Private Market Talks:

The Hedge Fund Platform Model with Crestline’s Caroline Cooley

May 14, 2024

In this episode, we’re joined by Caroline Cooley, managing partner and CIO for Crestline Summit Strategies. Caroline joined Crestline in 1998 and has since helped build the firm into a multi-strategy, multi-portfolio and multi-billion-dollar asset manager.

During our conversation, we explore Crestline’s “platform model” and how that model allows the hedge fund to manage risk and engage and retain top talent in the industry. We also discuss Crestline’s strategy for delivering alpha through an equity-oriented, market-neutral investment philosophy. We finish with Caroline’s views on what it takes to be a successful CIO and insights into some of the formative aspects of her career.

Also joining us to lend her insights on the evolving hedge fund industry is Proskauer partner Kelli Moll. Kelli is co-head of the Firm’s Hedge Funds practice and co-lead of the global credit funds initiatives and has more than 25 years of experience advising clients across the spectrum of asset classes.

Peter Antoszyk: Hello and welcome to *Private Market Talks*. I'm your host, Peter Antoszyk. Today, I'm speaking with Caroline Cooley. Caroline is a veteran in the alternative investment industry. She is a managing partner at Crestline Investors and the Chief Investment officer for Crestline Summit Strategies, Crestline's hedge fund unit. Crestline Summit is a multi-strategy, multi-portfolio asset manager that employs an equity-oriented market neutral investment strategy. Over the past 25 years, Caroline has helped build Crestline into the multibillion-dollar asset manager that it is today. Crestline Summit's emergence as an, a hedge fund asset manager is unique and its growth is in no small part due to Caroline's background, drive and moral compass. In today's episode, we discuss how Crestline's hedge fund to fund business has evolved since the great financial crisis and how Crestline Summit found a better way to deliver alpha to its investors that was pure and liquid. We also explore Crestline Summit's current investment strategy, trends in beta-neutral equity investing and how Caroline thinks about risk management. Finally, we cover Caroline's path to covering one of the largest books in the country as a female CIO. Joining me today is my partner, Kelli Moll. Kelli is a partner in Proskauer's private investment funds practice and helps lead the hedge fund and credit fund groups. As always, you can get a full transcript of this episode and other helpful information at privatemarkettalks.com, and don't forget to subscribe. And now, my conversation with Caroline and Kelli. Caroline, Kelli, welcome to *Private Market Talks*.

Caroline Cooley: Thank you, Peter.

Kelli Moll: Thank you.

Peter Antoszyk: Caroline, my first question is, can you still walk on your hands?

Caroline Cooley: Oh. That's good. So apparently, that's now legendary. I was actively trading when the stock market crashed in 1987 and rumor has it I walked on my hands to celebrate, but really, I walked on my hands to relieve stress across the trading room, got done, went back to my desk and continued trading. But that story lives on.

Peter Antoszyk: There you go. And so, what do you, what do you do to relieve stress today if you're not walking on your hands?

Caroline Cooley: Actually now, I run. I'm a person who runs. I'm not a runner, but it works for me.

Peter Antoszyk: Crestline started, I believe, as a fund-to-fund structure but has since evolved. Before we talk about the evolution of Crestline Investors and the emergence of Crestline somewhat more specifically, I think it would be helpful to provide our listeners with some context. So, could you describe how the structure of the hedge fund industry has changed since the GFC?

Caroline Cooley: Let's just kind of think about hedge funds broadly, what they do, different ways to structure them. So, the traditional hedge fund, original hedge funds, were really long short equity strategies, long stocks, short stocks, maybe had some market beta, one manager with the team under him or her, and very simple in concept and actually, fairly simple in structure. Step two, hedge funds developed multi-strategy approaches. So, "Hey. I've got this really great portfolio manager at the helm. I want to diversify my return stream. But I still have one decision maker, I have one performance fee, but I have more things kind of going on beneath the hood." Okay? Next iteration really was the fund-of-funds concept. So, it was, "Okay. Well, I want more than one decision maker. I want to diversify the portfolio. Investors wanted broad exposure to the hedge fund industry." So, fund-of-funds kind of evolved, right, and they gave you a diversified return stream, multiple decision makers, lots of different sources of alpha and stock picking bonds, whatever. But the problem with the fund-of-funds was that it's harder to move capital around. The balance sheet usage was inefficient. So, there's some inefficiency built into that model and the next iteration. I think kind of the current area of growth in the hedge fund industry is now the hedge fund platform model, which kind of takes some of the best aspects of the multi-strategy portfolio and some of the better aspects of a fund-of-funds, but it's really solving some problems. Number one, balance sheet usage is better. So, in a multi-PM or a platform model, there's multiple decision makers but one balance sheet. So, the capital usage is much more efficient. Now, you still get a centralized decision-making process. You have multiple portfolio managers picking your stocks or delivering your alpha so to speak, but it's a different compensation structure. So, unlike a multi-strategy fund, the multi-PM model pays each portfolio manager based on their own performance rather than the performance of the whole portfolio, and then people have to fight over it. I think although it makes the model technically more expensive, it creates an alignment of interests such that the best talent chooses to work at a multi-platform, because they can get paid if they do well. That's really one of the reasons I think that the, the performance in that structure has been better overall within the hedge fund universe.

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Peter Antoszyk: I'd like to bring Kelli into the conversation. Kelli, what are your thoughts on the evolution of the hedge fund platform model?

Kelli Moll: In general, I would concur with Caroline's summary of the evolution, and although we still see all of these models in the marketplace, the trend of multi-PM Platforms is now a dominating force, particularly appealing for emerging portfolio managers. The platform model raises two issues: first is hiring the right managers and second is the costs to investors. With respect to costs, many platforms have significant investment and operating costs as well passing through talent acquisition costs and compensation to each separate portfolio manager group. The pass-through of separate PM compensation to investors can result in netting risk, which would occur when a Fund suffered losses in a year, but performing portfolio managers still receive a share of the profits such PMs generated. Investors used to complain about the layers of fees. Caroline, how do you think investors react to the expense structure of the platform model and the netting risk?

Caroline Cooley: So, you've kind of hit on both the benefit and the negative of the strategy, and some investors understandably, to some degree, don't get over it. It's expensive, right? They don't want to see that they are taking the netting risk. But more investors, you know, by and large, look through to the net return and say, "Hey. This is the cost of generating alpha." Generating alpha, generating returns from something other than direction in the market is very, very hard. It is a very difficult way to make a living and the people that are good at it want to get paid for that skill. So, it's kind of you have to opt in or out in a way, and more and more investors have moved to opting in because of the net results of the types of strategies.

Peter Antoszyk: So, from the CIO's perspective, selecting the manager is key.

Caroline Cooley: Selecting the manager is key. There's two keys, selecting the manager and naming the risk.

Peter Antoszyk: And in terms of selecting the manager, from your perspective, what goes into selecting the manager?

Caroline Cooley: That's a very good question. First off, it's a dual edge process. I have to select them and they have to want to join me, right? So, we look for PM's who are portfolio managers who are highly experienced. Track record matters to us quite a bit. It's not just track record, it is process. People approach their underwriting of portfolio managers and talent differently. We take our time to make sure we really understand the source of the return and we spend a lot of time to make sure the risk, the portfolio manager's risk management and portfolio construction is balanced. That will be important to us when we construct the pieces to deliver what we're trying to get. So, it's track record, it's process, it's risk management, all of those things combined in reviewing the, the portfolio managers.

Peter Antoszyk: When you think about "process," when you talk about processes to be clear, you're talking about the manager's process?

Caroline Cooley: That is correct. So, I'm basically like, there's the people who kind of trade on steel or, you know, that doesn't really work for what we're trying to do long term, right? It's what you are going to pick stocks in your sector. Ideally, you're an expert in your sector. You've honed your skill over a long period of time. You know how to model the company. You know how to define what is priced into a stock and what's not, what's differentiating this company from others and be able to assess the strategy looking at a relative value basis.

Peter Antoszyk: Do you think the way you look at a manager is different than others in the industry? I mean, how would you differentiate your selection process from others?

Caroline Cooley: I actually think it's more thorough and I don't want to really talk about others and what they do versus what I do because I don't really know what they do. I will just say that some others hire more quickly than we do, and that might lead them to fire more quickly than we do. We want our secret sauce to be hiring well on the front end, so we spend a considerable amount of time working with a portfolio manager before we onboard them.

Peter Antoszyk: You actually touch upon a question I have, which is how do you determine when you get off a relationship with the manager?

Caroline Cooley: Well, and that's tricky. It is again, it's a hard job and because of the math, I say, even though you hire people you like, you think long term their performance might be really good, they're great people and you've done all this work on the culture, the fact of the matter is you have to deliver a return to your client and the model is expensive. So, generally speaking, we have to give a portfolio manager a certain period of time or a certain amount of risk capital that they can lose, and if a certain period of time or a certain amount that they're not successful, we do have to move on and find someone else in the seat.

Kelli Moll: Caroline, as you know, pathway for emerging hedge fund managers has changed considerably from talent originating at prop desks of investment banks before the Global Financial Crisis(GFC) to post-GFC, emerging managers coming from existing shops. As the hedge fund business and regulatory environment continues to be challenging, the question we often get from emerging managers is should I go onto a platform or start my own firm? How do you address those questions when meeting with potential PMs for Crestline?

Caroline Cooley: Okay. Sure. Alright. So, let's talk first on the decision, "Should I start on my own or should I join a platform?" I'm a tech PM. I've been trading stocks for 10 years. I've been on a couple of platforms. What's the next step in my career? Launching your own hedge fund is harder now. It is. The feed capital is harder to get. Investor Capital has generally been growing more tilted towards the platforms rather than single strategy, so raising assets is hard. The cost of managing the business has increased. Regulatory environment has gotten more aggressive. Peter, you'll like this, we're calling it a, a bull market for hedge fund attorneys because of the more aggressive stance of the regulators.

Kelli Moll: I will like that. [**Laughter**]

Caroline Cooley: I knew you will like that too, Kelli. Right? So, it’s harder. One of the things we’ve thought of when launching ours was trying to imagine a world where they don’t have to make one choice or the other, but maybe something in between. So, we have supported portfolio managers who want to launch by themselves but are willing to manage separately managed accounts on behalf of our clients on the same balance sheet so that they can launch a fund, have some investment capital that’s not in their fund, but they’re managing it and getting fees off of it. And that way they can, to some degree, be positioned in case there’s people who want to go into a commingled fund. And then they have a vehicle already up and running.

But it is a tough choice for people, and some of them want nothing to do with managing a business. They really just want to invest in stocks and they don’t want to manage business. Yeah, we call it an open architecture concept that, you know, we are open to how we structure the relationship with our portfolio managers, right? And I think we’ve seen more platforms move that direction. It used to be you had to be an employee and more of them now also have this. We’re now in our ninth year and we’ve been doing it this way from the start. It is in fact, Peter and Kelli, the most frequent question we get. The most frequent question is, how do you compete for talent in a world where there’s some really very large platforms, and you know, there’s only so much alpha out there?

When people ask me that, I kind of look at them and say, “Okay. You have a job. You took your job because you’re going to get paid well,” and 20 other reasons. And how much pay you’re going to get, what my salary is, how much capital you’re going to leave me are really important, but they’re not the only important things. There’s things like the culture of the firm. You collaborate, do I have to be by myself, where am I located? There’s some risk controls and the risk guidelines we give you, to some risk guidelines broad enough for me to do my job. What’s the career path look like here? What are the resources you give me? How transparent are you about the cost I’m going to get assigned or what? How the direction of the business might impact me? Do I have access to the leadership at the firm? Can I talk to the CIO, the head of equities, or am I just a guy or a woman on some remote island doing my thing and just collecting a paycheck? So, that whole package, and I think treating people like people rather than not, people call this part talent sourcing and I call it hiring people. I try to tell my team, no, we’re not looking for talent. We’re hiring people and I think that’s a different mindset.

Kelli Moll: You really make a good point about transparency and access to leadership in particular. As an early adopter of the open architecture, you've seen competition get tougher and I think your philosophy of transparency and access to leadership can be a differentiating factor for PMs.

Caroline Cooley: Yeah, right. Thank you.

Peter Antoszyk: How does your compensation structure fit in to the ability to attract and retain talent?

Caroline Cooley: Compensation is market driven. So, you are going to pay the rate you need to pay to a portfolio manager to hire them. They get paid based on their performance and pay offs. Payouts are, you want to pay people in order to try, and I don't know how else to say that like —

Peter Antoszyk: You pay people well.

Caroline Cooley: Got to pay people well. Yeah. You pay them, right? You're going to negotiate that. I want to negotiate as much as I can for my clients, but I'm not about to lose hiring the best talent for, you know, I'm not going to be penny wise and pound foolish when it comes to bringing in people that help them generate returns.

Peter Antoszyk: So, let's pivot to Crestline and its business. Can you describe the evolution of Crestline investors and the emergence of Crestline Summit?

Caroline Cooley: Crestline Investors was originally formed as a family office. So, our roots go back to the Bass Brothers organization, which is a firm I started at in the 80s, and we can talk about that a little bit later, but Bass organization was a breeding ground for many alternative investment managers out there, a really great place to cut one's teeth and learn.

So, we originally spun out from the broader Bass organization, formed Crestline for one of the brothers and invested in external portfolio managers while also managing assets for Bass Family members on their balance sheet. But the external portfolio allocations, external manager allocations, we grew into a fund-of-fund business. So, for, you know, the first 15 years of Crestline, the primary business was a fund-of-funds. I was the CIO of that. We were decent sized player in that world, but we have really done a great job evolving over the years and really multiple times.

So, first from a family office to a fund-of-funds. Fund-of-funds really evolved around the time of the great financial crisis, and it evolved to get more beta and more liquid. And at the same time, the institutional investor universe, kind of the blue-chip investors who we were managing capital for, became more sophisticated and could make hedge fund allocations themselves.

We pivoted in two ways. First, we moved into what I'm going to call "opportunistic credit" or that area between hedge funds and private equity. [We] hired a team and built out and developed what is now a very large credit-oriented business, private credit that is the largest part of Crestline. The fund-of-funds, the investors I've had there, the mandate has generally been liquid low beta, low market exposure, diversifying strategies and we thought hard about what the best way was to reimagine that business and have a better alpha engine, so to speak. A better engine for delivering turns that weren't correlated to the market. We decided to pivot to the hedge fund platform business model, specifically focused on equity market neutral strategies where we'd had very good success prior.

We pivoted to that business; started around 2015, exited the hedge fund business itself in about 2017, and our investors were along for the ride. We've grown the Crestline Summit business very nicely since then.

Peter Antoszyk: You want to describe our listeners the market neutral equity strategy?

Caroline Cooley: Sure. I think it's such a tongue twister. Crestline Summit is market neutral, multi-strategy, multi-PM; a lot of words there. Multi-strategy, the first of multi-strategy, meaning we have more than one approach to generating returns and then multi-portfolio manager, meaning I have a decentralized and distributed decision-making process for selecting stocks.

We run near market neutral, so that means long stocks, short stocks. I have almost equal amounts. So, we seek to generate returns primarily through stock selection rather than timing the market. As we’ve mentioned already, my job is to identify higher and manage portfolio managers who are making the stock selections and then manage the risk between them.

Right now, most of our portfolio managers are sector specialists, meaning they are fundamental stock pickers who may specialize in financials or technology or healthcare. We also have managers who are specialists in more tactical strategies and think about arbitrage related strategies, or portfolio managers who invest in merger events or capital markets transactions. Then we have the portfolio managers who are quantitatively oriented. They may be selecting stocks based on some quantitative models. So, all of these different sources combined, each of the portfolio managers is themselves a risk manager and then we have a layer of risk management on top itself.

Peter Antoszyk: You may have answered this question by implication at what you just said, but there’s a theory that asset allocation tries alpha more so than security selection itself. I’m just curious, from your perspective, how do you think about that in the hedge fund context?

Caroline Cooley: Right.

Peter Antoszyk: Do you start with areas of broad opportunity sets that would be attractive, or do you think about it more from a bottoms up approach and work with managers and let the opportunity set forward?

Caroline Cooley: It is, it is more bottom up and it’s very interesting to think about how do people use a strategy like ours? We’ve taken out that asset allocation part; it’s not there. So, you don’t get the beta to the market, but we’re really good at stock selection. So, what a number of investors actually, a fairly large number of investors do is they take this return that’s almost all stock selection and then they add the beta on top of it.

So, if you combine this alpha generating a return that's just stock picking. And then you add, let's just call it S&P exposure through futures or some other derivative. The combined package is designed to outperform equities by whatever amount of alpha you're generating, and that's a pretty powerful structure. Some investors kind of structure that on their own on their balance sheet.

And then there's some, you know, we have a product for instance, and there's some others out there that you can combine the alpha and the beta all in one product and get back to the asset allocation, but that alpha part is hard, and that's what we do.

Kelli Moll: So how to do you think about your PM relative to industry sectors. Do you have one PM for each vertical or sector or are you employing more than one?

Caroline Cooley: We will have more than one generally, and what you really want is people whose skills or portfolios really, either their styles or their portfolios complement rather than overlap or offset the other portfolio managers in there. So, you might have a technology specialist in software, and you might have a technology specialist in semiconductors or you might have financials PM's who are longer duration trading views and some who are shorter mean reversion type of portfolio measures. So, in, in most sectors we have more than one portfolio manager.

Kelli Moll: Looking for complementary skill set?

Caroline Cooley: Complementary skill set. Correct.

Peter Antoszyk: What trends are you seeing in market neutral equity investment?

Caroline Cooley: I think there's been a good development in risk management in market neutral equity investing. So, if you kind of went back to the start, we used to define market, market neutral, your longer dollar, your shorter dollar, and then we got really sophisticated and we said, no, market neutral means where's my beta on the long side? Where's my beta on the short side then? Really, now we've gone to it's not just my beta. It's what other factors am I exposed to in my portfolio so that when I construct it, it's more resilient to rotations within the stock market. Am I exposed to value, or am I overexposed to the latest momentum move? The trends have been to find better tools to manage some of these exposures.

Peter Antoszyk: What are some of those tools that you might use to manage some of those exposures?

Caroline Cooley: That's a good question, too. Really we have some factor-oriented tools and a couple of off-the-shelf and then some internally developed proprietary tools to kind of look real time into the portfolio and see what some of these factors are. Both the, let's call it standard factors that are in most risk models, but then broadening that amount to other themes that might be prevalent in the market. That's how we have it.

Peter Antoszyk: I'm kind of curious about your story; how you navigated it to become a successful investor and CIO and, frankly, in an industry known for not having many women in senior leadership.

Caroline Cooley: I'm actually going to start with my move to Texas. I was working for a money center bank in New York. I moved to Chicago because I was involved in the futures industry and was moving to Texas to get married and asked around and found that the best place to work in Texas and in Dallas, and actually[the]premier shop in the country was at the Bass Brothers. They were doing some of the most interesting things. They were innovative, opportunistic, they were hiring people from top shops on Wall Street and bringing them down to Fort Worth.

So, I picked up the phone and I called the Bass'. I was nice to the gatekeeper, which is always important. Got through to Tommy Taylor, who managed the trading operation and got myself a job on the trading desk. Bass Brothers was an unbelievable place to learn.

I started there very young. I was in my early mid-20s. I had a derivatives background as the derivatives trader, one who slides into risk management roles. That was an organization that gave a tremendous amount of responsibility, now that I think about it, to the people at young points in their careers. So, I happened to be a real risk manager and managing hedges across, over a billion-dollar portfolio when the stock market crashed in 1987. We made a lot of money. It was the best trading day we had to that point.

Kelli Moll: I am enjoying the Bass story and, given how many prominent firms really spun out of really that breeding ground, that that firm was, you know, for really a lot of the household, big household names that really came out of that. But it's, it's interesting that that was your formative years beyond the '87 crash.

Caroline Cooley: I learned a lot about investing and developed investment philosophy, and I kind of think that your early career really matters in shaping you as an investor. So, I worked at a shop where you were always opportunistic, but we were always interested in controlling the downside that was already kind of a stay rich mentality at the shop I worked at and that investment philosophy, the opportunistic know that if you go into a situation with strong hands, it will pay. It absolutely pays to have strong hands. If you're going to be hedged, you want to hedge going into the event. You don't want to be the guy who says, "Oh, my gosh! The markets selling off. I need to get hedged now." So, hedge ahead of the event, pays to have strong hands. You can be opportunistic and protect the downside. Those were really, really important early learning experiences for me. I'm going to pause there before I just keep talking.

Peter Antoszyk: No, no it's identifying those early learning experiences which I found in my own career to be formative have carried through. I'd be curious to know the significant steps that you took from that point to landing at the CIOC? And, who helped you along the way? Who are your influencers?

Caroline Cooley: That's right. Honestly learned from just really great people who are there. If we talk about risk management, for instance, and there is a risk management lesson learned over that period. It's risk management. We talked about tools. Tools matter, and tools have gotten better, but risk management is both an art and a science. The art part typically comes from experience. The science part you can have right away, but the art part comes from being in the seat for a long period of time, and I learned from some great people.

So, there's one portfolio manager that was trading deal stocks general, but anyway, there was a day where my boss says, "Caroline, you need to get risk down. I want you to talk to portfolio managers. Tell them to hedge up. They need to hedge their book, and call the portfolio manager, 'Hey, you need to hedge your book. Boss said you need to hedge your book. You need to cut this much beta out of your book.'" He said, "Caroline, if you want me to cut my risk, I'll just take the book down. That's the best way to cut risk." It's so obvious.

But there's a difference. There's a time where putting a hedge on is the right risk management and there's time when taking your gross exposure down is the only thing to do. That's an art. Do I always get that right? No. But do I know there's a difference? Yes. There are times when the leverage will hurt you and the best risk is to take your book down. There are times when the market can hurt you, and it's absolutely fine to just go short from S&P Futures or whatever your hedge mechanism is to get that down.

Peter Antoszyk: Sitting in the CIO's seat now for some time, what makes for a great CIO?

Caroline Cooley: That's a that's a good question, too. I think I'm going to meld this into, you asked me a question about being a woman CIO and how that mattered, because I think a lot of women have this perception — or a lot of people have a perception — that investing, especially hedge fund investing, requires some kind of machismo, have a big macho, have to be a big risk taker. I think the first and most important thing is to have a really good understanding of the risk return trade-off because being a good risk taker means you're taking risks.

So, what risks should I take in order to achieve the return I want? Remember one thing is really, really, really understand the tradeoff between risk and return and where you want to be on that spectrum. The other is, at least in my experience, you have to be as good a listener as you are the talker. Your ideas can come from anywhere. I operate in a more collaborative environment than in an autocracy, so to speak, right?

I want to hear somebody who ultimately has to make the final call on most things, but hearing and listening is really important. The other is, honestly, being a good CIO is as much about managing people as it is about managing a portfolio. I think not everybody gets that. I think they think it's all about investing, but it's about managing people and about managing investing.

Peter Antoszyk: Certainly, the perception could be that it's all about numbers.

Caroline Cooley: Correct, and it's not.

Peter Antoszyk: You will lose site that somebody has to generate those numbers. Somebody has to manage your portfolio and that takes talent.

Caroline Cooley: And you have to create an environment that helps people succeed and that respect people's opinions.

Kelli Moll: And the best people really collaborate with each other, you know, the environment where you've got openness that people are willing to share ideas to each other.

Caroline Cooley: Correct. Right. That's right, yeah.

Peter Antoszyk: So, I hesitate to bounce around a little on you, but I'm going to do it anyway.

Caroline Cooley: That's alright.

Peter Antoszyk: As you mentioned in one of two most important things, I think in selecting the manager was skill and risk and risk management. So, I'd like to, if you don't mind, just come back to the risk management piece because we really want to cover that. But it is, as you said, one of the two most important things. So, I'm curious as to how you think about risk management and the components of it.

Caroline Cooley: So first off, risk management is staying within the box that you've been outlined, right? So, if I'm trying to be neutral to the market, my first thing about risk management is staying within those guidelines that I've talked about, right? The other part of risk management is avoiding drawdowns. So, constructing a portfolio that is resilient to drawdowns and having a game plan of how to manage those drawdowns if they do happen.

Then there's other aspects to risk management. Liquidity management is one, balance sheet management, how levered are you relative to the liquidity of your portfolio, how quickly can you move your portfolio. And I think that good risk management process has the tools to measure the risks and then people who are empowered to kind of make decisions and take it down. In our framework we have kind of two levels of risk management, right? So, when I hire portfolio managers, they themselves have to be risk managers. They have to run within a set of risk guidelines and then risk management at the portfolio level where, when we aggregate things, you could still have exposures surface that need to be hedged or reduced in some way at the portfolio level. So, both of those are important to us.

Kelli Moll: I was actually going back a little bit. You were talking about obviously setting risk parameters to fit within the box that you drew in terms of what you're trying to get for alpha. A lot of managers over time that I've worked with that have gone on to platforms, that onboarding of negotiating those risk guidelines are sometimes a subject of conversation. Do you have like one set or do you tailor them for different managers in terms of your assessment?

Caroline Cooley: Sure. They're all tailored to every PM. So, they're not one-size-fits-all. And we just had a call yesterday with a portfolio manager we're on-boarding, and our kind of intro to the conversation, it goes like, we've made a decision to move forward to hire you. We want to create a box that enables you to succeed in the manner that you have been used to making money and that you intend to make money going forward, and that is aligned with the strategy that we underwrote.

So, we see that you have had this amount of exposure to the market over your history. We're going to set your guideline here. We don't want you to go over that. It's a really good approach. It resonates. The flip side would be to, and you see people do this, they find a portfolio manager who's been very successful with a concentrated portfolio, let's just say, our risk guidelines are you can't have any stock more than one percent position limit when the portfolio managers only ever managed a portfolio of 20 stocks, and some of them were. So, we absolutely tailor the guidelines and then it becomes a question of sizing. So, given the guidelines I've given you, the riskier you are, the more volatile you are the less capital I'm able to, to give you.

Peter Antoszyk: How do you think about assessing and incorporating geopolitical risk?

Caroline Cooley: Interestingly it's not different, so geopolitical risk is risk. At the end of the day it's geopolitical risk that will come back to market risk. That's the same risks that I'm looking at. It's just a different cause of the same risks I'm trying to take. So geopolitical risk might cause a big move in the stock market down. I'm already addressing stock market might go down. In most cases the geopolitical environment is a risk factor that impacts all of the other risks I'm trying to control. My exception: there are sometimes where geopolitical risk can create a situation where you just don't want to be in certain countries, not because the market direction, but again, because of the concept that you might not be able to get your money out.

So, when the Russia-Ukraine war began and people had exposure to Russia, the biggest concern wasn't that they had exposure to Russia, [it's] that they had exposure to Russia they couldn't get it out. They couldn't sell the stock. If you were short you couldn't even and if you made money you couldn't get money out, and those kinds of risks. Typically again, you have to be on top of it ahead of time, and if you are really concerned about those, don't go there. That's how I approach that. If that's my concern, we just won't. I won't be there at all.

I have another lesson that was learned the hard way. I had money tied up in an exchange that went under in 1987, and so I am very much and always have in the back of my mind. You know what? Sometimes it's not this market direction. Sometimes the exchange goes under and you have to worry about getting money out, and that's a much bigger problem than did I get the direction of the market right or wrong, and was I hedged.

Peter Antoszyk: I just have a couple of final questions. This has been a great conversation, so thank you. The first one is, I read today the Buffett indicator is flashing red. Jamie Diamond has come out and said the market is at great risk right now. I'm kind of curious from your perspective your view of the market and whether it is overvalued and at a very risky point.

Caroline Cooley: The market, above anything else, has been focused on the Fed and what is the Fed going to do. The obvious, in hindsight now, the obvious buy signal is not when the Fed cuts rates, it's when the Fed stops raising rates. That's the pivot. The pivot is going from tighter to loosening. It doesn't necessarily matter when it happens; I've just stopped. I've stopped raising rates.

That's now happened. The markets now pricing in soft landing, no landing, and it feels like it's been a big rally, and the rally has been there. That said, the things that have rallied, the things that have led are real, so AI is real. It is a long-term investment theme with great companies and, to the extent the market leadership has been in sectors that have rallied because they should, that's a little less concerning. You will hear, if you talk to some of the strategies that are starting to improve, so some of these sectors that have kind of been left behind a little bit are starting to see a little bit of better traction in earnings, and you're starting to see some improvement because of that.

So, I'm a market neutral investor. That makes me always a little bearish, and I just, I always have to almost caution myself to not be more bearish than I need to be. I have had a Fed say that's probably on the margin moving the right direction to support the market. I have some stocks that haven't appreciated with the rest. I have a little bit over, so I'm not going to give you an outright answer. I would be not obviously hugely bullish, but you know, you're not supposed to fight the Fed. I'm putting that in air quotes for those of you who can't see me. You know, there's absolutely risks out there, you know, very much aware of them.

Peter Antoszyk: So, final question. What trait do you have that makes you successful that you think is underappreciated?

Caroline Cooley: Oh, man that's a tough one. I hate talking about myself, Peter. It's been a whole hour talking about myself. That one was a little more personal.

Okay. I think I'm a very measured personality, like I'm not an emotional investor, right? I don't get mad easily. I don't get ecstatic. I have a very measured personality. I delegate well. I'm not a dictator. I'm a collaborator. I think sometimes that shows up in things like —I'm going to give you a woman answer here — things like negotiating. You know how when you were a kid and you got in trouble and Dad yelled at you, I don't know if your dad had a temper, but you know, your dad would be likely to, most dads would be likely to get mad in a certain way, but your mom says, "I'm so disappointed in you," and that impacted you more than your dad yelling at you? I feel like that's where my personality like — I'm negotiating. I can't get it or I'm just really disappointed in you that you can't do that for me, and I think that works. I think I'm generally that'll be it. I don't know if that's what you're looking for but —

Peter Antoszyk: I love that. I love that story. I love the fact that we're ending it there. Thank you, thank you so much for joining us on *Private Market Talks*.

Caroline Cooley: You're welcome, Peter. Thank you. Thank you, Kelli.

Kelli: Thank you Peter

Peter Antoszyk: Thank you.

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