PODCAST TRANSCRIPTION SESSION NO. 115- BO BRUSTKERN AND EMMANUEL MAROT

Welcome to the Lend Academy podcast, Episode No. 115. This is your host, Peter Renton, Co-Founder of LendIt and Founder of Lend Academy.

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Peter Renton: Today on the show, we have two guests, both of whom have appeared on the Lend Academy podcast in previous episodes. I'm delighted to welcome back Emmanuel Marot, he is the CEO and Co-Founder of LendingRobot and also I would like to welcome back Bo Brustkern, who is the CEO and Co-Founder of NSR Invest.

Now before we go any further, I should share with you that NSR Invest is part of the Cardinal Rose Group which is the holding company that also owns Lend Academy, LendIt and as well as a majority interest in NSR Invest. So now with that out of the way, I wanted to get these two gentlemen on because you may have read the news recently that they have merged into one company. They've created now the largest robo advisor in the online lending space so I wanted to get them both on the show to talk about what this means, why they did it, what it means for their investors, what it means for the industry. We had a really fascinating discussion, I hope you enjoy the show!

Welcome to the podcast, Emmanuel and Bo!

Bo Brustkern: Thank you, Peter.

Emmanuel Marot: Thanks, Peter.

Peter: Okay, so let's get started with a little bit of background...both of you have been on the show before, but I'd like to at least get some background about yourselves and also a little bit of background about your company, when you started it and that kind of thing so why don't we start with you, Emmanuel.

Emmanuel: Okay, so my background is actually I didn't work in finance before founding LendingRobot, I'm a serial entrepreneur and I worked in internet services. LendingRobot is something we created in 2013 to automate our own investment, so originally it was just a small script to save time investing in Lending Club. When we created that we realized that actually a lot of the loans were gone in a few seconds and so individual investors were at a slight disadvantage. We decided to offer the script to other people and the first users we had were really ecstatic about it so we decided to make a real product out of it that we named LendingRobot.

A few months later, some clients asked us to guide their investment decisions, something we didn't do originally, we were just applying the filters they wanted. So we registered as an Investment Advisor and we created a selection model to be able to automatically select the loans and then execute the orders for investing on behalf of our clients. So we registered as an Investment Advisor with the SEC and launched spring of 2014 this robo advisor for this marketplace lending space. Since then we grew and added other platforms as well while refining our models.

Peter: Okay, thanks, and Bo, what about...why don't you give us a little background about yourself and NSR.

Bo: Sure thing, Peter. I've spent over 20 years in finance, my entire career has been in finance including as a venture capitalist in Silicon Valley. In 2006, I started my career as an entrepreneur and later joined forces with you, of course, and Jason Jones to form a variety of companies around the marketplace lending industry, one of which was to be an investor in this space and to help people guide their investments more wisely into the proliferation of opportunities that were emerging at the time.

Now NSR Technology, which was formerly known as Nickel Steamroller, was founded by Rocco Galgano and Michael Phillips, who are today my Co-Founders at NSR and we all combined efforts to bring a smart technology to the same problem that LendingRobot was addressing and doing it in a slightly different way and I'm sure we'll get into that later, but we've been running NSR collectively, including back to the time when Michael and Rocco founded the firm, back to 2011 so we've been underway for six years approximately and have accumulated a vast amount of knowledge and capabilities in this space.

Peter: Right, and dedicated Lend Academy podcast listeners will know that Michael Phillips was actually the very first guest on the Lend Academy podcast way back in 2013. So anyway you can go back and listen to that and see what it was like in the very beginning, if you so choose. Anyway, so it's been...we're a few days removed now from the announcement of the merger of the two companies. I'd like to get sort of your opinion on what are the strengths of both companies and why is this sort of a good complimentary fit for you both?

Bo: It's a great question. We, at NSR, have always had a great respect for LendingRobot and what Emmanuel and his team have built. They have, from our perspective, of course, as a competitor of theirs for many years we felt like their user interface was very attractive and now, after having worked together and had exposure to not just the front end but the back end, we see that they're extraordinarily sophisticated on the back end as well. So that makes us very pleased to be partnering with them in this way.

The LendingRobot puzzle piece is all about, from my perspective again, is all about technology, it's about the product, it's about simplicity and it's really about providing a graceful on-ramp to this very sophisticated asset class. Now the LendingRobot team has financial expertise, but not the depth to which the NSR team has and so when I look at NSR and I think about ourselves and what we bring to the table. Our technology was really built for the very sophisticated or I should say just for the more sophisticated investor that wants to tinker more with the investment.

There's nothing else on the market like our NSR platform that allows investors to slice and dice the data in a way that allows people to build their own investment algorithms. That remains unique and that was what Michael and Rocco built from the beginning. So we have very complimentary and impressive technology, we have an expertise in finance, an expertise in regulatory and compliance, and also, as you know, Peter, we have industry exposure and industry relationships that I would argue are second to none.

The final point I would like to point out is one of the things that we really pride ourselves on and I'm sure LendingRobot has a very similar philosophy, although much more technology oriented, we have a people orientation and under the leadership of the inimitable Summer Tucker, we have an insanely good customer service department. So those things when we combine them together, we believe, we both believe are very powerful.

Peter: Okay, that makes sense, that makes sense. So Emmanuel, do you have anything to add to that?

Emmanuel: Not much, I do agree with Bo that actually we are very complimentary and none of the people who are working at LendingRobot actually, before they came, worked in finance so it's great to be able to join forces with people who are way savvier than we are with the immense amount of regulation constraining this industry.

Peter: Okay, that makes sense. So a question, you sort of pretty much answered the question of why do this but I guess the second part to that question though is why do this now, is there a reason, what's the timing, what's behind coming together now?

Emmanuel: Yes, we see this asset class, marketplace lending, as still having a lot of promises and it has reached a certain maturity, but at the same time it's also becoming more complex. You see more and more platforms emerging every day and some of them are really, really attractive so it makes it even harder today for individual investors or even professional investors to actually access the asset class and we think it's important to provide them a tool that allows them to access that investment class with both good returns and profits from all the sophistication we can provide in a tool and so that means that we need to put more effort in this.

We need to continue building a tool which is both technically solid, with very strong models for selecting the investment, but at the same time, with the customer relationship, with the knowledge of what the people are looking for which requires the combining of those two companies.

Peter: Okay, that makes sense. So can you give the listeners a little bit of an idea of the scale of the combined company? I'm interested in total assets, total number of customers, that kind of thing.

Bo: Sure, I'll take that one. So with the combination of our companies, we will be approaching $200 million in assets and our total number of customers will be over 10,000.

Peter: Okay, that's quite a lot, quite a lot indeed. And what about profitability of the combined company, are you guys raising money, are you profitable now, where are you at?

Bo: It's a great question and it's very topical I think for everyone in this industry is sustainability of the company itself and I'm very happy to say that we are profitable and we are not raising money. We are very focused on a couple of things and that is not to promote our equities for sale, but to promote the products that we have for the investing public, to get back to the business of investing for our clients.

Peter: Okay.

Emmanuel: I would add to that since we are a robo advisor, we are probably the only profitable robo advisor.

Peter: (laughs) Yes, yes, indeed, you probably are. Okay, so I want to dig in a little bit into the LendingRobot Series, Emmanuel. You launched it earlier this year, it's a pretty unique offering so maybe we could just get started because many of the listeners would not be familiar with it, can you explain what the LendingRobot Series is?

Emmanuel: Sure, with pleasure. So we looked at what we thought were some drawbacks in investing in marketplace lending platforms today and we found a couple of things that we think could be improved. Investing in multiple platforms it's required to build a diversified portfolio but it's super complicated. I mean, you, Peter, you invest I guess in a lot of different platforms and your tax returns are a nightmare, right?

Peter: Yes, they are.

Emmanuel: And some people may not have the energy for investing in marketplace lending as you do. We want this to be simpler for tax returns and the like and we wanted to increase the liquidity and the lack of liquidity I think is a big drawback in this asset class. So classically, if you want to wrap everything together, that's what a fund does, there are a few things we don't like with the fund and so LendingRobot Series is an attempt to actually provide the best of both worlds between investing on your own directly on the platform and investing through a fund. So unlike a fund, it's flexible, so you can't go down as to select which notes you want or even which platforms you want, but you can select what's important which is how comfortable are you with risk, are you very conservative, or are you aggressive and what's your time horizon for investments.

From there, our machine learning algorithm will actually take it from there and decide and allocate the money in those various platforms and then for each platform select the best loans matching your profile. The fund is also often a bit opaque and that's something we're not comfortable with because we know LendingRobot clients want to see exactly what's happening in their account even if sometimes that means they get 20,000 different notes and they want to dive down in this.

So what we did with LendingRobot Series, which is structured as a fund, is actually it's notarized on the blockchain. So every week we record the list of all the notes we own, what's happening with them, what's their status, how many payments they made, what was...I don't know, like the FICO score, debt to income at origination, all the data and we notarize it with Ethereum smart contracts. And we provide this, which is very, very transparent...any of our LendingRobot Series clients can go to the website and dive down to see all that data and because it's notarized we cannot do anything with that data, we cannot lie on the returns, we cannot pretend that we did not invest in a bad loan.

And the last thing is the liquidity and the way we try to improve liquidity on LendingRobot Series is by letting people actually decide they want to exit at any time. It's a switch on the website, they don't have to wait like a quarter for redemption or something like this. And then what will happen, because there is no true secondary market for that asset class right now, what we do, we don't sell the notes, we do distribute in priority the loan payments to clients waiting to exit. So between 33% and 100% of all the loan payments coming into LendingRobot Series is wired in priority to people cashing out.

So based on our estimation, it's possible, on average, for a client to exit LendingRobot Series in about three to four weeks. The absolute worst case scenario would be that everybody wants to exit at the same time, but actually, that's not a problem because then what we will do, we will just pass on all the loan payments coming from the platforms. So that means that best case scenario you can exit as quickly as one week; worst case scenario it will take let's say maybe around three years for loans that are invested on platforms like Lending Club.

Peter: So I just want to say, what are the platforms that you're investing on?

Emmanuel: Yes, so right now there are four platforms; consumer credit we've got Prosper and Lending Club, small business loans we've got Funding Circle and real estate we've got LendingHome, but LendingRobot Series is built in a way where it's actually quite extensible and looking forward in the future, I think there will be more platforms integrated in it.

Peter: Okay.

Bo: Peter, I'd love to just jump in briefly to highlight a couple of items that I think are super interesting about what Emmanuel just said, if I may.

So the Series fund I think of almost as a platform in and of itself and we really believe this is the future of fund management. What Emmanuel created is I think genius, it creates within a specific framework not only customization on entry, but flexibility after investment. So an investor can come in and say, I was long term aggressive and I want to shift to short term aggressive and they can do that within the fund. That is really, really interesting.

The second piece is that weekly liquidity. That decision can be made not with, you know, 90 days notice with a buy and sell or something like that and not with a 30-day exchange, but it can be done on a weekly basis which we don't encourage our investors to do that obviously, but that is really impressive that Emmanuel has created a structure that allows for that.

And then the blockchain enabled transparency and that immutable record should give investors real peace of mind that what's going on in the fund is absolutely fact, right. What is published on that weekly NAV is a factual record and it is repeated out in the blockchain, it is stored in the blockchain. So those elements of the LendingRobot Series fund we think are super exciting and as Emmanuel said it's a platform. We can build on top of that and we expect to fully.

Peter: Okay, so I just want to dig in a little bit more because one thing you said, Bo, was that you can switch from long term aggressive to short term aggressive and I imagine conservative to aggressive, what have you, but can you just...maybe back to you, Emmanuel, how does that work in actuality? I mean, when someone says, okay, I'm long term aggressive, what are you investing in and then if they want to change to short term conservative, for example, how does that work?

Emmanuel: Today, LendingRobot Series there are actually four series; short term conservative, short term aggressive, long term conservative and long term aggressive so you can imagine them as four different funds, independent. They do share the same kind of models, but they have specific parameters. So the way we will score loans for let's say a loan which is on Funding Circle for short term conservative, the same loan won't be scored the same way for long term aggressive and the allocation between the platforms will differ.

Of course, the shorter the duration, the more we will try to invest in platforms that have loans that are let's say of 12-month duration. If you're long term then we may go as long as five years on some Lending Club or Prosper loans, for instance. So what happens when someone selects....let's say in this case they want to invest 100% in long term aggressive, once their money is deposited in their LendingRobot account, we will issue units of ownership into the long term aggressive fund and the issuance and redemption is done on a weekly basis.

Now let's say, two months later, that person decides that actually maybe they will need the money sooner than they expected and now they are switching to let's say 50% between conservative and aggressive, now what happens is our system will determine that that person has an excess in long term aggressive. So it will automatically cash out the money from the long term aggressive fund using the same mechanism that I explained before so all the money coming back from loan payments is distributed in priority to people cashing out and in that case the client is in a way cashing out of the long term aggressive and the money will be put into let's say the short term aggressive fund for instance so that will be done automatically.

At any time, the clients can go to our website and see what is their target and what is the current situation vis-a-vis the target so after a few weeks, automatically the person will have 50% in long term aggressive and 50% in short term aggressive. We send weekly e-mails explaining exactly what happened in the Series they have invested in, you know, how many loans made payments, how many defaulted, how many were fully paid and the like and clearly obviously showing them exactly how much they have in each of the Series.

Peter: Fascinating, fascinating indeed. So I presume this is just for accredited investors, correct?

Emmanuel: Yes, that's correct.

Peter: So what about non-accredited investors, because obviously we have the Lending Club and Prosper investors that don't necessarily need to be accredited, so what will be the choices for the non-accredited investors in the merged company?

Emmanuel: Well, as you mentioned, Lending Club and Prosper are for retail and on this kind of...we are already tight on the platforms, right. If tomorrow, I don't know, LendingHome decides that actually they've become available for retail investors then we'll be happy to welcome retail investors, otherwise, we're stuck to the platforms allowing retail investors and as you mentioned the two biggest ones are Lending Club and Prosper.

On those, we came with different products, both on LendingRobot and NSR and there is no point today to disrupt that and tell one set of those clients, look, you really have to move this other way.

So I guess it will make sense at one point for those clients to move to one platform or the other, but we want them to do it because there are some features that are enticing enough that actually their motivated to move. We don't want to push them out for the moment and so the LendingRobot clients and the NSR clients that are retail investors and for whom we automate investments on Prosper or Lending Club, they will be able to continue using the platforms they want.

Peter: Okay, great. So then what do you say is the value proposition today for your investors?

Bo: So the value proposition remains very much the same. We're providing solid returns, we’re providing a predictable risk and very simple access. The value prop for investors, we think, is very strong and will continue to be uncovered and discovered by what was the innovators, what we're crossing into is sort of the early adopters and early majority, and then soon sort of the masses, I believe, will be very attracted to this asset class just like those have in the past decade.

The value prop for the industry is kind of interesting as well. You know, there are a lot of originators out there that would love to have the stability of a retail investor base, but it's extraordinarily expensive to build a retail investor base and Lending Club did it very successfully, Prosper has built a retail investor base and a number of others that are in both small business and real estate and other asset classes that are attracting individual investors.

Those individual investors are very much valued by the originators; they're much more stable and they tend to be more loyal over the long term than a large institutional investor or a hedge fund. So we have a couple of value props; one, of course, to the individual investors, we're providing that stable, attractive return and also to the industry, we're providing the aggregation of individual investors. We're providing that stability, but those origination platforms can approach one entity now, it's the NSR and LendingRobot entity that can provide those individual investors en masse.

Peter: So can we tease that out a little bit like the target market, the target customer today....you know, this industry is now over ten years old, what is the kind of profile of the type of customer today and how is that changing?

Emmanuel: I think if we want to summarize who they are today, the NSR or LendingRobot clients, two words, smart people.

Peter: (laughs) I knew there was a reason I was a client.

Emmanuel: Yeah, exactly, exactly. Smart because...I say that because it’s people who actually are sophisticated enough in the way they manage their investments to realize the potential of marketplace lending and they realize that with bonds being positively correlated to stocks in the last 15 years. It's not so much...it's not such a good choice for diversification and so most of our clients realize that and actually they come to us because they’re like, okay, now I want to diversify part of my portfolio into this asset class, but at the same time, maybe they're also sophisticated enough to understand that it's a full time job.

Some of them want actually to do it on their own and the like, but otherwise, they are like, okay, I understand I am interested in investing in this, I should invest in marketplace lending, but I don't want that to be my full time job and I don't understand enough of it so I want professionals to do that for me and that's what basically NSR and LendingRobot are doing. It's not a traditional financial advisor, we don't necessarily have beautiful offices where we receive clients and the like and we don't talk that often to clients actually so it's really technology-centric which also attracts I would say certain kind of people.

We have a lot of entrepreneurs, we have a lot of developers for instance and high tech entrepreneurs in our clientele; how that will evolve, I think there were a lot of people who were on the verge because they were like taken aback. At the beginning it was a new asset and when you think about it, people lending money to other people, they don't know that seems borderline stupid so it required a few years of real returns and seeing what was going on for people to really think that actually that's a solid asset class and it's here to stay. And so maybe we will need people to be slightly less smart to be attracted now to this so it will become slightly more mainstream.

Peter: Right, that makes sense. So I'm curious about branding, LendingRobot is a strong brand, NSR Invest is a strong brand, a lot of people know these two brands in our space so how are things going to be managed going forward?

Bo: It's a great question. For the time being, we're keeping both brands. NSR Invest and LendingRobot will operate seemingly independently and our clients of either entity...may not notice an immediate change. Our focus for the immediate future is really on integrating the technology and creating more attractive offerings to our current client base and our expanding client base. That's really the most important thing that we do. We're going to emphasize brand and we will be very careful about that, but that's not going to be the first thing we do so I would say on that score, stay tuned.

Peter: (laughs) Okay, so what do you think then this company is going to look like in 12 months' time?

Bo: You know, in 12 months' time, I think we'll find that there is a real client-centric approach to our integration and that there will be one company, one brand, one technology base and one very happy and, hopefully, quite large client base. We're going to emphasize all the good of both companies and really spend a good full year of consolidation. Actually, our plans are to make that consolidation sooner than one year, but let's just call it a year. Beyond that, there's a lot of work to do. This industry is still in its infancy and we think that there's a proliferation of investment opportunities, more so than when LendingRobot and NSR certainly were founded and that proliferation will continue.

We think that the investment opportunities will sometimes be proprietary, they may not actually be, you know, marketplace lenders from a technical definition perspective and we believe it will be our job to bring very interesting investment opportunities to our clients that they would not otherwise find or be able to invest in easily. So the whole idea of alternative lending or alternative investing, if we broaden the aperture a little bit, is absolutely here to stay and it is absolutely a growing phenomenon. We've referred several times to this smart tech savvy investor that may be a little bit of an early adopter, that individual is leading the way for us and helping us decide, okay, where are the exciting asset classes and where are we going to lead our investors and behind them come the masses of investors.

So at some point I think, you know, just circling back to the beginning of the conversation where the dream of the company is we become the Charles Schwab of alternative lending. That is absolutely in our future and it is not going to happen overnight, this is a long business plan that we're building and we believe this is a very important step in our maturation and so we're super excited to be joining with LendingRobot and creating an enhanced experience for our combined client base.

Peter: Okay, so we're almost out of time, but I just want to get both of your perspectives on something before we sign off and that is like when you look at marketplace lending it's still, as you just said Bo, it’s still in its infancy, but in many ways it's obviously way more mature than it was when I started in 2009, so maybe let's start with you, Emmanuel, where do you think this asset class is going in the future?

Emmanuel: I think it will become increasingly boring (Peter laughs). Boring is not necessarily a bad thing in investments.

Peter: No, it's not.

Emmanuel: I think it will become more boring because this whole idea of peer to peer lending and small guys lending to small guys, that trend left awhile ago already and we see more and more institutional investors accessing those platforms, up to a point where actually a tool, a vehicle like LendingRobot Series is needed to have an access to those and the model themselves need to be more and more sophisticated to continue providing good performance. And the market is not growing like it used to be.

Remember, those years where it was like...I mean, it was more than doubling every year, it was insane. So in a way that's why it's also becoming boring and the good aspects of the boring is, we know the returns. There will be probably very, very little surprise on those and those returns are still very excellent and we see very little correlation with other assets and as more and more platforms are launched or mature in this market, there will be even more diversification and even more boring returns that will be exactly the same number month after month and year after year and in a way that's all we can wish to our clients.

Peter: Okay, Bo, you have the last word.

Bo: Well I'd like to thank you, Peter, for inviting us to do this podcast. It's been a real pleasure and I'd also like to thank Emmanuel for trusting us to be the stewards of the technology and the business that he and his team built. It is in good hands and we're really excited to be merging and taking over as the stewards of the LendingRobot technology and Series funds.

So as to what's to come for the industry, I think we've touched on this, but it's worth underscoring the importance of the investor aggregator which will become more and more pronounced. What Lending Club was able to do and Zopa before them, right, back in 2005, is not...I honestly believe it's not to be repeated. There will not be another Lending Club that is willing to build a system that can create these mini IPO's and issue them thousands upon thousands at a time and fractionalize them down to the $25 slug for retail investors.

Barring some big regulatory change from the SEC, it's just not going to happen again. So the originators that are proliferating now, a lot of them do have an emphasis on retail, as you know, or the individual investor, retail accredited and yet it won't be fractionalized in the same way as Lending Club, Prosper and some others have in this country. So our role as investor aggregator and as builder of financial products like the LendingRobot Series will become more and more important. So I think we're right on trend and I think, of course, with all good things it takes time to see how these things play out even in an technology-enabled industry, but this is my firm belief and we're really excited to see it unfold.

Peter: Okay, well on that note, we'll have to leave it there. I very much appreciate you both coming on the show today. Thanks, Emmanuel. Thanks, Bo.

Emmanuel: Thanks, Peter. Bye.

Bo: Thanks, Peter. Bye.

Peter: See you.

So obviously I have a vested interest in the outcome of this merger as my ownership stake in Cardinal Rose Group which has a majority interest in NSR Invest as I disclosed in the introduction. But if I put my investor hat on and I've been an individual investor now for over eight years in this space and I love the evolution of the tools and the opportunities for individual investors. I feel like LendingRobot had this great system of highly automated investing, really adding value to the investor allowing them to invest across multiple platforms.

NSR Invest had a similar approach in some ways, but really is focused on the tools and helping the investor really understand what they are investing in. I feel like it's a great match, I'm excited about it, I think it's going to help serve the individual investor and that's something that I will always support because I still firmly believe in the role of the individual investor in this space.

Anyway on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

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