

Leading With Alignment

An Interview with Christopher Zook, Founder, Chairman and Chief Investment Officer, CAZ Investments

EDITORS' NOTE *With more than 30 years of experience investing in both traditional and alternative asset classes, Christopher Zook is a regular contributor to major media outlets, including CNBC, Fox Business and Bloomberg. He is actively involved in public policy and frequently serves as a resource to state and local officials. Prior to starting CAZ Investments in 2001, Zook served in senior leadership positions with Oppenheimer, Prudential Securities, Lehman Brothers and Paine Webber. He is former Vice-Chairman of the Deacons and serves on the Finance Committee at Second Baptist Church. He has held leadership positions on a variety of charitable boards, including his current role on the board of Elizabeth Ruth's Home, an organization helping adults with autism. He previously served as President of the Board of Trustees of Avondale House and President of The Children's Fund. A lifelong Houstonian, he is a graduate of Texas Tech University where he was recently honored as a Distinguished Alumni.*



Christopher Zook

FIRM BRIEF *CAZ Investments (cazinvestments.com) curates unique and exclusive opportunities for their global network of investors. Since its inception in 2001, it has been dedicated to finding the best opportunities for investing the principals personal capital while also providing their ecosystem with the ability to co-invest alongside them. Individually, they are small, but collectively they are the equivalent of a large institutional investor, with superior access and buying power. With over \$4 billion in current assets under management, their global network consists of approximately 2,400 co-investors spread across 47 states and 13 countries.*

What was your vision for founding CAZ Investments and how do you define the firm's mission?

Our mission is to curate unique investment opportunities for our network of investors. The reality is most individual investors don't have access to high quality alternative investments – in private equity, private credit, private real estate, etc. – as they are crowded out by institutions with much larger check books. When we started CAZ Investments in 2001, the idea was to create an “insti-vidual” where our network of

investors could lock arms as a unified front and command access to opportunities. When we launched in 2001, it was just my family and our shareholder families, but our network has since grown to 2400 investors globally, and many independent advisors/family offices who represent them. We currently have over \$4 billion in assets under management.

CAZ Investments has a clear set of guiding principles. Will you highlight these principles and explain how embedded they are in

CAZ Investments' culture?

At CAZ, we lead with alignment. Our network of investors know they are investing alongside the Team that rides the elevator every day. Our Team and our core shareholders have personal capital on the line in every vehicle so our investors can rest assured that we are fully committed to their success. In addition, we have created an investment ecosystem where, in many cases, CAZ does not get paid unless our investors make money on the opportunity. This combination creates the ultimate alignment between our investors' success and our own.

The idea behind our philosophy is to create “raving fans” of our investors through every interaction. To deliver on that imperative, it is key for us to hold ourselves to a standard of excellence and innovation which, for us, means we focus on three main pillars:

First, we challenge the conventional, thinking outside the box to find ways to disrupt the status quo and change our industry for the better. We have an acronym we use internally: CANI – Constant and Never-ending Improvement – and our Team embodies that in all we do.

Second, we find what matters and endeavor to see the forest, not the trees. It is easy to get lost in the investment whirlwind, but we know that to be exceptional, we need to avoid the “noise of the crowd” and focus on what is really going to drive results. Similarly, we want to face the future and remain proactive to see what is likely to drive the economy and investment results. We focus on finding tailwinds that will produce outstanding risk-adjusted returns.

Finally, in every investment we make, we make painstaking efforts to understand all the potential risks. It may seem counterintuitive to try to find ways to “blow up” a new opportunity,

but we know that if we can live with the worst-case scenario, the upside will take care of itself. We typically review over 1,500 opportunities each year and only a few investments will separate themselves as worthy for us to invest in personally. When that happens, we will provide a way for our partners to come alongside us. Over the past 20+ years, this curation process has resulted in less than 0.2 percent of opportunities to be approved.

What have been the keys to CAZ Investments' growth and how do you describe the CAZ Investments difference?

We have a saying among our Team that “good alignment usually leads to good decisions, and bad alignment usually leads to bad decisions.” Investors rarely encounter a firm that has so much of their personal wealth in the investments they put forth. CAZ is immediately differentiated because most sophisticated investors want to know that we are in the boat together. This creates trust and, more importantly, facilitates better due diligence for opportunities we source.

We further attribute our growth to a continued focus on our guiding principles and growing our Team with people who exemplify those values. Any CAZ Team member can attest that our hiring process is one of the most extensive – and intensive – hiring processes they have experienced. We believe our Team is world-class, and we go to great lengths to ensure we maintain a culture of excellence and dedication to our investors.

When you combine these elements with our strong track record and dedication to aligning our interests with those of our investors, you get our recipe for success.

You are a respected authority and voice in the market on GP Stakes. Will you discuss your focus in this area?

We have invested more than \$3 billion in GP stakes, becoming one of the largest allocators in the world. A “GP stake” means we own a piece of a private asset manager. By owning a piece of the asset management business itself, we are focusing on the broader trend of private investments as an asset class, which is expected to soar from \$9 trillion to \$14 trillion by 2025. Take private equity, for example. It has outperformed public markets every year for the past 35 years, making it highly sought-after. The problem is that to invest in most private market funds, investors must meet very high

minimums which eliminates the vast majority of individuals, and pay hefty management fees, regardless of whether or not the asset actually performs well. That is if they can get in at all. That led us to ask a new and crucially important question: What if, instead of just investing in private equity funds as an LP client, we found a way to own a piece of the actual companies who are managing them and become part of the GP ownership? Let's become beneficiaries of the operating businesses that are managing numerous funds and participate in the fees they generate across a highly diversified set of investments.

The asset management businesses we own are structurally designed with an advantage. Private funds typically charge annual management fees that are contractually obligated and not dependent on performance. As the owner of a GP stake in the manager of the fund, that means those are fees we are earning, regardless of how long it takes for underlying funds to be invested or harvested. Plus, assuming these outstanding firms do a good job managing the fund, there is also additional upside from the share of profits that these managers receive. The combination of these contractual fees, with optionality that comes from delivering strong results, provides that positively asymmetric risk profile we have yet to find anywhere else. We see strong downside protection – less than 20 percent potential downside on average – with more than 300 percent potential upside. With returns that positively asymmetric, it is incredibly compelling and difficult to replicate. Through GP stakes, we get the opportunity to partner with world-class investment firms, which are extraordinarily profitable, and benefit from the dynamic growth of the asset class.

Since first investing in the space, we've accumulated GP stakes in more than 45 top-tier private asset managers in private equity, private credit, and private real estate and continue to look for additional opportunities.

Will you discuss CAZ Investments' focus on building a diverse and inclusive workforce?

I am quoted many places saying that the most important personal traits that will lead to success are work ethic and attention to detail. If someone possesses those traits, we want them on our Team; if they do not, we will not hire them. From there, we demand our Team possess impeccable integrity and a willingness to create raving fans of our partners and those they work alongside. Our high standards can make it difficult to find someone quickly, but the right people are well worth the wait.

As a result of this rigorous process, we have an incredibly diverse and inclusive workforce that does their best every day to represent our Guiding Principles. One of our biggest constraints is finding enough of the right people, so we are constantly hiring in just about every department within our firm. We have an amazing culture, built by our remarkable Team, and we will continue to look for superstars.

Did you always know that you had an entrepreneurial spirit and desire to build your own firm?

I started working when I was 12 years old and enjoyed the excitement of getting paid for that hard work. In 1991, at 22 years old, I set a goal to start my own investment firm within 10 years, so I think I have always had an innate desire to be entrepreneurial.

Gradually, that passion for work turned to the investment business. Since high school, I have been investing wherever I could find opportunity. In fact, I was able to help put myself through college by trading commodity futures. What has always made investing fun for me is finding a theme – a way that the current status quo is changing or being disrupted – then finding a way to make money from being right.

As CAZ and its network have grown, our opportunity set has gotten larger, and we are constantly gaining access to opportunities that are exceedingly unique and exclusive. That has provided the perfect breeding ground to place ourselves on the front lines of a lot of the investment themes we pursue. That is what makes it feel like fun, not like work.

Beyond that, I knew that starting my own firm would give me the chance to create a firm that is built to redefine the opportunities that are available to investors. A firm that is based on alignment, which enables our partners to invest alongside of us with confidence.

You devote your time and resources to philanthropic work. What has made philanthropy so important to you and how do you decide where to focus your efforts?

We have a phrase we like to use at CAZ: Doing well while doing good. Serving our community is a huge part of our identity as a firm that goes well beyond me. In fact, when considering new Team members, philanthropic work is often a great indicator of the type of individual you are bringing into your culture. Many of our Team members were already serving on the boards of various nonprofit organizations prior to joining CAZ. By hiring the right kind of people for our Team, that focus on giving back comes naturally.

For me and my family, one of our primary areas of focus is freedom. People around the world have learned how precious freedom is and what it means to lose it. We are doing all we can do to preserve freedom as we believe it is the foundation on which opportunity is built.

It is the belief of my family and our Team that we all have a responsibility to make a significant, positive impact for others. We have many opportunities to elevate those around us, and we find life a lot more fulfilling that way.

What advice do you offer to young people interested in building a career in finance?

You are only limited by how hard you are willing to work, your attention to detail, and how much you are willing to learn. Success leaves clues, and it is critical to study those that

exhibit excellence in their work. That doesn't just apply to when you are first getting started in your career. The markets and investing landscape shift daily and one should constantly be focused on growth to not just keep up, but to excel.

At every step throughout growing CAZ as a firm, we have been fast to seek guidance from those who are experts in areas where we want to grow. We've consistently pursued training for our entire firm from experts in virtually every field. I've also learned not to underestimate the value that a company library provides. We have created a reading list of some of the best business and personal development books for all our Team members to read, and it continues to grow as we find new resources.

Aside from my wife, the person on this earth who has the most impact on my life is Tony Robbins. I started reading his materials when I was 21 years old and have been learning from him ever since. I am forever grateful for his guidance. In every field, and every area of our lives, there are tremendous resources available for anyone who is willing to pursue excellence and wants to grow. It doesn't matter if you are just starting your career or if you have achieved significant success; never stop seeking the next thing you can learn. Just like our firm, we would encourage everyone to pursue constant and never-ending improvement.

What are your priorities for CAZ Investments as you look to the future?

We maintain a singular massive goal that drives our entire Team to a specific, measurable, and central objective. Within the next 20 years, we plan to create over \$20 billion in profits for those that invest with us. That is a goal we feel perfectly represents our commitment to cultivating success, not just for ourselves, but for our investors as well. It can be all too common to find people in the financial services space who are in it for themselves first and for their investors second. At CAZ, we want alignment with our partners to permeate everything we do, including the goals we have set.

In the short term, we are extremely excited about the opportunities we are finding in both GP stakes and professional sports, both of which are providing opportunities to our network that are among the best we have ever seen. We talked about the irrefutable tailwind from the growth of private assets already. The other indisputable trend that exists today is "cord-cutting." That trend is one by which we can make significant returns from the ownership of professional sports Teams, which are benefiting immensely from the disruption to the traditional advertising model.

We are always looking for the next significant opportunity. Every day, we wake up looking for the best place to invest our capital. The world is changing rapidly, and we will continue to look for tailwinds that will provide us and our investors with differentiated opportunities to make excellent returns. ●