Proskauer

Private Market Talks:

Creating an Investor-First Culture with Neuberger Berman's Susan Kasser

July 21, 2023

This week on Private Market Talks, Neuberger Berman's Susan Kasser discusses the specific values at the core of building a top-tier private debt group as well as each investment decision. She also talks about the three "C's" for creating a successful team and offers an insightful, self-proven piece of advice.

Later in the episode, Susan looks back at the evolution of private debt and we hear her thoughts on what's been done right over the past 20 years in terms of investments, what's to be improved and where is the asset class going. Finally, Susan shares her thoughts on what portfolio managers can do to prepare for unforeseen dislocations in a post-pandemic environment.

Peter Antoszyk: Welcome to Private Market Talks, a Proskauer podcast. I'm your host, Peter Antoszyk. Neuberger Berman is one of the world's largest asset managers. The firm has a broad range of investment capabilities, and its success is due in part to its culture. As such, the firm has maintained an incredible 97% retention rate among its senior investment team since 2009 and has been recognized for its distinctive culture. Susan Kasser is the head of Neuberger Berman's $13 billion private debt business. Culture is at the center of her investment strategy, her secret sauce. Susan joins me today to discuss what values she believes are crucial to building a top-tier investment team and how she has built her team around those values. We also discuss the relationship between perceived risk and actual risk and how private credit will be tested over the next 12 months. You'll find a full transcript of this episode, as well as links to other useful information, at PrivateMarketTalks.com. Susan, welcome to Private Market Talks. Appreciate you being here.

Susan Kasser: Thank you, Peter. Thank you for having me.

Peter Antoszyk: Absolutely. We are here today to talk about culture and the importance of culture at Neuberger Berman, and in particular to you, in building the private debt group of Neuberger Berman. Can you tell me why it's important now?

Susan Kasser: Yes, so, I think it's interesting. Sometimes, people can get into the habit of thinking a team is a collection of individuals or a collection of many teams. And I think that especially with investing, what the investors are looking for is truly a team effort, and that's actually really hard to do because investors are individualistic and opinionated — all of which is good — and getting a bunch of individuals to work together as a team is quite difficult. And so, culture becomes important. And the other thing that I think is especially true about credit investing, is credit investing is actually all about not making mistakes, as opposed to being the most clever person in the room. And I think culture is really important also because I think a lot of people feel that they want to do the hardest thing or the most clever thing. And again, in credit investing, that's not really what your investors want. They just want you to not make mistakes.

Peter Antoszyk: So, what are the key attributes in the culture that you were building at Neuberger Berman's private credit group?

Susan Kasser: I sometimes like to quote NYPD in the subway, right? So, if you see something, say something. And that, I think, is where this challenge of turning individuals into a true team kind of comes to play. So, I've certainly seen people develop "My Deal Syndrome," so that can have two negative effects. One negative effect is: "Well, it's my investment, my deal. I sourced it. I worked on it. And so, if you criticize it, you're criticizing me." And then, that can make any kind of difficult conversation just much more difficult.

Peter Antoszyk: Sure.

Susan Kasser: And then, the other thing I've sometimes seen happen is people say, "Well, there's such a scarcity of opportunities. Don't get in my business. I won't criticize yours if you don't criticize mine." And then, I step back again, and I think, okay, if we're approaching this from the lens of: What are the investors looking for here? They're not looking again for us to not criticize each other's opportunities. They're not looking for people to get personal about their work. They're just saying, "Please do a good job."

Read More >

Peter Antoszyk: Right.

Susan Kasser: “And please don’t make mistakes.” And so, you’ve got to be able to separate between what you’re working on and who you are. Or as I like to say, it’s much more important to do the right thing than it is to be right.

Peter Antoszyk: So, there’s a sense of humility to, you know, the investing culture?

Susan Kasser: Yeah.

Peter Antoszyk: And also, I guess, creating a safe place where people feel they can express their opinion, but in a way that they won’t be criticized for expressing their opinion.

Susan Kasser: Yes, I think that’s right. I think that both those words are really important. So, and I would add maybe one more, which is fiduciary duty, right? So, or a sense of mission. So, the first part is, if you can make it not about yourself, then it’s not about yourself. So, if you remember whose capital it is that you’re investing and what they want you to do with it, that can help give you some amount of distance. I think the humility part is really important, right? Understanding that no matter how hard this investment opportunity was to source and how hard you worked on it and how diligent you were, maybe there’s something you didn’t think of and that’s something that your colleague is asking. And then, this idea of safety is really important too because you could assemble a team of people who are quite collaborative and do have opinions and aren’t defensive when people disagree with each other, but if they’re in an environment where they feel that they’re competing with each other, right? Whether it’s for promotion or compensation or growth or capital to invest or attention, even, or space, then you turn a collection of really talented individuals through a scarcity mindset into more of a competitive environment. And so again, you force people to think like individuals and so, culture is both: “Did we pick the right people?” but then as you said, with this idea of safety, did you create an environment where they can be their best collegiate, cooperative, collaborative selves?

Peter Antoszyk: There are a lot of C’s.

Susan Kasser: Yeah, as opposed to competitive selves.

Peter Antoszyk: Right, how do you go about fostering that kind of environment?

Susan Kasser: Well, let's hope I'm doing a good job. So, we do think about it a lot. We think about it in the interview process. So, I think, like most people, we run a case study as part of the interview process. And we have people present the case study live, and we disagree with them. And sometimes the temperature is a little bit warmer in the disagreement. You have to be careful because there's a real power dynamic, you know, when you're interviewing somebody and they're being interviewed, right? So, it's not a fair environment, but sometimes you can test pretty quickly if people can keep a distance from this investment opportunity, versus get defensive. And then, we try to do a whole host of things that keep people close to the investor or close to the mission. So, one of them is we don't allocate relationships just to one individual. Neuberger Berman is very different in the direct lending space because Neuberger Berman is also a private equity fund investor. So, we're direct lenders, but when we're calling on a private equity fund to say, "Hey, can we help you finance an acquisition?" They know that we're also calling as their LP investor.

Peter Antoszyk: Right.

Susan Kasser: And so, that gives us — again, back to humility — no matter how great your relationship is with this private equity fund, understand that that relationship is built on our colleagues' investment as a limited partner. So, you're doing a good job in your seat, but you didn't do the whole job yourself.

Peter Antoszyk: Right. It's not all about you.

Susan Kasser: Yes, exactly. This relationship does not belong solely to you.

Peter Antoszyk: Right.

Susan Kasser: It was not built solely by you. In fact, it was built by a collection of people at Neuberger and a collection of businesses all based on the capital our investors gave us to invest, whether it's on the direct lending side or the LP fund investing side. So, that's one thing that helps maintain distance. Another thing is, we don't rank and compensate people based on dollars invested, because one of the things that we like to talk about with our investors is we say "no" an awful lot. We're here to preserve your capital. If we can invest it and preserve it, we will. But if we have to pick between the two, we'd rather not invest it and preserve it than invest it and maybe risk it. And I think that that's hard to say if at the same time, people know that they're compensated based on how many dollars they deploy a year. We don't have deployment budgets for that reason. And then, another thing we try really hard to do is to bring as much of the team as possible in contact with the underlying investors, so that they really appreciate we're not making these decisions in a conference room because it's an intellectual exercise. Right? We're investing the capital of pensioners.

Susan Kasser: And of insurance companies and of foundations. And that, you know, that's as sacred a mission, I think, as you can get in finance.

Peter Antoszyk: Right. It's interesting. So, you're really bringing them in contact with your investor, and it makes it very real for them as opposed to being two or three steps away from who the customer is.

Susan Kasser: That's right.

Peter Antoszyk: You talked about the hiring. You talked about the compensation. Are there other things that you do to foster and maintain that type of culture?

Susan Kasser: I think another element that I thought about more over time is, one of the important things about being a private investor — so in our case, a private credit investor — is the investors entrust you with the capital for a long period of time, right? We have these lock-up vehicles, and that's wonderful because it gives you the ability to be very patient and very selective, right? So, we talked about this capital preservation orientation. But it also means that the investors are trusting you for periods of time that could be a decade, right? So, investment periods are not that long, but the total fund vehicle could last a decade. And when you think about building something to last a decade, you have to start thinking a lot more about redundancy and succession and planning because, you know, 10 years is a really long time. And of course, you don't think any individual investment will be out for that long, but a vehicle could be outstanding for that long. And so, that's another thing that we try to do — and I think again, it helps with humility, and it helps with collaboration and partnership — is we don't leave any important responsibility in just one person's hands. Right? So, multiple people are involved in relationships with investors. Multiple people are involved with relationships with private equity funds and sourcing opportunities. Multiple people are involved with investing. Multiple people with monitoring, et cetera. And we do explain to people that part of what we're looking for in terms of success is: Are you coaching, mentoring and developing other people on the team?

Peter Antoszyk: Right. So, you started this how long ago now?

Susan Kasser: 10 years ago, now. I just had my 10-year anniversary. They send you a fleece!

Peter Antoszyk: Yeah. I thought it was 10 years because it raises the point that you just said, which is: 10 years is an important timeline, if you will. And creating opportunity for others within the organization is important. So, how do you think about it in your role?

Susan Kasser: When I was hired at Neuberger to build this private debt business, I had actually not built a private debt business before. I was a senior investment professional at a competing firm, and I had been an investment professional in private debt for about a decade. And I had done related things earlier in my career. So, I had an awful lot of experience, but my experience did not lend itself directly to founding a business and raising capital and being a portfolio manager. I had not done those things before. I had sourced and diligenced and made investments and monitored investments and restructured investments. So, I think, honestly, at the beginning — well, first, my biggest motivation was to get hired because I really wanted this job. So, that took some doing.

Peter Antoszyk: Right. And this is at a time when Neuberger Berman did not have a private credit platform if I recall, right?

Susan Kasser: They didn't have – you know – what we're calling the private debt business. They didn't have a direct lending business. What they did do was they had come to the realization, based on their fund investing business, and they have, and have had for a long time, an equity co-investing business.

Peter Antoszyk: Sure.

Susan Kasser: They came to the conclusion based on those two businesses, that indeed, direct lending was a great place to be, right? If you like the equity, oftentimes you would like the debt. And that being a limited partner in the funds gave you a wonderful seat to source those opportunities. So, they had been doing some of them, but they didn't have a dedicated team. They were using people who worked on fund investing and co-investing, which makes a lot of sense. And they didn't have dedicated capital. So, they had a pool of capital that was kind of "go anywhere" and they were using that.

Peter Antoszyk: Got it.

Susan Kasser: So, they had tested out the thesis which was: "We like this asset class. We're good at this asset class, and we have a sourcing advantage at this asset class." But now they were making an investment: "Hey, let's build a business focused on this asset class." Right?

Peter Antoszyk: Right.

Susan Kasser: Which means dedicated investment professionals and then raising capital specifically dedicated to this.

Peter Antoszyk: And so, you started interviewing this and had no background in building a private credit platform. How did that process go?

Susan Kasser: It's a great question. I got a piece of advice at one point from somebody very close to me who said that when you are looking for your next opportunity, if you're getting on too well in the interview processes, you probably didn't aim big enough for that next role.

Peter Antoszyk: Oh, interesting.

Susan Kasser: Which was actually really difficult advice to hear. Because as everybody and anybody who has looked for a job knows, it's extremely stressful and volatile and unpredictable. And so, to be thinking, "Oh, I'm doing pretty well. I'm getting to the final rounds, and I turned this down for this, but, you know, I'm pretty close." And to be told, "Actually, that is a sign that you're not aiming high enough."

Peter Antoszyk: Right.

Susan Kasser: You know that's a tough pill to swallow, but it's great advice because I refocused my search from, "Oh, I'd like to be a senior investment professional," which would have been a lateral move, to, "No, I think I'd like to be the portfolio manager, thank you." And that was definitely a tougher leap to make.

Peter Antoszyk: Right. And then over time, you evolved into the role that you are now. And so now, it's 10 years later. This is where we started. You're 10 years later. And you said an important part of culture is creating opportunity for others. So, how is that working for you and how do you implement that, as you are now 10 years down the road?

Susan Kasser: Yeah, so some of it's orientation. Sometimes I think about friends of mine who went to start businesses – so not like I did, to start a business at an established asset manager – but really, people who worked in startups. And I remember one of my friends saying that the thing with the startup is that if you don't work really hard every day, it might die. So, at the beginning when you're starting something new, even if it is within an asset manager that has made a multi-year commitment to this initiative, you still start with, "Oh my gosh, we're a bunch of entrepreneurs. We're a bunch of founders. We're just trying to make this real."

Peter Antoszyk: Yeah.

Susan Kasser: And so, the challenge really is: Let's just make this real. Let's get it big enough. Let's win our first investor. Let's win our second investor, et cetera. Right? Let's make this real. And then at some point, pretty quickly, I think for me, a lot of the motivation shifted to tremendous gratitude to those first investors. So, I did want this job as a portfolio manager and especially at Neuberger Berman, very badly. And of course, I never would have gotten it without Neuberger Berman deciding to take a risk on somebody who was a little less proven and also my boss, Tony Tutrone, who runs alternatives, taking a chance on somebody who's a little less proven. But in reality, that's just the opportunity to see if it will work without those first investors.

Peter Antoszyk: Right.

Susan Kasser: It's still just an idea, or it's still just an opportunity. So, being really grateful to them and making sure that you didn't do anything — and "you" here as a plural — that would ever make them regret that decision, right? Cause at the time there was always somebody else they could have invested with. It's not like we were the first people to invent the asset class.

Peter Antoszyk: Right. Do you think someone could follow the same path today?

Susan Kasser: Yes.

Peter Antoszyk: And the reason I ask that question is because the market has changed so much. In other words, private credit has exploded as an asset class. I'm not sure I'd go so far as to say it's matured. I think it has still a fair way to go, but I would say it has grown up into its late teens, early 20's. Let's call it that. And so, the funds have gotten bigger, the deals larger, it's a more complex business to run. So, I guess my question is, do you think that that your unconventional path – if you will – could be followed by somebody today?

Susan Kasser: I think so. I think that you would have to have a reason to exist. I think the market is receptive simply because, as much as the market has grown in 10 years, it probably will double again. And so, in that kind of environment, that's a high growth environment. That's favorable for new entrance; it just is. That said, it's very helpful to have a differentiating reason to exist, and so the reason most people can start a new business is because they've done that before and they're just doing it someplace else or it's a different combination of people coming together. And that wasn't my story, right? I had been an investment professional, but I had never been a portfolio manager before. But for us, we had the competitive differentiation of being an LP investor in the funds and being a direct lender, which nobody had done in any sort of size before.

Peter Antoszyk: Right.

Susan Kasser: And it's a beautiful competitive advantage because it's understandable. People get the rationale of why you would have a sourcing advantage if you're also a limited partner. People can verify it pretty easily. Just call the private equity funds and ask them. And it's explainable. So, if somebody said, "Why are you picking this manager for your private debt allocation versus this manager?" you can explain that competitive advantage and people would say, "Oh, that's reasonable." As opposed to a competitive advantage that might be difficult to articulate. So, it might be good, but it's hard to convey, and that's not great. So, I can't, at this moment, think of a different competitive advantage, but I bet that there is some super entrepreneurial, motivated, ambitious investment professional out there who thinks, "Wait, I have thought of a way to do it better and I'm gonna go out there and try it out."

Peter Antoszyk: So, looking back over the 10 years so far, what do you think you've done right, and what would you have done differently?

Susan Kasser: I guess what I would say is, it's less "done right" and "would do differently," rather it's more recognition of something pretty wonderful, that with the benefit of hindsight, is even more valuable than I expected. So, I've only worked at private employee-owned firms. I worked at Goldman when it was private, I worked at Carlyle when it was private and I work at Neuberger Berman, which is employee-owned. And the beauty of employee-owned firms, particularly when the ownership is as diverse as it is at Neuberger, is that they can be exceptionally long-term oriented. And the beautiful part about Neuberger specifically is, it only does one thing. It's just an asset manager. We don't have a strategic partner or owner, et cetera. We're not accountable to public shareholders. And so, there's this commitment to only one thing, which is if we do right by investors, everything will work itself out and we can commit to doing that with a very long-term orientation, not a quarterly orientation or an annual orientation. And so the reason that this is so important is as a new portfolio manager — who was very focused on not making any mistakes, not giving our initial investors any cause for concern or regrets — I think it's fair to say that when you approach investing that way, you're erring very much on the side of caution which means that you're investing more slowly because you're investing more carefully. You're doing everything more slowly. And so that means you're not scaling; you're not scaling revenue at the pace that you could because you're deliberately holding it back to be as close to perfect as possible. And I think at another firm, the powers that be might have been impatient, like, "We've made this investment, it's this rapidly growing asset class, it's doubling every year. Why aren't you doubling every year?" And I never heard that. Not once, not from anybody.

Peter Antoszyk: Interesting.

Susan Kasser: And then when you step back, particularly post-COVID, the shutdown was a true test for the asset class. And you look back at performance, indisputably, if you're incredibly careful with your investments, you should have more pristine performance. If you've built more carefully and taken your time, actually, I think you're in a position to really grow in the future. But, it's almost like you're holding yourself back at the beginning to get everything dialed and then you can move much faster in the future. But I think a lot of other firms wouldn't have had the patience for that. And so, I'm endlessly grateful that I was given the space to build the way I thought one was supposed to.

Peter Antoszyk: Well, I think that goes back to what you were saying earlier, of the importance of culture and how it permeates the investment strategy.

Susan Kasser: Yeah.

Peter Antoszyk: And now I think that you talked about how COVID was a test for private credit. I think we're in a test period now, don't you think? In terms of what the economy is doing, I'm not even sure at this point what it's doing, but you know, it's a test, isn't it?

Susan Kasser: It is a test. It's funny because I've been having those conversations with investors where I say, "Look, COVID was a great example in the sense that nobody — I shouldn't say nobody, but I am willing to wager that nobody — built a portfolio expecting a pandemic and an economic shutdown." Right? We expect things like recession. Historically, we have not expected things like a pandemic and economic shutdown. Now fast forward, we can add to that inflation, which unless you were investing in the 70s or outside of the United States, you have not experienced cost pressures, labor shortages and very high interest rates, which for our asset class is both a positive and a challenge.

Peter Antoszyk: Right.

Susan Kasser: It is an excellent test of a portfolio manager because I think the best test of a portfolio manager is not, "Hey, how did you handle the risks that everybody is focused on all the time?" but more, "How did you construct your investment process and your investment philosophy and your discipline and your portfolio for all the things that nobody saw coming because nobody could have possibly seen them coming?" And right now, or maybe give it another 12 months, but right now to 12 months from now is the perfect test for a portfolio manager against that very high standard.

Peter Antoszyk: So, you think that there'll be some winners and losers?

Susan Kasser: I think that — yeah. I think there will probably be more return dispersion than there has been, but I also feel very grateful that we're in an asset class, senior secured, top of the stack, variable rate, big equity cushions under you. At least in our portfolio, all the companies are owned by high quality private equity sponsors who have the ability and the motivation to address problems head on, with sweat equity and with cash equity. And so, it is a protective asset class. I don't think that you'll see the return dispersion you'll see in equities — private, public, venture, et cetera. But probably you'll see more return dispersion between managers than you've seen in the past.

Peter Antoszyk: Well, certainly something that we'll keep an eye out for.

I just have a couple of additional questions. This has been an interesting conversation. What talent do you think you possess that is underrated by everyone else?

Susan Kasser: So, I have what I like to call a "golden retriever mentality," which is my take on the goldfish mentality. So, all of us in athletics, if you're familiar —

Peter Antoszyk: I totally get it, by the way. I have a golden retriever myself.

Susan Kasser: Exactly. They wake up every day and they say, "What, wonderful thing is going to happen today?" And I think that — by the way, it's genetic. I did not inculcate this. It runs in my family. I don't want to take credit for it — but I think that really helps in so many environments, right? So, sales, you're trying to raise money — for a first close, for first fund, for first time portfolio manager. It helps to be able to wake up every day and say, "Maybe today somebody will be our first investor," because it's going to take a while before you get one. Same thing for any kind of difficult investing environment, right? It helps to go to sleep and wake up and have an automatic reset button.

Peter Antoszyk: Right.

We started off this [earlier conversation] by just talking about rock climbing. And I'm kind of curious now that we've talked about your career a little bit and the culture — culture in your group and Neuberger more broadly — I'm kind of curious what you take from climbing, if anything, into your job?

Susan Kasser: I love that question. I usually don't admit to people that I'm a rock climber because they associate it with risk taking, but actually I think rock climbing is all about preparation and measured risk. And so, one great example is for most climbing, if you get up, you have to come down. So, you're going to repel down, or you're going to hike off the back and you need to have a plan for that. And you've not successfully finished an objective until you're safely back at your car.

Peter Antoszyk: Right.

Susan Kasser: Which is exactly the same thing for investing. Until you've realized the investment and given the capital back to the investors, you haven't done your job. But people spend so much time thinking about the first part because it's the glamorous part, right? The money went out, I got up the objective. But until you're home safe or the capital has been safely returned, you actually have not done your job.

Peter Antoszyk: Right.

Susan Kasser: So, it is an important reminder to people that investing, which is what people are so focused on, is really only 50% of the work. And then I think another thing that's super important is, again, this idea of preparation. One of my friends says, "Nobody rises to the occasion. You default to your level of preparation or your level of training." And that, again, is especially noticeable when things aren't going well.

Peter Antoszyk: Oh, nice.

Susan Kasser: So, I think having experience stressing yourself some and then keeping it together, figuring out a plan, "What's the next move?" You don't need eight moves, just, "What's the next move?" It's good preparation for people.

Peter Antoszyk: What was one of the most stressful moments you've had climbing, if you will?

Susan Kasser: Well, so you'll love this. I'm actually afraid of heights now.

Peter Antoszyk: Oh gosh, so am I.

Susan Kasser: Yeah, so it's an unusual hobby that we both share — to be willfully coming off the ground when you don't really want to be high up. So, I actually think the funny thing about climbing — especially on a rope in a controlled situation, short objectives, four hours, good weather, et cetera — is that the gap between perceived risk and actual risk is actually pretty big. So, I contrast that to, say, downhill mountain biking. Some people might also enjoy downhill mountain biking. If you come off your bike, probably something's going to bruise or break.

Peter Antoszyk: Interesting. Right.

Susan Kasser: If you come off a climb and you're on a rope, the rope's going to catch you. So, it feels very frightening but actually it's quite safe. And so, I think especially as a credit investor who's so focused on not making mistakes, climbing is perfect because you get to experience this perceived risk exacerbated by being concerned about heights. But, in reality, if you let go, you slip, et cetera, the rope's going to catch you.

Peter Antoszyk: Yes.

Susan Kasser: So, you're kind of working on mental discipline without actually having to risk physical disability.

Peter Antoszyk: Sure. It's sort of like having collateral.

Susan Kasser: Yeah, exactly.

Peter Antoszyk: That's your safety net.

My last question for you is: What have you bought recently for under $100 that brought you the most joy?

Susan Kasser: I don't know if it costs less than $100. I buy the 10-pack punches to the bouldering gym.

Peter Antoszyk: There you go.

Susan Kasser: But I bet the 10-pack costs more than $100. But each visit is less than $100.

Peter Antoszyk: Well, listen, this has been a lot of fun. I appreciate you coming in to speak with us on *Private Market Talks*, Susan.

Susan Kasser: Thank you so much, Peter. It’s been a pleasure.

Peter Antoszyk: And thank you, listeners. I hope you enjoyed the conversation, and we’ll see you next time.

Close