Goldman Sachs Exchanges: Great Investors

How Clearlake Capital's José E. Feliciano is finding value across private markets

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Allison Nathan: Welcome to Goldman Sachs Exchanges. You might notice that today's episode is coming to you on Monday, rather than our regular Tuesday. That's because after the US election, we're going to give you a special episode, looking at the market reactions to whatever the news may be. Today you'll hear a great interview with José E. Feliciano, co-founder and manager partner of investment firm Clearlake Capital conducted by my Goldman Sachs colleague, Michael Brandmeyer. We hope you enjoy.

Michael Brandmeyer: Welcome back to Goldman Sachs Exchanges Great Investors. I'm Michael Brandmeyer, global head and chief investment officer of the External Investing Group within Goldman Sachs Asset Management.

Today, I'm very excited to be sitting down with José E. Feliciano, managing partner of Clearlake Capital Group.

José co-founded Clearlake in 2006 and has helped grow it into one of the world's largest private equity firms with $80 billion in assets under management today. How has José been able to drive such incredible growth? And what does the future look like for Clearlake Capital and for the private equity industry in general? We're going to talk to José about his career, his investment philosophy, and his unique outlook on the investment opportunities today. I'm very pleased to welcome José E. Feliciano. José, welcome, or should I say welcome back to Goldman Sachs since you started your career here.

Let's get right into it. It's a very interesting time in markets and in the world right now, and we're currently having this debate of what direction is the economy going. Clearlake must be very excited about the forward opportunity set. You talk about how you like to invest across economic cycles, across the capital structure. How are you seeing the world right now?

José E. Feliciano: First of all, you know, thank you.

Thank you for having me back. Very exciting to be back at Goldman Sachs. This is definitely one of those times in the world where the outlook appears to be extremely uncertain, even to investors, even to private equity firms like us.

When you look at the crystal ball, you see mainly contradicting factors out there. You certainly see at the very macro geopolitical, you see lots of issues. You know, we have a war in Europe. We have a significant conflict in the Middle East. We have significant tension in Asia. Here in the US we have an election. So these are all very significant factors that could push the economy one way or the other.

As you mentioned, for us, the most important thing is not necessarily predicting where the economy is going to be but understanding where the opportunities might be across a broad array of industries or our focus industries and then trying to understand kind of what is the best way to invest in those industries.

But personally, I think that we're most likely going to finally see decreasing interest rates, despite probably an uneven backdrop in terms of the macro. But we're going to see probably, generally speaking, a resumption of growth. It's probably not going to be the same type of growth that we saw pre the latest slowdown. And we're probably going to see a lot more volatility in both the stock market and certainly in other significant macro factors.

At the end of the day, though, our job is not to predict the macro. I think our job is to find great companies and great management teams that we can partner with, and we plan to do that.

Michael Brandmeyer: So a lot of your brethren out there are complaining saying, "Gosh, the market's aren't really open. It's hard to get a lot done." If you just look at the industry data, transaction flows are still quite light overall, but you have a very different toolkit at Clearlake that you can access things through different parts of the capital structure. So how do you think the opportunity set, as you sit here today, looks different?

José E. Feliciano: Yeah, it's a great question, and I'll give you an example. I'll go back to 2020 at the beginning of the pandemic. And essentially, almost overnight in the course of two or three weeks the capital markets essentially shut down. We saw extremely volatility in the capital markets overall and obviously a real effect on the real economy.

Those are moments in time where the traditional private equity firms are not able to access the market. There's not much to do when the capital markets shut down. During that summer and kind of the beginning of the fall, Clearlake invested probably three or four billion dollars in that time period. Obviously, that was a very interesting time because we saw a significant repricing of risk. Meaning that in the secondary markets, primarily debt, prices were much cheaper. Everything went down very significantly. And that's one of the hallmarks of Clearlake, as you're alluding to. The ability to invest across economic and credit cycles with different entry points, as we call them.

And I think going back then to this moment in time, I think we see similar opportunities. We do see a reopening of the capital markets. Obviously, interest rates are going to be higher for longer probably. But we do think that there's going to be very selective opportunities in the buyout side.

There's going to be really interesting opportunities in what we call special situations -- things like carve-outs, turn-arounds -- and we do see idiosyncratic distress for special situations where there are really interesting opportunities to buy companies or accessing those companies through debt or restructurings.

Michael Brandmeyer: José, investors have been hurting for more liquidity. In private equity parlance, we call this DPI. So this is cash coming back to investors who have invested in private equity firms. If I look at how much money in the last few years you've returned LPs, it's a lot and you've continued to be quite creative in getting money back to LPs. Talk about your thinking and your strategy there.

José E. Feliciano: Yeah, it's a great question. Over the past two to three years, we have returned upwards of $15 billion of capital to our LPs.

Michael Brandmeyer: Amazing.

José E. Feliciano: We have always believed that our job at the core is very simple. We take our investors' money and a lot of our own money as well, and we invest it. And the quicker we can get it back to our investors with the higher multiple attached to it -- meaning multiply that capital -- the better it is. And I think one of the significant things as part of our ethos is that we're always looking for that exit opportunity. We're looking for two or three things.

When we basically invest in the company, we're looking to make that company bigger, better. We certainly have a lot of pride in that, over time, we have done that consistently, and a lot of that has to do with our operational framework, which we call OPS Operations, people, strategy, and we can talk more about that. But at the core, every single quarter we're thinking of our portfolio and thinking about what are the companies that are mature enough where the value creation has already occurred and where that might be interesting exit opportunities? And we have access to those from time to time. We have been creative about how to do that.

We have done everything from selling companies obviously through strategics, to other sponsors, public or IPOs, and other public opportunities. And we have certainly used continuation funds and other interesting vehicles, again, to make sure that our investors have access to that capital and have the benefit of that value creation that we think we can create.

Michael Brandmeyer: Right. So you invest mostly in tech and industrials, so let's talk about the flavor of opportunities in both of those spaces. Tech was certainly over funded over a period of time. There are a thousand private unicorns. That means that a company that was founded in private markets at a valuation of more than a billion dollars. There's a thousand of those. If you look at the typical IPO pipeline or annual IPOs that are done, that's probably a 15-year supply. So that's not going to happen, in other words.

You also have many tech buyouts that were done over the last few years at very high valuations, so there's a real lack of liquidity. There's a lot of companies that are upside down. Then you have AI that is ripping through the investing world, and we'll get into this for industrials as well. But talk about how you think this opportunity sets up for Clearlake.

José E. Feliciano: Yeah. First, we're still in the middle of the ballgame in terms of the impact of technology on our economy and the opportunity to invest in that transition. We think that technology has an important role in our economy and our society and hopefully a positive role in terms of creating all kinds of efficiencies

What has changed is I think some of the statistics that you mentioned. There's a very significant amount of very interesting companies, you know, many of them private, that are looking for either more capital or other types of exit opportunities as well, evaluating strategic alternatives. Some of those are going to be foreclosed in the near future, and we think that's a very interesting opportunity for Clearlake because, from the very beginning of the firm, we have invested in those companies and technology. And we have, we think, one of the broadest toolkits in the industry in terms of how to invest in technology. Meaning that we understand how to invest in a company perhaps that is growing very fast and where the playbook might be continuing that growth and maybe supplementing that growth with strategic M&A.

But we also understand how to take companies through transitions. Companies, for example, who are selling licenses, on-prem software that are now transitioning to software as a service. We have plenty of experience taking companies through that transition, creating a lot of value doing that. We have plenty of experience helping companies transition what used to be a much higher growth kind of model to a somewhat slower growth model. And we have certainly a lot of experience taking then those companies that now maybe are experiencing a slower growth and revamping operations and helping them find the places where the company can grow again and reignite or resume that more rapid growth.

And that is, we think, the essence of value creation. So for us, technology will continue to be probably our largest sector, and we'll continue to look for opportunities primarily in software, primarily in subsectors that we understand very well and we think are ripe for that type of transformation. For example, health care IT is probably our largest sector within software and one that we think will continue to provide very interesting opportunities.

So we think that the investing opportunity in tech is here. It's real. And certainly if we had a more significant downturn, if we had a more significant slowdown where there are more of those companies that require not only capital but expertise to turn those companies around or to help them get back to a healthier profile, we have that expertise as well. So, we are actually quite bullish about the opportunity set in the next 18 or 24 months, particularly in technology.

Michael Brandmeyer: Yeah, I can imagine. I mean, AI, there's going to be two categories. There's going to be companies that take advantage of it and disrupt. Then of course there's going to be the disrupted. And I think that's going to happen in sectors like technology as well as industrials and other sectors. Probably very few sectors will be untouched. Maybe deeply regulated businesses will have more of a moat around them, but AI is coming everywhere. So how do you use the OPS playbook to make sure within your technology companies that you're a disruptor and not a disruptee?

José E. Feliciano: Absolutely. First of all, let me try to demystify what we call OPS. So OPS is our version of an operational framework that we use to make our companies, to be very simple, bigger and better. So the idea is that we'll focus on certain aspects of those companies -- either the operations, the people, the strategy, sometimes more, you know, sometimes multiple aspects of the business -- and we're trying to really identify what really matters at the beginning of the investment and trying to make that better.

And we have found that, through a lot of focus and blocking and tackling and hopefully strong execution, we have been successful in doing that. And that typically translates into what you're looking for in investments, a more rapid or faster revenue growth and hopefully better margins. And most, most importantly and the most difficult to measure is a more valuable company that's more significant, more interesting within its ecosystem. So hopefully when you go to sell, not only do you get a better multiple but you probably have a broader set of potential buyers because it's such an interesting asset. And that's kind of what we try to do in most of our companies and most of our businesses.

Within that context, the advent of AI is fascinating, right? Obviously, the concept of machine learning has been around for a really long time, but technology does reach certain inflection points and it does seem like we have reached that inflection point with AI where now it's more scalable and certainly it's ripe for applications in companies of significant scale, which is obviously highly applicable to our companies and, more broadly, to private equity.

I think there are many ways where AI could be applied and could make a very significant impact in our business. It starts at home, right? We're using AI at Clearlake for all kinds of complex, and simple things. We're looking to AI to help us source. We're looking at AI to help us synthesize information and present that actually faster and in better formats to our investors and to ourselves.

But I think most importantly and what you're getting at is the impact of AI in the broader economy and to enhance portfolio companies, and we think are that there are two aspects of it for our companies. Obviously, AI can bring significant efficiencies across many companies and industries. The typical example will be customer service is going to be increasingly more and more automated and driven by AI and powered by AI. And that's kind of a simple application that applies to our tech companies, our industrial companies, even consumer-driven companies who will benefit and be impacted by that.

But I actually think that there's even a more interesting opportunity set. You know, like, when we talk about AI and machine learning, we can never forget what powers that machine, right? The machine has to learn from datasets. And one of the really interesting things that we have been focusing on is both our tech companies and our industrial companies oftentimes generate massive datasets and those datasets are very specialized and they're proprietary. And those are extremely valuable and will become more and more valuable as we think of interesting applications within AI and you have these proprietary datasets that are going to be the linchpin for the machine to be able to provide those efficiencies.

You know, the best example is probably within health care IT where there's significant applications where big datasets are generated, you know, significant amounts of data, and that dataset is extremely important for that machine to learn and potentially translate to better outcomes, better predictability of outcomes, better forecasting, and hopefully, in the case of health care, better treatment and better outcomes for patients. So we think that AI ultimately will be a force for good, and we're certainly thinking about many creative ways of incorporating that into our investing framework.

Michael Brandmeyer: I think a lot of people talk about AI in the context of tech, and obviously there's already many examples within your portfolio that demonstrate how effectively you're using AI. When you think about diligencing industrial assets, one of the advantages that Clearlake has is the fact that it's multi sector and has deep expertise in both of these spaces. When you're looking at industrial assets today, how has it changed your due diligence process? And do you think it's just table stakes that everyone's looking at an asset the same way and thinking about, okay, here's how this business could be transformed using AI? Or are you seeing situations where you have a unique angle because of your skill sets, your industry expertise, and your ability to go in with OPS and make fundamental change to companies?

José E. Feliciano: We have reached that inflection point I was referencing before where I think every board of every significant company in the US and globally should have a board meeting dedicated to AI and how AI can potentially transform your business and what are the threats obviously implied by AI, both competitively but also from a business model perspective.

So I think we have reached that moment, and I would encourage everybody to do that in their portfolios or if you own the company or you're a board member of a company. I think it's the time to do that. It's now or maybe yesterday.

It is really interesting when you think more broadly about how technology can be applied in the industrial investing. Every company right now is a technology company in a way. If you look at any industrial company and their manufacturing processes, they're oftentimes very significantly automated and certainly heavily reliant on technology. So I think every company is a technology company nowadays.

We've, for example, invested in one of the largest providers in the self-storage industry of building product systems, you know, building systems.

Not necessarily the place that you would think about as very technology focused. But what we quickly determined is not only did the company have a great product, a brick-and-mortar product that they had sold and had garnered very significant market share in that market, but that industry knowledge could translate to selling other products, right, into the same channel.

And we innovated. We actually, as part of that platform, made several add-on acquisitions. All of them or most of them actually were on the technology side where we focused on the entry systems. You know, when you think about the self-storage industry, inherently you have a consumer relationship where somebody actually gets a self-storage unit and then you need a lock. And those locks tend to be the old-fashioned locks, a key or a code.

We invested in electronic entry systems that you could very simply use with your app and then your phone, etc. But from a business model perspective, if you think about it, we took what was an old-fashioned manufacturing company and started to introduce a business model that now implied a sale that not only was a one-time sale but implied not an ongoing relationship with the customer, creating a lot of data. Now the owner of that self-storage facility understands who's using the facility when, who's opening those doors and when. As a consumer, you understand if your lock is open or not. You can actually provide the temporary code.

But again, most importantly now, you're paying basically not only the one-time upfront but you have a recurring revenue associated with the maintenance of that kind of system. You have recurring revenue associated with other aspects of the refurbishment. And then for the ultimate customer which is the self-storage facility owner, you have a massive increase in ROI because actually we were able to demonstrate that using these electronic locks, you could charge more rent and you had a happier customer and people will stay with you longer.

Massive transformation from a revenue model and business model perspective in a company that, if you looked at it at first blush, was essentially just manufacturing kind of a building product going into a specialized niche in an industry or subsector.

Michael Brandmeyer: Yeah, I love to talk about examples like this when I'm talking to a general audience and I get this question. Isn't private equity just levered public equity? And at Goldman Sachs, we really like partnering with managers that have that combination of industry expertise and operating expertise. And it's just a great example because here's a situation where you go in, you have a totally different view on what can be done with an asset, and you put yourself in a situation where you're playing chess when everyone else is playing checkers.

José E. Feliciano: That's absolutely right.

Michael Brandmeyer: And so we see you do that again and again, and it's the power of private equity right there. José, I remember when you were raising your first institutional fund, and you and your co-founder, Behdad Eghbali, had a very strong view on what you wanted to do. And right back in those very first meetings, you had a perspective that you wanted to have a lot of flexibility in your investment mandate. You wanted to be able to invest across cycles and across the capital structure, and that went right back to the very beginning of Clearlake. And we remember in those first discussions with you thinking here are these relatively young guys, they have such a clear perspective, but you were unyielding in your conviction that was the right way to go about it. So talk about your formative experiences and what brought you at the founding of Clearlake going back, what, 17 years ago now? You're wily veterans. Now you're very good at it. But at the time, you were setting up a new private equity firm with a clear point of view as to how you were going to approach the markets differently.

José E. Feliciano: Yes, we were starting private equity firms. But even beyond that, we were entrepreneurs. And I always tell people that are thinking about starting their own firm that great entrepreneurs have an idea that they believe is transformational. They believe that they understand how to do something that other people are doing but they think they can do it differently. And we certainly had that idea.

We felt that there was a better way to invest. This idea of combining sector expertise with the ability to invest across economic and credit cycles. And that combined with making these companies bigger and better operationally. And that combination, if you think about it almost 20 years ago, did not exist or was not prevalent at least in private equity. So we did have that belief.

And as an entrepreneur then, there were things that we were willing to sacrifice that were negotiable. So for example, the economics of that fund in the early days when we were an unknown firm and it was a difficult time, we started fundraising essentially in the middle of the Great Financial Crisis, we sacrificed. We sacrificed ownership of the firm. We sacrificed economics. But what we were unyielding, to your point, was in what we believe was actually at the core of the investing strategy. We had never compromised what we think is important, which is the core strategy that we used to invest, that core investment approach, because we always felt that was a better way of generating great returns and outperforming.

And as a result of that, even though we were young and it was our formative years, we resisted any type of pressure, any type of influence, any type of ideas about changing that investment strategy or limiting that investment strategy. That was anathema to us. So we actually, at a time when we needed the capital and we were looking around for capital in a very difficult market, we actually refused investors that were trying to limit us because we felt that was going to hamper the very core of to what we were trying to do, and we were resolute.

So I think as an entrepreneur and certainly as a private equity investor or investor in general, you have to understand what are those nonnegotiables, right? What is at the core of that investment strategy? What makes you special? What is that secret sauce? And I think you have to be uncompromising on that, and we certainly have been.

Michael Brandmeyer: And so what were the formative experiences before that? Because that was a conviction where you were willing to make real trade-offs, real and important economic trade-offs to get what you wanted, to have the investment style that you thought was going to be differentiated. You've obviously had time at Goldman Sachs. You worked at a tech company during the dot-com period. You worked at another private equity firm. So when we look at you and Behdad in the formative experiences, because you showed up with a lot of conviction, what were the experiences that gave you that conviction?

José E. Feliciano: I think by the time we started the firm, even though we were young -- I started my career at Goldman Sachs in 1994, so we had over a decade of experience in the financial markets already. And we certainly, from different vantage points, saw different types of investors navigate actually significant dislocation. And in the past 30-plus years, we've had a few significant dislocations. Obviously, we had the pandemic, we had the Great Financial Recession, but before that obviously we had the dot-com era and the dot-com crash.

My prior firm was just more focused on special situations -- navigated that a certain way, Behdad came from more traditional private equity model at that time. They navigated that environment differently. And from that emanated a few key ideas.

One, the world was changing. There were going to be certain industries that were going to be more significant drivers of growth within the general economy -- technology, for example, being probably the most obvious and significant example. We wanted to be industry focused or sector focused as opposed to just generalists. We felt that sector-focused investors ultimately were going to have an edge and were going to understand how to create value in those industries differently. And we're going be able to understand the opportunities within that industry faster.

And that's particularly important in times of crisis where you have to make decisions much more quickly.

And you can also bring the right resources much more quickly. You understand the ecosystem. You have the relationship with the right management teams and the right people and the right consultants, etc., etc. So we just felt that being embedded into that sector ecosystem was going to make us better investors and more effective long term. That was number one.

Number two was this idea that the great investors out there -- you know, people like Warren Buffet -- one of the things that has distinguished great investors is that they don't have narrow, very prescribed ways of investing. They actually have very broad mandates, and they have the ability to think about how to invest in the best place at the right time. And that evolved into this idea that we wanted to have the flexibility in one fund, which again, almost 20 years ago, was actually somewhat unique, to in the same fund be able to do a traditional buyout, more complicated deals like turn-arounds, carve-outs, structured equity, all the way to potentially distressed or investing in the secondary market.

And then as we were growing up and seeing how companies and investors behaved in the aftermath of the dot-com crash and the opportunity set there, we also felt that being a financial investor only, being a financial engineer, was not enough. Yeah, it was great to buy a company at a good price, maybe add some leverage to your point, and create returns that way, but you needed to be a better investor than most. And to do that, you needed to basically create value. You needed to make these companies bigger and better. And over time, over the past 17 years, that is what has culminated into this idea of OPS.

But I think those formative years were crucial, right? Seeing from different vantage points how different firms navigated what turned out to be very volatile times in terms of investing, that was actually a great opportunity to generate new ideas about is there a better way to invest? Is there a better model? And ultimately, though, we realized that we still had to conform in certain ways to what private equity was, right? So we didn't want to completely reinvent how to structure a private equity fund, so our fund, our fees, the way we think about and talk to investors, that's very conventional, very traditional. But how we invest, as it turns out, was very different, particularly, again, 17 years ago when we started the firm.

Michael Brandmeyer: José, you mentioned Warren Buffet. Warren Buffet had Charlie Munger, and they were partners for decade and was part of their success. You also have a very successful partnership. You co-founded Clearlake Capital with Behdad Eghbali. One of the things that we've always liked about Clearlake is the ethos of the firm, the values that you guys have. You're both immigrants. You're from Puerto Rico. He's from Iran. You bring very complementary skill sets. And like you've talked about a lot, you really have some very hard skills and capabilities that are differentiated. A lot of times it's the intangibles that make the difference. Talk about the partnership you have and how you think that makes you different.

José E. Feliciano: Yeah. By now I've partnered with Behdad 17-plus years ago and it's been an incredible partnership, an incredible run. I think, like any team, part of that emanates from understanding our strengths, and we certainly have different strengths and weaknesses. Understanding our commonalities. I think you mentioned one of them, right? We came with lots of commonalities in terms of our families even though we came from very different places in the world. Families that were not wealthy monetarily but were wealthy in other ways, you know, in terms of education and love and nurturing, as it turns out, of us. And also a high degree of focus on education, the power of education as a catalyst for a better world, you know, for us and for others. And I think that still translates, and it's an important part certainly of my life.

At the same time, we also were able to harness our differences, and we have different personalities and different perspectives and different ways of looking at a problem. You know, I'm an engineer by training. I tend to be more analytical, framework driven, but I may think about things sometimes a different way. But that combination and appreciating kind of those commonalities, those differences, and over time learning then how to agree and disagree, that's one of the most important things about a great partnership.

And I think we put that all together in the context of also having a very common vision about the firm and the culture of the firm. And one of the things that in this industry we don't talk about enough I think is how culture can affect how you invest and how different firms behave. And I think that's actually fundamental. And from the very beginning, we wanted to create a culture that was based on teamwork, on humility, on that constant improvement, on always thinking about our investors, much like Goldman Sachs has the 14 principles and you think about your clients coming first. I actually, from time to time, use some Goldman Sachs IP and bring up the 14 principles to my team and mention that or use that as an example of how very simple but clear principles can build a great firm. And that's what we're trying to do ultimately.

Michael Brandmeyer: Yeah. One of the things that I think is consistent about you, you talk about your format as conventional, but I'm guessing that neither of you when you were in the sixth grade thought you were going to be private equity titans, right? From very different backgrounds. And so I've found that you've always been able to challenge conventional wisdom and not constrain yourself in a way that many people, frankly, do constrain themselves because they grew up in an industry and they're expected to act a certain way. And that's paid off for investors because I think you've made money because you have so much flexibility. Personality-wise, where do you think that comes from?

José E. Feliciano: I think for me, so my dad was an engineer and I grew up building LEGO sets and thinking about how things work. My dad also did a lot of woodworking, so I was always fascinated by how things are built and how things work. And ultimately, I was good at math and science and all those type of things, and that translated into an education as a mechanical and aerospace engineer even though I ended up going to Goldman Sachs. So I joke around that, you know, I went from differential equations and calculus and then, as a banker, you basically add, subtract, sometimes you multiply. It was mostly --

Michael Brandmeyer: It's third grade math.

José E. Feliciano: But I think what it did for me, though, it cemented that idea that, when you're presented with a problem, with an idea, with a company, with a process, with a product, you will ask: Why? Why do people do it this way? Is there a better way of doing it? But oftentimes, you actually find out that there is a better way of doing it, and nobody wanted to challenge it. Nobody thought about it.

Or it was so ingrained in the people in that industry or that group to do it a certain way that nobody wanted to challenge that conventional wisdom.

So I love conventional wisdom because, as the name implies, it has some wisdom embedded in it, but I also think that you should always try to look outside the box and see if there's a better way of doing it. And we do that all the time at Clearlake. You know, that's kind of part of our ethos, right? When we make a great investment, yeah, we look back and try to decipher why it became a great investment, but oftentimes when we make a bad investment or we make a mistake, with that we try to really understand why we did it that way. Ultimately, it's with a view or objective of analyzing and understanding who we are, what we're doing, how we're doing it, and how we can get better at it, and challenging our own conventional wisdom as a result.

Michael Brandmeyer: Maybe one of the best examples of this is your recent purchase of Chelsea Football Club where I think the whole world was scratching their heads saying, "Clearlake is coming in and buying one of the most storied European football clubs." And we've talked about this and you said, "Look, Mike, it's not that much different than a software company." So talk about your perspective on that asset and why you thought it was interesting.

José E. Feliciano: Yeah. So first and foremost, you know, I think when you think about sports, you're thinking much more than just a business, right? Kind of sports connotes and denotes emotion and passion. And certainly, we're very familiar with that. I became a soccer/football fan probably in 1998, you know? So over 25 years ago.
I'm very passionate about it.

So I think, number one, you have to understand the ethos of the sport. You have to understand that this for many people is much more than just a game. It's much more than just a business. At the same time, when you translate to make that club sustainable, you have to look at the business aspects of it. And as you then correctly point out, sports over the past 20-30 years has, as a business, been completely transformed in terms of a business model, right? You know, where the focus used to be much more on maybe the stadium itself and the attendance and selling hotdogs and beers if you were here in the US to how do you basically take that franchise, that club, and what happens on the field or on the pitch, and how can you basically bring that to the most people possible, to the fans, to the supporters, to the people that are the core of that club?

And in today's world, a lot of that is technology, right? Obviously, you see the advent of not only the traditional media networks but, in today's world, a lot of people are consuming or looking at or seeing or watching their favorite club through all kinds of different channels, right? You're probably doing it on your phone or you're maybe watching small clips of your favorite player on TikTok or things like that.

So we identified that sports, again, much more than just a business, is a passion, is a movement, and there were incredible opportunities that came from understanding how to basically provide that to the broadest number of people. And that means that then when you look at the most teams and the most major leagues across the world, most of the revenue has transformed then into multi-year contractual revenue that comes from media companies or comes from multi-year sponsorship deals or things like that.

And at the core, we have learned a lot over the past two years as investors and controlling investors in Chelsea and understanding how to put first the club and the team and that ethos and our fans and supporters and, at the same time, how to, in that context, build a sustainable business that can continue to provide that same enjoyment, that same passion, that same feeling to our fans and supporters.

Michael Brandmeyer: Amazing. I want to pivot for a moment to the personal side because you are very active, you're very civic minded, you're very philanthropic. And maybe you could just spend a moment talking about some of your work on the philanthropy side with your wife, Kwanza Jones. I know you founded the SUPERCHARGED initiative. So tell us about your passions outside of the office and off the field.

José E. Feliciano: So particularly my mom really instilled in me this idea of giving back. Even when we didn't have a whole lot, we were always and she was always writing checks to UNICEF and trying to be charitable and trying to really make an impact on others that maybe were not as fortunate. So I think that has always been part of my DNA, if you will. And certainly not a day goes by that I don't think about how fortunate personally and as a family we have been. And I think there's a responsibility that comes with that.

And the responsibility is to try to basically leave something behind that's a little bit better than how you found it, and try to give back. And try to maybe even, if you're really successful, provide others with the same path or at least the same idea, the same tools about how to get there. So I think we identified a few principles that we think are important in terms of that success. And those principles revolve around very simple things. You know, education, entrepreneurship, empowerment, equity. And we've tried to basically give back -- or really "invest" is the term that I love to use more because, even though we may not get a financial return, we may get a social impact return, we may get a psychic income return out of helping others.

And we have tried to basically direct our efforts that way, and I think that's as important as anything else that I do nowadays. So for us, it has translated into significant investments or contributions, donations to educational institutions. Our alma mater, Princeton University, Stanford, other much smaller, local communities. During the pandemic, for example, the issue of the digital divide was basically stark, looking at our face, so we invested with, donated significant amounts to nonprofits that were trying to deal with that by providing high-speed Wi-Fi and Internet access, you know, computers, things like that.

And it's not only in not-for-profits. You can make a lot of impact on the profit world. It's well known in the industry there's all kinds of statistics, but roughly one or two percent of the capital out there goes to either women or funds managed by women or underrepresented minorities. So we have invested over now upwards of $200 million and funds managed by women and underrepresented minorities. But that's not charity, right? I'm investing in people that I think are going to generate better than average, actually top quartile, hopefully top decile returns. And I think for me it's just, it's almost, you know, to use hedge fund parlance, it's an arbitrage, right? It's basically underused talent.

I mostly care about am I investing in the best talent out there? And if that talent happens to be female or happens to be Black or brown, that's okay. Actually, that's great. And if other people have --

Michael Brandmeyer: Probably better than okay.

José E. Feliciano: If other people have underestimated that talent, that's even better because we can invest more and we can create or generate or get even better returns. But ultimately, I would love those people to be able to scale their firms, to be able to be discovered by others, and ultimately my hope is that there will be a lot more Clearlake Capitals, more Vista Equities, more firms like that that are utilizing 100% of the human capital of this incredible country.

Michael Brandmeyer: José, we like to end these podcasts with a lightning round where we run you through a few quick questions. Let's go. What is your greatest strength as an investor?

José E. Feliciano: I can think about and understand my mistakes but not dwell on them. And the next day, I can make a decision then without basically dwelling on those mistakes and getting wrapped up in the emotion of having failed. Picking myself up after failure I think is my greatest strength.

Michael Brandmeyer: And what's the best piece of advice you've ever received?

José E. Feliciano: Early on, I was told to follow my own instincts, follow my own path, understand your strengths and weaknesses, and follow that. And I have done that ever since, and I think that has served me well.

Michael Brandmeyer: How about your biggest mentor?

José E. Feliciano: So I have had a few people that I admire and I have followed, but ultimately I think my mom and dad have been my greatest mentors. They instilled in me both that intellectual curiosity that we talked about before and that sense of giving back and making the world hopefully a better place.

Michael Brandmeyer: Which investor do you admire most?

José E. Feliciano: Probably have to go with the conventional Warren Buffet. You know, we talked about it in this interview, but I have always admired what he did. You know, he created basically a business model that didn't really exist and created a space for himself where he can invest across economic and credit cycles in multiple industries. And obviously he has become one of the best investors that we have ever seen.

Michael Brandmeyer: And where do you spend your time outside the office, José?

José E. Feliciano: You know, to me, the philanthropy aspect is very important, you know, giving back. And then once in a while I can get out on the golf course.

Michael Brandmeyer: Great. And finally, what are you most excited about in the world right now?

José E. Feliciano: So I do think that technology obviously is important and in my day job in terms investing, but I think technology can be used for good. And we're at a point where technology has democratized so many things across the world. Access to knowledge has been democratized. And I'm actually super excited about that because, as we talked about before, I think education, knowledge is the catalyst for people around the world to improve themselves and improve those around them. So I'm extremely excited about that.

Michael Brandmeyer: José, you've always struck me as a guy who has it figured out. You're a great partner to us here at Goldman Sachs. You've developed this platform which we think is highly differentiated. You give so much back to your communities, and yet you're still a humble guy that seems like he's enjoying the ride. So it was really great for us to share some of that with our listeners today.

José E. Feliciano: Thank you, Mike. You know, super excited to be here, again, back at Goldman Sachs, and we wouldn't be here without investors like you that believed in us when we were unproven, we were young, and saw in us a little spark. And every single day, we wake up thinking how can we reward, how can we give back, how can we basically prove you right? And we're still trying to do that.

Michael Brandmeyer: Great. Thank you all for listening to this episode of Goldman Sachs Exchanges Great Investors, which was recorded on September 11th, 2024. I'm Michael Brandmeyer.

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