think through things. And so, to me, that's a bit of my leadership style. I want them to feel confident in their decision making. And I think being the sounding board for each of my senior team members is probably the best thing I can do for them.

Gui Costin: No doubt, because everyone wants trust. They want to be trusted. Right? And autonomy.

Danielle Brown: Yeah.

Gui Costin: But it's trust but verify, because you can't naturally. But being two in there, it essentially tells you, hey, I don't trust that you can do your job. And then good people leave if that happens, right? They want to be trusted.

Danielle Brown: Well, and one of the other things that we work hard on culturally at the firm is it's OK to make mistakes. We worry about big mistakes. That's what we really focus on is let's avoid anything that could be a really big mistake. But the small mistakes, we're all going to make them. Maybe we're going to lose an investor because the meeting didn't go well. But we can sit back and say, what should we have done differently in that meeting? How should we have answered those questions differently? Or should we have redirected the questions maybe into something more constructive? I've got the benefit of almost 25 years in the industry of pattern recognition, of sitting in these meetings and dealing with LPs and portfolio positions. My team largely doesn't come from this industry. Some of the investment team members do. My senior partner, Megan, doesn't. She comes from the operating side. And so, for her and others on the team, getting that pattern recognition that we're all so accustomed to in asset management is something that's still developing. So, we're going to make small mistakes like that. But that's OK because we've got a fantastic culture, and everybody's growing together.

Gui Costin: And it's funny you say pattern recognition. Sophisticated way of saying-- I call it telling people what they want to hear.

Danielle Brown: Yeah.

Gui Costin: If you're in an investor meeting, after experience, you know exactly what they want to hear to de-risk the conversation.

Every word out of your mouth, it's either de-risking, or it's creating more risk. And if it's creating more questions-- and then there's that art form.

Danielle Brown: Yeah. I have this general rule of thumb. And I've actually not told anybody this before, Gui. But you get three bumps in the road with an LP. It's like, if you create three openings or have more than three things that require explaining, it's done.

Gui Costin: Love that.

Danielle Brown: So, it's kind of like that pattern recognition, you get to the point where you're like, oh, that was the first thing I misstepped. I'm going to have to go back and explain that later.
[LAUGHS]

Gui Costin: Yeah.

Danielle Brown: And going through that, you maybe have three of those with a limited partner.

Gui Costin: Well, I mean, a lot of people don't realize when you're sitting across from someone, you're asking them to take career risk by investing with you and potentially get fired. And a lot of people are compensated on the investment decisions they make in an allocator.

Danielle Brown: Yeah.

Gui Costin: And so, it's like, obviously you're playing with fire. So, you have to be super prepared and understand and be able to anticipate every question. And there's some zingers you probably get. But at the end of the day, they do probably fall into some 80-20 rule of how it's going. All right. So, characterize your team a little bit. And then tell me, what advice would you give a young investor getting into the industry today?

Danielle Brown: Yeah. So, we have a young team. I'm the oldest person at the firm at 44. So, we have a young group. From a distribution perspective, so a young client development person in particular, I would focus on educate, don't sell. Make sure you're well versed enough in the top five positions of the portfolio that you can talk in some detail about those. So, make sure you're educated on the positions and the execution of the strategy.

Gui Costin: So, knowing the knowable.

Danielle Brown: Yeah, I like that.

Gui Costin: Knowing the knowable.

Danielle Brown: I like that. Knowing the knowable.

Gui Costin: Because even if you're inexperienced, you can know the knowable. You can know the ticker symbol. You can know the top five positions. You can know the investment case for each one of the top five positions.

Danielle Brown: That's right. And then focus on just helping your LPs get comfortable through an education process instead of trying to sell all the time. And the other thing that I learned early on that I really like, it's a little cliché saying, but keep the ball in your court. So, when you send an email, a follow up email, you've had a great call, you send an email, don't leave it open ended with expecting that limited partner to come back to you. They're busy. A simple example of that is attached to the materials we talked about, really looking forward to connecting with you again. I will follow up in two weeks. That way, you're still the one who's responsible for keeping that ball moving forward. And just keep that responsibility with yourself. Don't throw it out to the ether and wait for somebody to come back.

Gui Costin: I couldn't agree more. So, a lot of people ask me, Gui, what's your advice for following up after meetings? I said, I recommend not following up after meetings. I recommend following up in the meeting. So, I don't know if you've done this, but a guy called me. And he did 20 years in Austin, public pension fund. So, we got on the phone. And I go, how many meetings did you do with investors? He goes, jeez, 20 or 10,000. How many people asked you this question to close out a meeting? He goes, what's the question? I said, well, it's two. It's like, hey, I really enjoyed the call. Is this a strategy that you guys could ever see existing in your asset allocation model? If they say no, you know what the follow up is?

Danielle Brown: Yeah.

Gui Costin: If they say yes, then you say, hey, well, you're open ended. So, you say, well, do you anticipate doing a search in private credit in the next 12 months? If they say yes, then you can say, can

we be included? If they say no, then you know. We needed to do this in 2011 because I was getting great meetings. How was the meeting? Great meeting. I'm like, well, did they wire money? Is that such a great meeting? Just give me the status. I can take the bad news. So, we always talk about that. I'm sure for your strategy, if people are like, hey, is this something you could ever see investing in? I had one of our biggest Dakota fans, I told him this story.

Danielle Brown: Yeah.

Gui Costin: Out in California, in a meeting of the big public pension fund, brought in kind of an esoteric infrastructure. So interesting. The guy was all over it. He loved it so much. Chris asked the question right at the end. And the guy goes, no. No, no, I would never invest like this. Chris goes, then why did you take the meeting? He goes, man, I was interesting. It just sounded so interesting. And we can't do interesting meetings. You know what I mean?

Danielle Brown: Yeah.

Gui Costin: So, then all the waiting game and the ghosting and all that never exists if you do-- now, you're not going to always get the perfect match of-- but sometimes a quick note is great.

Danielle Brown: Quick notes are the best.

Gui Costin: Yeah, my favorite.

Danielle Brown: Tens of thousands of potential investors. And if they're not interested, it's great to know because we're not going to continue to pester them. We'll just keep searching.

Gui Costin: I mean, I love the quick note. And it's just easier right there. It's like, look, I think it's a great strategy, but it's not going to be a fit. OK, cool. But we had to have the meeting to learn about the strategy.

Danielle Brown: And then I would still say, that's great. I'll follow up with you in six months to see if that's changed.

Gui Costin: Well, that's what I say to everybody. It's like, we have this amazing database of LPs and all this information, just oodles and oodles and oodles of information. But I'm like, appetites change. I can't tell you every minute, every day what someone's going to be

thinking about, what they're going to like and not like. So, you have to touch base with people.

Danielle Brown: Yeah.

Gui Costin: Right? I mean, so OK, are you doing all the right stuff? OK, last question.

Danielle Brown: Yeah.

Gui Costin: So, number one, congrats on all the success, the company, everything. But tell me your biggest challenge that you're facing today in the market today.

Danielle Brown: There's the constant mismatch of LP inflow and opportunity demand. I don't think that challenge is unique to us. I think managers have talked about that challenge into perpetuity. Very commonly, investors come into a fund after a series of good performance numbers. But that's because the opportunity for the strategy maybe was really great during that period in the past. [LAUGHS]

Gui Costin: Right.

Danielle Brown: So, for us, tying that and getting that to match is always a challenge. Now, our pipeline for deal opportunity is massive. We're seeing \$35, \$40, \$50 million deals. And we've got enough capital to fund those. Thank goodness to our large, limited partners that we currently who are hungry for co-invest. So, we'll hold maybe \$15 million of that position in our fund, and the rest is out through co-invest with our LPs. But we need more limited partners in the fund, more mid-sized, limited partners. We're anchored by large, notable institutional limited partners. Because of my history with Dyal, that's my Rolodex. Those are the relationships I brought to the firm. We're working really hard to get the \$3, \$4, \$5 million size limited partner into the fund, where we can start to hold more of those deals in the fund and less in co-invest.

Gui Costin: Great. Well, thank you so much for being on the podcast.

Danielle Brown: Thanks for having me.

Gui Costin: Yeah. It's a remarkable story. I'm so happy for you. Starting your own thing is not easy. Right?

Danielle Brown: [LAUGHS]

Gui Costin: It's a personal exploration, if you will, mental, physical, everything. But congrats on starting it.

Danielle Brown: Thank you.

Gui Costin: And thanks for being on. All right. And that is a wrap for another episode of The Rainmaker Podcast. Thanks so much for joining. And I can't wait to see you on the next episode of The Rainmaker Podcast.