FAMILY OFFICE INSIGHTS
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# Peer Insights REPORT

## Q&A with Maximilian Kogler
Da Vinci Media Ventures

### Principle Series:
*Family Office Insights sits down with Maximilian Kogler, Principal Methodologist of Da Vinci Media Ventures, to discuss the firm's strategy and why he believes there is a great investment opportunity to be had in the independent film space.*

Family Office Insights is a voluntary, "opt-in" collaborative peer-to-peer community of single family offices, qualified investors and institutional investors.

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## Q: Can you give a brief overview of your strategy?

**A**: Da Vinci Media Fund is an investment vehicle that offers a diversified and risk mitigated way for investors to gain exposure to film investing. We provide institutional investor-friendly exposure to what is a very compelling and uncorrelated – but tough-to-access – asset class. Our investment process constructs a diversified portfolio with a primary focus on predicting and eliminating losing projects, thereby driving up the average expected return. We are not attempting to predict winners.

Traditional alternative investors don't really have access to this asset class, because it is extremely difficult for passive investors to construct an appropriately diversified portfolio and to unlock attractive market beta. We provide that access. It makes a lot of sense as a part of an investor's allocation wheel.

## Q: Why do you believe the film industry has such a poor reputation as a very difficult place to generate positive returns?

**A**: The industry has a reputation as a recreational investment arena—a sort of chancer's realm—and some of that reputation is well deserved. Historically, a large proportion of the capital that has flowed into the space has had non-economic drivers. Many investors cared more about the prestige and celebrity aspects than they cared about performing strict due diligence. Not surprisingly, there is a long trail of capital lost.

As recreational investors, many of the capital providers have typically not come back for "seconds", which in turn has disincentivized production companies from treating investors as valuable long-term partners. This vicious cycle has often left the equity providers with very disadvantageous terms in the capital stack—the proverbial "patsies in the room."

The major studios in particular have also cultivated a reputation for opaque accounting, making it very difficult for equity investors to recoup their investments. The way we see it is that you have to be an expert in understanding how the cash flows of each deal function and how to protect yourself.

## Q: Given those challenges, what appeals to you about independent film investing as an asset class – and why should family offices care?

**A**: From a return generation perspective, this is a very attractive asset class. We have modeled film investments since 1996 and have found that the long-term unlevered equity return is around +11.5%. Additionally, the independent film space has the quintessential uncorrelated return profile. We measured correlations to all other key asset classes and found not one where it was higher than 0.01. This is what asset allocators are looking for.

And finally, it's actually a very stable and recession-proof asset class in terms of returns. Our back-testing has shown that since 1996, there was not one year where a virtual tracker fund would not have made money. Obviously, certain assumptions apply, but this makes independent film investing very interesting to us.

The film market has changed dramatically over the last 10 years. International box office has doubled from $11bn to

$23bn; digital and VOD (video-on-demand) have increased dramatically as well; and the availability of data for independent film productions has increased dramatically, in terms of conventional and alternative data – making this sort of approach possible.

### Q: Why is this approach different than some of the so-called film slates that investors have poured money into over the last decade – and why do you believe you have the right ingredients to make money in this space?

A: We have modeled film investments and have found that film investing is very similar to seed-stage venture capital investing: the return curve is very convex and has a high proportion of "losers". However, unlike venture capital investors, most film investors typically try to identify a small number of "unicorns", rather than relying on a portfolio effect. In contrast, we believe that identifying and eliminating "losers" requires much less precision, which makes predicting a subset of them a solvable problem.

We do not believe that traditional film slate investing provides sufficient diversification: a typical film slate will invest in 10-12 films over 3 years, while we seek to build a portfolio of 50-60 films in that same timeframe. Moreover, due to affiliation with a single studio or production house, film slate investing often falls victim to adverse selection risk. Da Vinci avoids this risk by sourcing top-tier projects from a much more diverse range of production teams.

### Q: What type of quantitative techniques do you employ to your strategy?

A: Da Vinci's team has gone to great lengths to examine the film industry from non-traditional as well as conventional angles, pulling information from dozens of alternative data sources, applying and testing different techniques, and bringing systematic expertise to support its decision making. We have spent over two years collecting, scrubbing, and matching data on films, and building a sophisticated system architecture predicated on a rejectionist philosophy.

We employ everything from straight forward linear and log linear regressions to the latest machine learning techniques. Our system is hypothesis driven. We do not boil the ocean looking for (often) spurious correlations, but instead we start with a hypothesis and then find the right tools to test its validity.

We have also forged collaborations and partnerships with a number of academic and for-profit organizations to optimize our decision making process, ranging from groups like the University of Leicester Applied Mathematics Department to an artificial intelligence company with cutting-edge natural language processing capabilities.

### Q: How will you gain access to enough good product?

A: Our strategy is precisely focused on counteracting the adverse selection challenges that so-called film slate vehicles face. Unlike film slates, we will not just be working with one studio but selecting investments from a wide range of sources. We have signed first-look letters of intent with 10 separate leading independent production companies and we're working closely with several of the top commercial banks who are the primary lenders to the industry, in order to partner with them and provide the junior capital to their senior loans. In addition to significantly expanding our pool of investable projects, we also benefit from combined negotiating leverage and the banks' collections clout.

We also work closely with many of the leading foreign sales agents, who are on the front lines of gauging which projects will find receptive audiences, and we expect those partnerships to be yet another source of additional, pre-vetted opportunities.

Finally, we have close working relationships with the three leading creative agencies – CAA, WME Entertainment, and United Talent Agency.

## Q: What makes your team unique?

A: Our management company is backed by a number of successful entrepreneurs from the UK, who have a history of observing and disrupting industries. As a result, they have purposely assembled a team of diverse professionals with a range of film and non-film backgrounds.

Three of our partners are film industry veterans with backgrounds in acquisitions, senior lending and collections, with a fourth preparing to join from his role as COO of a leading production company. Two of our partners come from the alternative investment space – one as the architect of a successful volatility arbitrage fund [Max] and the other as a founder and long-time managing partner of a fund of funds company.

***Maximilian Kogler***

*Mr. Kogler has a track record of building and running organizations around finance and technology based themes. He previously co-founded MM Capital, a successful volatility arbitrage hedge fund of close to $400 million in assets. He co-managed the fund, built up and ran its operations and headed up the quantitative and systematic side of the business. He also served as Commercial Advisor of Idilia, an artificial intelligence company in the field of natural language processing. Before MM Capital, he was the head of US Treasury trading at Calyon in New York where he assembled a fully integrated and immediately profitable platform for the bank's US Treasury trading operation. Mr. Kogler also held positions at Goldman Sachs in New York and Mitchell Madison Group in London. Mr. Kogler has a Master of Advanced Study (Part III of the Mathematical Tripos) in Pure Mathematics with focus on Statistics from Cambridge University and an MBA with a concentration in Finance from Stanford University. For more information, please visit http://davincimediaventures.com/.*

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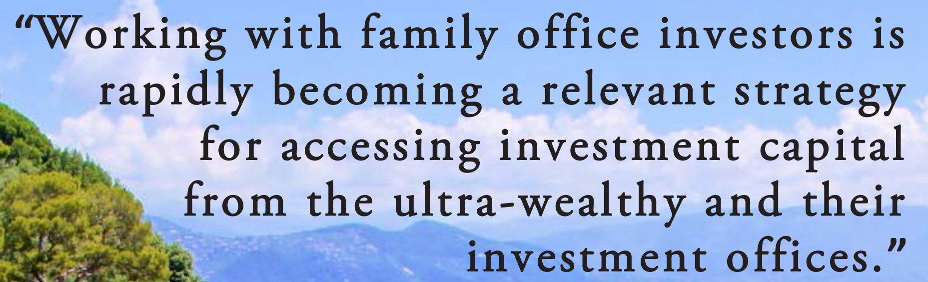

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> Arthur Andrew Bavelas