



ALTERNATIVES AT SCALE: INSTITUTIONAL PORTFOLIOS IN THE PRIVATE CAPITAL ERA

Announcer 00:03

Please welcome the panel on “Alternatives at Scale: Institutional Portfolios in the Private Capital Era,” moderated by Dan Primack, business editor, Axios.

Dan Primack 00:33

Thank you, everybody, for being here and coming to the big room and for skipping the other panels, which I guarantee were all going to be kind of trash. This is by far the best one. So thank you very much for coming and to all my panelists for being here today for this admittedly a little bit amorphous topic. But we have a phenomenal group of extremely accomplished people. I'm just going to ask you very quickly to introduce yourself. You're going to talk about your firm, but make it as brief as we possibly can, and let's give something fun. I also want to know what your first job was. Tony, start with you.

Anthony Tutrone 01:04

Sure. I thought at the end I would be able to go last, but I'll go first. So, Tony Tutrone, I run private markets at Neuberger Berman. It's a business that they hired me to start about 25 years ago. Before that, starting in 1986, I was on the direct buy-out side. So, that was my first job.

Mohsin Pirzada 01:23

Mohsin Pirzada, head of funds at the Qatar Investment Authority. The QIA is the sovereign wealth fund for the State of Qatar. We have a responsibility to invest for future generations and diversify away from

our natural resource, which is LNG. And my first job is nothing to do with finance. I was, by training, a nuclear physicist.

Alexandra Wilson-Elizondo 01:45

Alexandra Wilson-Elizondo. I'm the co-head and chief investment officer of the Multi Asset Solutions team within Goldman Sachs Asset Management. I oversee about \$540 billion across public and private markets. And some of those assets include large OCIO.

Dan Primack 02:03

First job.

Alexandra Wilson-Elizondo 02:04

Oh, I'm sorry. My first job, I answered the phone for 401(k) participants in Spanish who were looking to make withdrawals.

[Laughter]

David Golub 02:14

My name's David Golub. I'm the president of Golub Capital. Golub Capital is a credit specialist. We manage about \$90 billion, and our specialization is in providing private credit loans to private equity-backed companies. My first job was actually in the same group as Tony's, and Tony was a second-year analyst. I came in as a first-year associate knowing absolutely nothing. So, yeah, he looks 20 years younger than I am. It's not fair.

Peter Gleysteen 02:43

Oh, well. That happens. I'm Peter Gleysteen. I'm the CEO of AGL. We're a corporate credit specialist in both BSLs and private credit. And we have about \$25 billion in AUM. We're about seven years old. I've been in credit for a while. It's my 50th year. It's my third lifetime employer with AGL, which I founded and hired myself. My first job, I decided to leave college. I didn't think college was appropriate for me at the time. So, my first job actually was a psychiatric aide in a private mental hospital. Believe it or not, it's true.

Dan Primack 03:14

Dan Primack, business editor at Axios. I was a busboy at a Bennigan's, which if anyone remembers Bennigan's, I believe was bought and sold by private equity many times. I don't think it ever ended up working out for any of them. I don't believe. So, thank you so much for coming up here. I want to start with we've got some firms up here that are very specialized. Obviously, Goldman does everything, and you're on both the public and private side at Goldman. QIA, and you're on the fun side. And obviously, Tony, I would think on the private side of the folks up here, your firm does the most different things, I would think. Can you talk to me a little bit about—you've got all these firms that either started as lenders, more started as LBO firms and have now expanded into credit and into wealth management and all these other things. Do you believe that the scaling of these firms—is it really just filling buckets in terms of to fill AUM, or is it really to improve performance of the firms as a whole? And I'm going to let you exclude your own shop from that.

Anthony Tutrone 04:10

Thank you. So, I don't think it's yes or no. It's very nuanced, depending on the firm. I do think that the moral hazard of chasing AUM and revenues, especially if you're publicly traded, is something that actually has to be dealt with. Scale can bring a lot of talent into the firm, and in certain investment areas, scale's an advantage and size is an advantage. In others, it's not. Right? So, I hate to oversimplify it, but making sure that the capital you have matches the opportunities in the marketplace is extremely important. And, you know, I do think that sometimes the scale improves the ability to raise amounts of capital that probably can't be prudently deployed. So, I think as investors, one of the challenges that we have is to really focus on analyzing the different managers, see what their motivations are, see if they have too much capital, are they disciplined. And the other risk I'll just throw out there, because part of this adding all these different things is through M&A activity. And when you're combining firms with different cultures, with different incentives, it introduces a lot of risk. That's a risk that when I started in the business, you didn't even think about. I never thought about PE firms merging or going public. And now you have to look at the durability of the management team and the durability of the leadership. So, our jobs have become much harder, I think, in terms of that.

Dan Primack 05:44

Mohsin, guys, I'm curious for you. There seems to be on the fund investment side of this, there is this massive barbell, right? You have these big funds, whether it be venture capital, whether it be private equity, whether it be credit, just getting bigger and bigger and bigger, and then a bunch of folks on the smaller side. And some of that bigger and bigger, it seems that what they say to you or folks like you, particularly on the LP side of things, is they say, "Well, if you want to do the fund you really want, you also have to do the other ones." And whether they say it explicitly or whether they wink at it, how do you think about that? And does it scare you off, or do you think, "No, the bigger the firm is, that suggests that they've got more people who believe in them, and that's a signal for me"?

Mohsin Pirzada 06:21

Yeah. I think we pay close attention to exactly those types of conversations. When we examine any fund opportunity, we triage across three key deliverables. Obviously, performance. Second is on generating deal flow for the wider organization through co-investments and co-underwrites. That allows us to deploy capital efficiently and quickly in target markets that are important to the institute. And the third is around FDI initiatives to help strengthen our economy and diversify. Those three KPIs are generally met by the large institutions that have the firepower to do so, and so we have gravitated towards these types of financial firms. Recent example being with Goldman Sachs. We did a 25 billion MoU to support them on their private markets, which includes both existing funds as well as future funds where we—

Dan Primack 07:17

I'm sorry, which company? Say that again.

Mohsin Pirzada 07:18

Goldman Sachs.

Dan Primack 07:19

Oh. Yeah.

Mohsin Pirzada 07:21

And as part of that, there's obviously the conversations around establishing a MENA asset management hub, helping with our FDI initiatives, and so that's one example. We also have other examples whereby on the venture space, there is an expectation to help with their flagship products, and then for more capacity constrained or higher alpha opportunities, it's a ticket to get into that type of fund exposure. And these types of conversations are really case by case.

Dan Primack 07:56

Can I ask a quick follow-up, which is, when you talk to other folks at your organization who aren't in your part, is there any pushback—when folks look at, for example, at private equity benchmarks or venture capital benchmarks right now, both of which are awful compared to public benchmarks, is there anyone who looks at, “Why are we still doing this? We might be doing okay in this, but at some point, we're going to hit the mean, and the mean is bad”?

Mohsin Pirzada 08:22

So, look, I think we take a long-term view, in terms of our approach.

Dan Primack 08:26

But the long-term benchmarks aren't good either.

Mohsin Pirzada 08:30

So, for us, when we're looking at private markets, it's ultimately if it's a private equity, then what is your residual return that you receive? How we benchmark against a public comp is the complexity premium, the liquidity premium, however you want to think about this. And yes, we are observing a decline in that over recent years. But history—I think the longer history has shown that private equity, in case in hand, has demonstrated that it can outperform public equity benchmarks. And so we take that view that there will be episodic periods of underperformance, there'll be episodic periods of overperformance. But the discipline of showing up and being a reliable and consistent partner speaks to our ethos, and so that's the way that we frame this.

Peter Gleysteen 09:25

I just wanted to add onto that, that many of the investors we work with, we talk about benchmarks sometimes, but the real benchmark that we work on is what's their target outcome, what they're focused on, not how to compare to averages, especially ones that are driven by market prices, which are out of anyone's control. I just want to point out that that's who we're working for and what we're trying to achieve. You need to pay attention to—We want all the information; our investors want all the information that they can possibly get. We call benchmarks and market prices as supplemental information that help us do what we're supposed to do.

David Golub 09:58

But I think Dan has a really important point, and I don't want to gloss over the point. Alternatives are hard. Alternatives are complicated. They take more time. There's usually illiquidity, there's complexity, there's risk associated with all that. If you can't, as an investor, reasonably expect premium returns out of investing in alternatives, then it just stands to reason you shouldn't do it. So, I think my personal view is we're at an inflection point in alternatives. There was an extended period when most investors were better off, from a portfolio construction standpoint, adding alternatives from a return standpoint with the same level of risk. I'm not sure that's still true. I think what most big institutions need to focus on right now is actually where within alternatives they allocate, and there needs to be more focus on true generation of alpha. And that true generation of alpha comes with alternative managers who don't just work in an

interesting asset class. They have good businesses. They have businesses that have true sources of competitive advantage. Their returns are a function of their capacity to leverage those competitive advantages into premium returns. So this is, I think, critical—

Dan Primack 11:26

And within that, though, is past the predicate on that? Because given how much things are changing, this entire conference, there's been so much conversation about AI and what we don't know that's coming next. How confident can you be that those people who have those, quote, “real businesses” and that have proven that over the past five, 10, 15 years, have a real business in five years from now?

David Golub 11:44

So, valid point. Anytime we're looking at trying to predict anything, we have to ask ourselves whether we have sufficient information to be able to make a good prediction. And if you look at macro predictions, macroeconomic predictions since COVID, you would certainly have to express a certain amount of humility because so many of the consensus macro predictions have been wrong. But I tell you, I think in general, investors are pretty good at assessing the value of businesses. And what we're talking about here, vis-à-vis alternatives, is similar. We're saying institutional investors in particular need to be good at determining which alternative investment firms really have edge, really have competitive advantage, and which of them have a fancy brand name, or which of them are good at raising capital, or which of them have catchy phrases. Those don't turn into returns. So, I think investors are pretty good at assessing what are those competitive advantages, qualitatively, and at looking at track record and saying, “Okay, prove it.” Show me how you've been able to generate premium returns over time. And I think if investors see there's a persuasive argument as to the qualitative sources of competitive advantage, and that's backed up with historical outperformance, I think in many cases investors can get comfortable that it will be predictive of future.

Peter Gleysteen 13:20

If I could add just one quick thing—and maybe we can come back to it later, which is, what's the source of predictable and better superior returns? And since this is about credit, it's about effective diversification and making sure that you have the ability to handle the unpredictable of the future. But—

Dan Primack 13:34

[Inaudible] Yeah, Alexandra.

Alexandra Wilson-Elizondo 13:36

I would add from the big picture perspective that what's going to last the test of time is the portfolio construction and the governance side of it. And so, it's not to diminish that some of the managers really do outperform, and you do see that in growth with median versus top decile being 2,000 basis points difference in performance. But it's not calling right now, it's continuing to invest and deploy even when the parts are most difficult. It's looking at the factors in your portfolio and understanding, do I just own three types of levered beta at different costs, or I own something pretty diversified? And I think to your point on alternatives, aggregating alternatives, I think is a mistake that people make, and we spend a lot of time with the boards and the ICs saying, "We're not renting an asset class. We own multiple different asset classes that are going to perform differently throughout the cycle." And some of the most compelling things that are either anti-AI or anti-cyclical, anti-inflation, they're all happening in the private space. And so, real diversification can come to the portfolio when so many segments of the public market are failing you right now. You know, if you looked at all the different things that happened in the last few weeks, everything that you wanted to do well actually caused you a lot of volatility in your portfolio, whether it was rates, Swiss franc, gold—all of these things failed you. And so, you needed to have, not just because of marks and smoothing and all of that stuff, you needed to have other real things in your portfolio that were going to give you strong cash flows on good assets that weren't going to be moving around with what's happening in the Middle East.

Dan Primack 15:09

Hmm. Tony.

Anthony Tutrone 15:09

Yeah. I just wanted to back up on the kind of why private equity or private markets, and does it make sense.

Dan Primack 15:15

Can everyone hear him, by the way?

Anthony Tutrone 15:16

Sorry. I'll be louder.

Dan Primack 15:18

No, I don't think it's that. I think your thing—just move it a little bit.

Anthony Tutrone 15:20

Okay. If we just step back, right, the public markets have been on a tear. When public markets are on a tear, private equity's not going to look as good. I mean, I was asked this question two other times in my career, 1999 and 2007. Not that I'm predicting a crash or anything, but I think if you look at projections for public equity markets long term, I think people are saying 7 percent. Let's make up a number. There's probably no one in this room that doesn't think private equity can do better than 7 percent. So, the question is, are you going to get enough spread to be paid for the risk? And I think there could be a debate around that. But when I started on Wall Street, there were 6,000 public companies. It peaked at 8,000. Now there's 4,000. In that same period, GDP is six times as big. I don't see—and if you look at the average private equity, a lot of people look at private equity as a way to get small cap exposure and exposure to companies that you can't get in the public markets. It's true. Even the All-World Index, I think the average market cap is 10 billion, and it's 500 million equity in private equity. But more importantly, even away from that, if you want exposure to companies like Anthropic, OpenAI, SpaceX, you can't do it through the public markets. Those companies are staying private.

Dan Primack 16:42

In a month, you might be able to get at least one public.

Anthony Tutrone 16:44

In a month. Maybe in a month or two. But my point is, there's a whole bunch of reasons in my mind to believe—and by the way, yes, it's leverage beta, but not all leverage beta is created equal either. Not cross-collateralized, no mark to market risk, access of the companies to pay down the cash flows, is much less riskier, and actually a pretty low cost of capital because it's tax efficient at the operating level. So—

Peter Gleysteen 17:11

Cash flow is a good benchmark.

Anthony Tutrone 17:13

Yeah. And so look, I think there's a reason why the recent ILPA survey, 80 percent of LPs are going to increase or maintain their exposure to private equity. It's not a hope and a dream, it's just looking forward versus looking backwards, and I think that's the argument to keep doing it. Obviously, the diversity, and

just the last thing, the big dispersion of return there means there's more alpha available if you can do a good job than almost any other asset class.

Dan Primack 17:47

And the title of this particular session is about scale, and the alternative asset space as a whole, it seems like it's about to scale because it's about to get the holy grail of US capital flows, which is 401(k)s and other retirement funds, which it has not, for the most part, been able to access before. I'm curious, David, let me ask you to start with, how do you see—you know, on the one hand, I think every manager and fund and firm CEO would say, "Great. More capital, the better." We want access at least to more capital or the opportunity to have more capital. Do you feel the industry, though, is prepared for this, and will that potentially drive down returns?

David Golub 18:24

So, I'll take the other side of that. I'm not a fund manager who thinks that getting great gobs of more capital is necessarily good. If you think about investing for a moment, put aside being a shareholder in an alternative manager, but wear your investing hat for a second. What more scale means is you need to be able to deploy more capital well. I had an old mentor who said that your 145th best idea probably isn't as good as your 10th best idea. And that story is a great illustration of why, in many investing businesses, scale is the enemy of outperformance. Now, one of the things I like about our business is we've been able to grow our scale, and in the process, be able to solve more problems for our private equity firm sponsor clients. And so, we've been able to turn this on its head a bit and scale methodically, in a disciplined way, without compromising our underwriting, our investing standards. I think that's rare in investing. I think most investing businesses don't scale that well. So, this possibility—and I think we have to call it that—I don't think it's a fait accompli yet.

Dan Primack 19:40

The law's—it's coming, though. The SEC's put out the rule. They've asked for comments. They will not much care about the comments.

David Golub 19:47

So, this is the same person who just—I'm going to turn around your comment. I don't know if anything's going to happen these days. I don't know what's going to happen in the midterms. I don't know whether Washington changes its minds. There are a lot of variables. But I guess the point I was going to make is, I'm not sure this is a good thing. I think—

Peter Gleysteen 20:04

I agree with you. I don't think it is

David Golub 20:04

The scarcity of capital has been one of the reasons why alternatives have performed.

Dan Primack 20:09

Even though, as I think it was Tony who said earlier, the quantum of capital and alternatives, both in terms of number of firms and actual cash, has exploded over the past couple of decades. Sorry, you were saying?

Peter Gleysteen 20:19 I was going to say, I was agreeing that I don't think long-term or medium-term asset durations are a good fit for people who expect liquidity, especially with 401(k) type applications where the capital gets deployed immediately, and that creates adverse selection. But I want to come back to scale and operating. I think it's hard to get the benefits of scale if you're a generalist, but if you're a competent specialist, then scale can be a huge advantage, especially on the information side. The more information you have in whatever marketplace you're participating in, and the more relevant you are to it, then maybe it's a better point you were making.

Dan Primack 20:50

And then, when you say generalist, are you talking about a relatively small partnership that tries to do all things? Or are you talking about a mega firm which has a—

Peter Gleysteen 20:58

Both.

Dan Primack 20:58

Dedicated this team, a dedicated that team?

Peter Gleysteen 21:00

Both. A lot of people say they're great. It's hard to be great at everything. It's like your 10th or 110th idea thing. It's hard sometimes to be super excellent at even one thing, especially if it's highly competitive. But you can be really good, and if you are, scale is a real empowerment and a benefit to your investors and whoever you're adding value to.

Dan Primack 21:20

Mohsin, is this a conversation you and your colleagues have had at all? And I'll take your point, nothing's been done yet. But if there is a new flood of money that comes into alternatives, particularly in the US, that that's going to make things potentially more competitive for you. Obviously, people want QIA in their funds. But there's suddenly just a mass. This isn't like a new sovereign showing up. This is well beyond that.

Mohsin Pirzada 21:46

Yeah. The risk is there. The way that we think about this is what differentiates our capital. So, it's obviously a much more longer-term commitment that we make to our partners. And typically, it's not just a straightforward LP commit. The co-investment angle, I don't think this is something that the retail consumer would take up. Our broader relationships that we have through our international holdings, we synergize those conversations with our partners. And so, we bring something to the table which I believe is unique, which is not going to be replaced, at least for the short term, by retail participation. Just to add onto the comments made earlier, when we are examining funds and we're doing our diligence, we pay particular attention to performance and the correlation to increase in our assets under management. And in some cases, it can be justified given the market opportunity, and in other cases, we raise questions. It really is something that we are quite focused on.

Alexandra Wilson-Elizondo 22:58

Can I give a little context on the retirement side? We're waiting a couple of quarters for it to be official. Obviously, this is coinciding with a lot of the news and information out with BDCs and structures and the complexities of that. It's not individual 401(k) participants selecting, "This is my adventure, and I choose venture today." That's not what happening. It's we're going into a professional management vehicle like a target date fund, and it's going to be a portion of that. So, it's not going to be this epic wail of everybody's turning over their 401(k) plan to buy PE or credit, if you will. But I think one of the things you're highlighting, and the comments are on capacity, but also on vehicle structure. I think that there's going to be, and we've seen that, there's been differentiated performance because if you have one version of a vehicle structure versus a corporation or even versus a fund, you're going to have a different experience, and that's across all the different asset classes. And so, I think people are going to spend a lot of time on what vehicle am I part of, who are the other participants, what percentage is more retail versus institutional capital? And that will be part of the decision-making suite on a go-forward on how you allocate to privates.

Dan Primack 24:17

Again, if this happens, I did a prediction market panel yesterday. So, for what it's worth, if I had to bet on this, I'd hit yes, it's happening. I'd put my money on that. I've only done one, though, and I bet on a baseball team that lost, so who knows? If this happens, do you feel there's going to have to be more transparency? Private markets are opaque. They're by nature intentionally opaque. I appreciate, as you said, it's going to be targeted funds. It's not just going to be my 401(k) manager deciding to get into fund X. But do you expect there's going to be, if not a requirement, at least incentive, which might be getting capital, to be more publicly transparent in some of these investments, in some of these funds, Tony?

Anthony Tutrone 24:56

So, I think the industry as a whole has to become more transparent and better. I probably don't think it's as bad as some people think it is. And it's going to be challenging, but there's also technology will help. It's just because of the way the data's collected. And look, private companies are hard to value. Private positions are hard to value. And when we, you know, invest 25 billion a year across all different kinds of direct and fund strategies, we put about five billion a year in funds. And one of the things we focus on when we analyze a GP is we look at all their unrealized investments and say, "Are they valuing them correctly? Are they honest about the valuations?" And it's mixed, right? And I would say for the most part, there's not a lot of things that we see that are overly concerning, but there are sectors right now, like software and some others, where we definitely think the marks are higher than they should be. And I think those firms are waiting for the earnings to grow into the mark because the public market has made a decision. So, all those stocks are down, whatever, 20 to 30 percent. That's not the case on the private side. Maybe when the public market sorts things out, they'll trade back up. So, maybe the marks aren't as bad as we think. But yeah, I think if you're going to be in 401(k)s, if you're going to be in retail, you have to do a better job. But I also think—

Dan Primack 26:29

Can I ask within that—does the lag have to shrink? I've been talking to a bunch of folks here—

Anthony Tutrone 26:34

The lag is shrinking. People are estimating and getting numbers out much quicker. But the other thing I would say is you don't want to comb the hair on the elephant's back. You don't want to have false precision, right? These are private positions and David has a huge credit business. If he can really tell me why a credit should be at 97 or 100, I'm not sure anyone can do that. And the other thing is he's holding things to maturity. So, even if spread widens, does he really need to mark things down if he's holding them to maturity? So this is a nuanced area, but yes, the opacity has to improve. We have to get better at

reporting, and taking our marks when we need to take them. That all has to happen if we really want to serve the retail markets and the institutional markets better.

Dan Primack 27:20

I don't actually think it's that hard.

Peter Gleysteen 27:22

I agree with you because I think AI is going to force transparency, which—

Dan Primack 27:26

When you say transparency, what does that practically mean? What will we see that we don't now?

Peter Gleysteen 27:30

Be able to compare things to understand what it is exactly, and also to compare it. And the reason I say AI is, AI can only work if things are standardized, and there's only if things are standardized that you can compare them. And because AI is infiltrating quickly pretty much everything, anything that's opaque, there'll be more sunshine. So, I'm just pointing out whether people are willing or not, or demanding it or not, AI is going to enable it, and the first movers and enablers of it will make it happen.

Dan Primack 27:56

Yeah. Let me push on that. I'm a little surprised when you say that, but private company financials, for example, they're not going to be getting fed into Claude. They're being fed in. Will it not be getting fed in a way they might get in—

Peter Gleysteen 28:08

They're being fed now into all kinds of things, and accounting is standard. Cash flow is standard.

David Golub 28:16

Let me make it totally real for you. I was tired of hearing from critics of private credit that we're—

Dan Primack 28:24

You've heard critics of private credit?

David Golub 28:26

—that we're opaque. So, we decided to really attack this question from a valuation standpoint. And we now have a set of procedures where, other than de minimis positions, 100 percent of our positions are valued in a way where those valuations are validated by third-party valuation experts every month. When we started doing this in the public markets, and when we took GBDC public in 2010, we were industry-leading in having an independent valuation expert look at a valuation of each of our positions once a year. We're now doing every position once a month, and it's just not that hard. What we need is for the rest of the industry to follow us. What we need is for other specialties within alternatives to follow us. I think there's a compelling need for alternatives to get better on the valuation front.

Dan Primack 29:27

Can I ask a real talk question? Do you feel, and I'm going to say you like the one you hired. I've heard two things about valuation experts, one who are very good and some who tell you what you want to hear. How convinced are you that you're not just having somebody blow smoke back at you?

David Golub 29:43

I'd encourage you to look at our financial statements. The firms we use, they're disclosed. They're leaders in the—

Dan Primack 29:49

I'm not saying they're not good firms, but there's an incentive there to not tell you, "You know what? Everything you've got really should be \$0.10 on the dollar."

David Golub 29:56

I don't really agree with you. I think their incentive is akin to rating agency incentives. They've got to sustain their credibility.

Peter Gleysteen 30:03

And I would just add that it's—

Dan Primack 30:04

You're comparing them to rating agencies. Okay.

Peter Gleysteen 30:05

The risks are hiding in plain sight, and the information's clear to see, and you can agree on whether the same cash flow will replicate itself a quarter or a year out, but the actual historical facts are what they are. You can argue on a discount model maybe if you're using a particular methodology, but the numbers are the numbers. So, I agree with David. It is what it is.

Dan Primack 30:30

I'm just curious, because you work in both publics and privates. Somebody—I can't remember who it was—said right now—Tony, I think it was you— at the moment, most of us can't buy into OpenAI or Anthropic. It feels like there is a merging of the public and private, though. Obviously, for certain people, there are secondary exchanges, et cetera, for private company stocks, including those companies. Is the distinction from your perspective between publics and privates? There's obviously some very real structural ones, right? Who regulates what and what you can and can't do. But beyond that, are they kind of merging a little bit more, particularly when you have so many private companies which are larger than most public companies?

Alexandra Wilson-Elizondo 31:12

So, I'm going to pack that in two different ways. So, I agree that companies are staying private longer, and if you want to have a true expression of what's driving forward GDP and own that, you need to participate in both markets, right? Otherwise, you're not getting the full picture if you're just owning public equities. Are they merging in terms of opportunity set? No. I mean, the companies that you've listed out, they're coming into the public market at a trillion dollars. There's a whole life cycle of money that people have earned throughout the different stages of the company's cycle. But some public funds can buy the private companies ahead. Not all, and that's actually an important distinction. But you do see some companies, some own SpaceX, they own Anthropic, they own OpenAI. So—

Dan Primack 32:06

Or you can buy stock in Amazon or NVIDIA, which also own Anthropic and OpenAI. You can just play the cycle around.

Alexandra Wilson-Elizondo 32:12

You can, although it's de minimis, right? So, if you want to participate in the manager who's up 2,000 basis points versus everyone else, you had to own it from a long time ago. But that's an important part of how we've seen things. And going back to the distinction between just private equity as all one thing, so many people over the last five years bought venture, and they bought buyout, and they skipped growth because they viewed it as an expensive venture. And if you did that, and you missed certain vintages because you were worried about years like 2022, you completely missed out on a big portion of the entire private space's return. So, just taking that all back, no, it's not the same thing at all, and I think you would need to be very thoughtful about committing to all the different segments of the private universe.

Dan Primack 33:03

And you got hit particularly hard if you did that because if you bought buyouts in '21 and '22, you've got a bit of a problem. You were going to say something.

Mohsin Pirzada 33:11

I was just going to add to that. From our perspective, we aren't beholden by the label. We're indifferent whether it's a public or a private opportunity. What we are more focused on is what is the outcome, what's the risk-adjusted return, and how is this helping us strengthen and diversify the portfolio. And so yes, we are seeing a degree of overlap. I would agree that it's not significant. The two different asset classes offer different attributes for portfolio construction.

Dan Primack 33:47

Does the industry, just because these companies keep coming up in this conversation kind of everywhere at Milken, does the alternative space, particularly the private equity/venture space, does it have so much at stake when it comes to SpaceX, OpenAI, and Anthropic? When you look at the quantum of capital, I think those three companies raise something like 60 percent of all the venture/growth dollars in Q1, which is extraordinary for three companies to have done that globally. That if something significantly bad happens to one of them, that it puts the entire industry underwater for years? In SpaceX next month, is there so much more riding on these than maybe any other privately held companies before?

Mohsin Pirzada 34:28

It's a great observation, and I would agree to an extent that that's the nature of venture itself. So, it's not something new. We see an increase—

Dan Primack 34:38

Well, you've seen Grand Slams before, which have driven all the returns, but you haven't had so much that if one company—Google obviously drove tons of returns, but if Google hadn't worked out, it would've been a problem for two firms. They had \$20 million at stake. It wouldn't have tanked the industry. It wouldn't have helped it, but it wouldn't have tanked it.

Peter Gleysteen 34:55

I'll just add—I'm sorry.

Mohsin Pirzada 34:57

Sorry. In terms of the—the risk is there. That everyone is overlapping or crowding into these positions, and so if it does go south, then it will be detrimental. We acknowledge that. I would also argue that that risk is also in the public markets with the concentration of the FANGs, as it were.

Peter Gleysteen 35:22

I was going to add that concentration is the kryptonite of portfolio management.

Dan Primack 35:31

Are you surprised, then, that so many private, on the equity side, I know you're on the debt side, that on the equity side, so many have, as you said, crowded into the same names? And with big checks, not just a little bit of logo collection.

Peter Gleysteen 35:40

There's a lot of things that most of us, I can't explain, but part of it I think is experience. But the three horsemen of the credit apocalypse or the investing apocalypse are concentration, correlation, and mispriced risk. But concentration is the most devastating, for sure, and the one that you can actually see

that's usually hiding in plain sight. The correlation part for the latent concentration is a lot harder, but those are the three key disciplines that any form of portfolio management in any asset class or a mix of them, those are the three critical things in our experience that require intense focus.

Dan Primack 36:15

There's a fourth horseman that's come out recently for credit. You mentioned the reputation right now of private credit. Tony, let me start with you, and then David, I'll get to you, which is Claude and what it's done to software companies, and then kind of what the after effects have been on private credit. So simple question for you. Private credit as an asset class. Is it healthy?

Anthony Tutrone 36:35

Yes. That doesn't mean there aren't legitimate issues. And I think we all know that not every software company is going to be zeroed out. And there will be, obviously, if you're a thin, horizontal piece of software that has no—you're not mission-critical, et cetera. You are hugely at risk, and you're going to get crushed. And even some of the ones that are mission-critical, if they don't execute around their own AI strategies, they also can be at risk. Probably more of a problem for the equity than the credit. But I think the issue that we have, so I'm not looking at any massive apocalypse right now across portfolios because of software, and certainly it hasn't shown up in the numbers for the most part yet, although there will be some really bad software deals that were done in '21 and '22 that we blamed on AI, and they have really nothing to do with AI. They're just bad deals. The challenge is, as these maturities come due, I don't think at this point the market hasn't decided who the winners and losers are going to be, so no one's going to want to touch these credits, and so that's going to be a problem. I actually think it's less of a problem in private credit, just because of the way things work. I think private credit will work with the companies, extend maturities, et cetera. The cash flows are there. They have coverage. Maybe they get a higher yield, et cetera. I actually think it's a much bigger deal in the syndicated loan market that is much more complicated given who owns them and the ability to refinance those transactions. I actually think private credit will do better—under that duress. Now, they have more exposure to software, but not that much more than the syndicated loan market. And the good news is the high-yield market has very low exposure. I think it's like 8 percent. So...

Dan Primack 38:26

David, is he right? I assume you're going to say private credit is healthy as an overall industry. Is he right that private credit is going to be, let's say, kinder or more generous with its companies than the syndicated loan market's going to be? Can I just say as the context is—

Anthony Tutrone 38:48

I didn't use the word generous, by the way, David.

Dan Primack 38:50

When you go back to 2008, for example—

Anthony Tutrone 38:51

I think more thoughtful is what I was thinking.

Dan Primack 38:53

Like when you go back to 2008, the banks were pretty, a lot of kick the can down the road, a lot of amend and extend. That's their history.

Anthony Tutrone 39:00

They'll do that, too. It's just more complicated. I've unfortunately been on the wrong side of the table in those discussions, so when you have the 40 people and the hedge funds are in who bought in, it's a lot more painful than sitting down with David's group. I'll put it that way.

David Golub 39:14

I think we're in a Darwinian moment in both the private equity business and in the private credit business. Private equity has seen a period of lower returns than managers would certainly like. In private credit, we've seen a big drop in ROEs in 2025, and we've got investors responding to that now with redemption requests and lower prices in BDCs. I think we can also see where this is going, Dan. I mean, I think this gets to my comments about competitive advantage. The private equity firms that are going to win prospectively are going to be those firms that aren't just financial engineers, but that have on their teams operating specialists, procurement specialists, technology specialists, pricing specialists, that are really able to increase the value of their portfolio companies. That's going to be, and this gets to Peter's point, that's going to be a more limited set of private equity firms that are operating at scale. They're going to want to be served by private credit players who are also operating at scale, who can handle the deals that they're doing that are small and that are large, in the US and in Canada and Europe and elsewhere in the world, in multiple currencies, and that have the capacity to grow with their portfolio borrowers. So, I think the evolution of both of these industries is actually reasonably clear. We're going to see a bit of consolidation, not through M&A, but through allocation of capital. And we're going to see the development of very large-scale winners who are going to be hard to compete with.

Peter Gleysteen 40:57

And I'll quickly add that BSLs and direct lending, they're converging, and they have so many similarities, and they're coming together. There are a few differences. It's evolving quickly, but it's even converging faster, and which is why most borrowers, smaller ones, too, and even bigger ones, can pick either, and whatever's the best application for these—

Dan Primack 41:19

Well, we're talking, and both of you, I think, and correct me if I'm wrong here, unless I misheard, are talking about the next deal, the next loan.

Peter Gleysteen 41:26

Yes.

Dan Primack 41:26

For some of the stuff that Tony was talking to, that 2021, the 2022 deals, the stuff that is coming to maturity soon, is private credit going to be more flexible than is our syndicated loans?

David Golub 41:42

I'm not sure flexible is the word I'd use to describe it. I think there'll be differences in how those discussions take place in the private—

Dan Primack 41:48

I can put it differently. If I'm the equity holder, if I'm the sponsor, would I rather be with private credit, or would I rather be with a bank?

David Golub 41:56

Well, your choice isn't with a bank. Your choice is—

Dan Primack 41:58

I'm sorry. Fair enough.

David Golub 42:00

With a syndicate of broadly syndicated loan lenders. And to Tony's point, hard to corral, hard to get decisions made, very challenging legal environment where things get litigated. It's kind of awful. And, you know, in private credit, we've been able to come up with more win-win solutions. Not always. Sometimes it gets contentious, but I think it's been easier to get to win-win solutions because of the more limited number of players who are at the table.

Peter Gleysteen 42:32

I would just quickly add, though, that the key point is what's the motivation? What's the sponsor going to do? And that's going to be the function of how much they think their equity's worth. So, if they paid 20 times for something and it's now eight, that's going to change their behavior. If it's down, but not at eight, but at 12 or 15. I'm just pointing out whether it's a BSL or a direct loan, it's going to be what the sponsor does and what's the better format that they're in is what their situation is and what they will do as a fiduciary for their equity.

Dan Primack 42:59

Do you think there's going to be appetite—and when I say this time around, this isn't 2008, this isn't 2009. But for companies, particularly on the sponsor-backed software companies, that do have problems, and there is kind of a come-to-Jesus moment. Do you feel that lenders are going to have interest in actually taking them over, which they really didn't for the most part in '08 or '09?

Peter Gleysteen 43:21

No. What they want, they want resolution, and sooner rather than later, and this could be a great—

Dan Primack 43:29

Or if not structurally take them over, at least really put pressure to sell.

Peter Gleysteen 43:34

Well, I would just say this, that one of the old three Cs of lending, which is character and the behavior of sponsors, was kind of assumed, but now it's actually a really big deal, and it's a big focus certainly for anything incremental that anyone's investing in. Because it's all about one of the things that's happened with LMEs and syndicated lending, liability management exercises, is recoveries for leveraged finance were statistically really robust, factual things you could rely on. Now it's actually the behavior of the borrower and the sponsor, which is—

Dan Primack 44:07

When you say behavior, what does that mean? What is good behavior? What is bad behavior?

Peter Gleysteen 44:11

Doing something that means the recovery's totally unpredictable based on how a company is restructured or recapitalized based on what a sponsor thinks it can do or what its lawyers advise. “By the way, your credit agreement, you thought it could do X, but you can actually do Y.” That's not in the data, and you can't statistically extrapolate human behavior, and it's made character actually, which used to be a requirement of extending credit, actually a really big deal. Who are you dealing with and what might they do under adversity?

Dan Primack 44:43

Or apparently you could use AI to predict it. So, let me get to AI a little bit here. Something we were talking about backstage at the tables and that I've been hearing from a lot of folks at Milken, when it comes to new deals and private equity, particularly historically is, it's a long-term asset class, and that's always been a positive, right? We hold it longer. We don't have to sell it tomorrow if things are bad. That has always been the positive of the—a huge calling card. Now, though, I'm starting to wonder if it also works against the industry in the sense of technology is moving so quickly, particularly with AI, that how you today write a return multiple for four years from now seems just so—help me out. It seems so incredibly fraught. I think the first GPT came out, what, less than three years ago. You think of where everything is today. God knows where things are going to be three years from now. How sponsors even get their minds around this? Or is it really just dartboard guesswork?

Alexandra Wilson-Elizondo 45:44

I mean, this is not a private-equity-only problem, right? This is pretty much every asset class.

Dan Primack 45:49

But other asset classes you can get out of a little bit quicker.

Alexandra Wilson-Elizondo 45:52

You can. They also reprice quicker, too. So, you get out 60 seconds later when it's down 15 percent. I think that control is a really important attribute. So, you want to be part of an investment where you have the ability and flexibility both to, you're not capped by leverage. You have an actual management team that still exists that can help change the complexion of the company if you need to, and to handle the adaptation of this. So I think it's really important to think that through and to make sure that you're investing with the right managers and the right underlying assets to do that. But I actually would extend it beyond just talking about private equity. One of the things you're highlighting is AI is a tremendous thing to be invested in, right? And a lot of what's happening in the private space is you're investing in the cap on AI, which is the infrastructure, all the underlying components of it. But there's other things in private, which I would view as the anti-AI trade, and most of our institutional clients are very focused on, "How much AI risk do I have and what do I invest into so that I'm not fully exposed to this one factor?" And if you think about royalties, sports teams, life sciences, all of these things—

Dan Primack 47:10

It's interesting. Sports teams, yes, I've heard a lot about. Pro sports is the anti-AI trade. Is life sciences the anti-AI trade?

Alexandra Wilson-Elizondo 47:19

I mean, sure. Because—

Dan Primack 47:20

Really?

Alexandra Wilson-Elizondo 47:20

A lot of the stuff that they're, the therapeutics that they're coming up with to change how your liver behaves with something that's ultimately is changing not only the complexion of medicine, but also has a return profile that's just quite extraordinary.

Dan Primack 47:34

I guess I ask in the context of, and if you listen to Sam Altman or even Dario, we're going to be coming up with life-saving treatments really soon. Can Claude, can GPT soon make a better mousetrap? Can it make the better lung medicine, the better liver medicine than the one you've just spent a billion dollars developing?

Alexandra Wilson-Elizondo 47:52

I mean, some of them are already coming to fruition now, right? And you can see that in the prints, and so that's where it has been an anti-AI trade, where you've seen some of those asset classes trade down, and this has still done very well. I think it'll be more of a complement than a complete substitute, like we've talked about with so many things with AI. But yeah, I still think it's a meaningful diversifier for a portfolio, and I would love to hear your thought, Mohsin, on how you're thinking about some of those things.

Mohsin Pirzada 48:16

Yeah, look, it's very topical for us and, in terms of our approach to exposure in AI, it's really we're quite humble in that regard, that we don't know what the future holds, and so your best bet is diversification. So, we invest across the capital stack. What we do recognize is that that trend is there. This is going to be a massive structural shift globally. We've seen the first domino to fall in software. It won't stop at that, and it will continue across multiple sectors. So, the way that we think about this is investing in the bricks and mortar that support AI. So, a recent partnership with Brookfield, for example, to help develop data centers and the AI capacity within the state of Qatar through our subsidiary of QAI. That would be one example. We do invest through venture, through both funds and direct otherwise, in the Anthropics of the world. We are looking at photonics. We are looking at, on the public side, exposures to the lead companies, FAANG 7s, et cetera. So it really is quite a broad-based exposure that we have, and it's in recognition of exactly your point that we don't know what tomorrow will look like, but we know the direction of travel is unstoppable.

Dan Primack 49:45

Tony, the topic of this was alternatives at scale, and so let me ask about AI from a different perspective, which is a more internal to firm perspective. Can you talk to me a little bit what you're doing or what your firm is doing now internally using, whether that be from a pure operation standpoint or from an investment perspective?

Anthony Tutrone 50:02

Sure. So, we're doing a lot, but one of the big challenges in private markets is you get data from all kinds of different sources in all different formats, often unstructured. AI is really helping us be able to go through all of that data and bring it together. So when we get an opportunity, and it comes from a bank or whoever

it comes from, our analysts and stuff used to run around, try and look through all our old ICs in this area, in that area, go into our databases, looking where we have direct equity or direct credit, and then try and get our research from the public side of the house, too. Most of that is automated now. So, most of it is going through, it's scraping through, and it's actually, we're training it to put it in a form that's very useful to us, including going out to the web and other outside resources to also bring in research. So, I mean, this is just one example, but I just think it's interesting because in the beginning, we thought this was going to be mostly a cost game. For us, it's been more of a productivity and quality game and increasing our capacity to look at more transactions and to react quicker. That's where I've seen the most benefit. Don't get me wrong, our NDAs now are completely done by an agent, pretty much. And we're signing, of course, I don't know, hundreds or thousands of those. So, that is happening in the legal area, in the finance area. But where I see a bigger impact than I expected is actually in the investment area. And, you know, I think I'm proud of what we've done, but we're just scratching the surface.

Dan Primack 51:33

David, for you, this industry as a whole, Alts in general, has always been kind of viewed as a little bit of an apprenticeship business, whether that be from venture all the way up to mega buyouts and on the lending side, too. Should there be any, or how do you think about this idea that if the industry ultimately needs fewer 24-year-old analysts because there's less modeling, or at least there's less man-hours required for some of the modeling, that in 20 years, 30 years, this panel's not going to exist because there's not going to be anyone to take your jobs?

David Golub 52:04

So, I think there are a lot of things you should worry about, Dan, but that's not one of them. There will be people who will take our jobs. Most alternatives firms operate with a bit of a pyramidal structure. When AI has been fully implemented, we'll still have a pyramidal structure. Maybe it'll be a little steeper, but it's not going to be a lot steeper. The reality is that our junior people will still be employed. Their jobs will be a little different. They'll be more productive. They'll—

Peter Gleysteen 52:36

They'll be thinking more, not processing more.

David Golub 52:39

So, I'm actually very optimistic about ways in which AI is going to improve productivity, improve effectiveness, and I think it will be another driver of scale because I think the firms who are going to be good at this, who are going to invest in it, who are going to have the resources, are going to be larger. So, I think this is going back to our title for this conference session. I think this will be another driver of scale.

Peter Gleysteen 53:09

And AI, net is just a huge positive. Will there be issues and are there legacy things that will be problems? For sure. But it's a huge enabler for the whole economy, never mind asset management and all the process productivity things, all the routine functions can be automated, speeded up, and we can do things that we don't have the time to do now. And back to your 24- or 34-year-old, they can do more value-added thinking and imagining and adding value and not just doing repetitive tasks.

Dan Primack 53:37

I'm curious for you. Okay. So Tony, you mentioned how your NDAs and a lot of the back-office work is getting automated now. That's probably going to continue, accelerate. You pay fees to these firms. You pay annual fees to these firms, theoretically for overhead. That is the official reason why you are paying the non-performance fees. Should fees be coming down soon? If they don't need as many accountants and as many lawyers and as many copyright, shouldn't you be paying less money to them?

Mohsin Pirzada 54:05

I think that's a—I wouldn't disagree to put that forward, and I'm sure a number of the partners that we have are probably not happy with your comments now. *[Laughter]*

Peter Gleysteen 54:15

But there could be more value added.

Mohsin Pirzada 54:18

The flip side of that and is the investment that the managers are undertaking to justify those fees. And so, if I put my GP hat on, I can understand why fees might necessarily not come down. Plus, there's a premium in terms of those funds that continue to do well. They can charge a—their market rate is higher than perhaps others. So, just in terms of what we're seeing today, we're not seeing that. It's too early for us to start negotiating on that point today. Your point earlier around the replacement of jobs is something that I personally worry a great deal about. And I certainly do hope that the path that we go down is to incentivize and work collaboratively with the workforce to have AI as a toolkit for it to increase productivity. Because if that's not the case, then a bunch of these institutions and firms are going to have succession risk, in terms of who the next—And what you're missing from AI today, is on experience. And so without having juniors running around doing screening memos, investment diligence for you, they're not going to be in a position to manage the organization five years from now.

Dan Primack 55:43

There's already been a few, it's mostly on the venture side, a few firms that have shown up, which are arguing, "We are pure AI. The decision-making, we have basically outsourced it to the AI." Small, mostly on the angel side of things. Is there a reason, though, not to think that we will at some point see larger and larger firms? That could be on the credit side, that could be on the equity side, that really do outsource a lot of its decision making. General Atlantic has an AI on its investment committee. It doesn't have a vote yet. Would that be something that you would shy away from, or do you expect that we will see that in five years, 10 years, particularly as these technologies improve?

Peter Gleysteen 56:20

I would say yes. So I would put it in the red teaming category. You want to make sure that someone or something checks out the things that make sure it all got checked out because we're still human beings. We're influenced by each other. It's an essential qualitative assessment to any analytics and decision making. So, having an automated capability to take in all the obvious information and distill it objectively and make sure that you're aware of it, and maybe red team's too extreme because that's kind of a pushback. But as a baseline of the market sees all this information, are you using that as the baseline for whatever you're thinking, talking about, and debating? So, I think it'll be a big plus. I think it'll happen. And it'll benefit everyone.

Dan Primack 57:05

Tony, are we going to have the equivalent of robo-advisors in private equity?

Anthony Tutrone 57:10

No.

Dan Primack 57:11

No?

Anthony Tutrone 57:11

No, I don't think so. I think it's going to enhance decision making, but I just don't see it replacing humans. We're going to have more information, maybe less biased information, at our fingertips. You see, when I

started in the business, I thought the best investors completely blocked all emotion out, but emotion plays a role, too, in making good decisions, in my opinion. And the one thing about private markets, it's still very relationship driven, and I think it's going to be tougher for an avatar to build relationships with CEOs and figure out what they're about and what motivates them.

Dan Primack 57:45

Well, does it have to, though? Can't your agent just have a conversation with the other firm's agent and you can get your summary on the beach. You can find out what happened.

Anthony Tutrone 57:52

Maybe my grandchildren will have to worry about that, but I don't think I do.

Dan Primack 57:57

We have just about a minute and a half remaining here. I want to go a little bit off topic, but this is something we discussed backstage, and so mostly since we have you here. You got asked when we were chatting just what is happening back home and what life is like right now back home. Could you just speak to that for a minute? Because I think a lot of folks here are kind of interested in what obviously not just happening geopolitically, but what is actually happening on the ground in your experience.

Mohsin Pirzada 58:17

Yeah, look, I mean, the region's obviously going through an unsettling period, but in terms of the impact in Qatar, it's been fortunately limited. We remain in a fiscally strong position. The capital markets remain open. The schools are functioning. Offices are open. There's still long queues for coffees outside coffee shops, and so it's really much business as usual. But it is obviously an overhang to see the continuation of hostilities with our neighbors, particularly in the UAE. And so, I think everyone collectively in the region is looking for a quick resolution. This is not something that can be sustainable for all the reasons that we were discussing earlier. The implications of not having the Strait of Hormuz open has ramifications around food security, around semiconductor manufacturing, and I remain somewhat surprised as to why markets haven't really absorbed that future and forcing the conversation to obviously reach an agreement.

Dan Primack 59:29

I want to thank our panelists. I want to thank all of you for being here. Thank you, guys.

[Applause]

Announcer 59:36

We hope you enjoyed the discussion. Please make your way to your next session.

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