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EPISODE 72:

Investment Due Dilligence Insights

with Fiducient Advisors

Robert Morier: Welcome to the Dakota Live! Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, investment consultants, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our "Dakota Live!" Content, please check out dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes only and should not be relied upon as recommendations or advice about investing in securities and does not constitute an offer to sell or a solicitation of an offer to buy any securities by Dakota, Fiducient Advisors, or their respective affiliates. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker who is not affiliated with Dakota and whose views do not necessarily reflect those of Fiducient Advisors either. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval of support or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today.
Well, I am thrilled to introduce our audience today to Joe Cortese, partner, and senior consultant with Fiducient Advisors. Joe, welcome to the show and welcome to Philadelphia.

Joe Cortese: Thanks for having me. Excited to be here.

Robert Morier: Yeah. I'm excited to have you here. We are always excited to have guests in the studio, so it's wonderful you were able to make it here to be with us. Andrew O'Shea, as always, is wonderful to see you.

Andrew O'Shea: Yeah. Happy to be here and excited to hear from Joe. Obviously Fiducient's… we've had on the show in the past and I think Fiducient has done an excellent job of serving the advisory community. And excited to hear more about that as it relates to RIAs and banks and other high net worth platforms.

Robert Morier: Well, we have a lot of questions to ask you, Joe, but before we do, I want to quickly share your background with our audience. Joe Cortese is a partner at Fiducient Advisors and one of the leaders of their financial institutions practice. His role focus is on holistic portfolio design, strategic multi-asset allocation, and investment due diligence guidance for third party advisory firms and platforms. Joe and his team develop customized asset allocation programs to refine investment solutions and support clients with market insights, manager research, and resource management tools that advisors have the flexibility to leverage what they do best. Prior to Fiducient, Joe was a managing director at Willis Capital Management, overseeing the firm's fundamental value long short equity offering. Joe was also an associate with Morgan Stanley's private wealth management business and worked directly with a Chicago area family office. Joe hails from Des Moines, Iowa, where he completed his high school studies before receiving a BA from the University of Iowa Tippie College of Business and subsequently, an MBA from the University of Chicago Booth School of Business. Fiducient Advisors opened its doors on May 1, 1995, striving to provide unparalleled and customized investment consulting services. The firm offers tailored advice to retirement plan sponsors, endowments and foundations, individuals, and families and financial institutions. As of December 2023, the firm is responsible for over $309 billion in capital under management. Joe, thank you again for being with us today, and congratulations on all your success.

Joe Cortese: My pleasure. It's been a team effort.

Robert Morier: Well, good. Well, we usually start these conversations with the beginning. So, if we could go back to your undergraduate days, we have a lot of students and educators who tune in to the show. How did you find this career path? We're always curious how people find this road to asset management.

Joe Cortese: Well, I didn't start out wanting to go into finance even, let alone investment consulting and the work that I'm doing today. After high school, I honestly really didn't have a clear picture of what I wanted to do, so I went to the University of Iowa and enrolled in the business program thinking that was probably a widely applicable course of study to begin with. And I was there in the late '90s and then the tech bubble burst in 2000, and that's when I got enthralled with the capital markets. I remember sitting in my room at the fraternity house at the time with CNBC on. I've sort of never really paid attention to any of this financial market jargon and things and seeing just how breathless the commentators were about what was happening, I was hooked. And so, from then on, spent a ton of time researching and learning about financial markets and finance. Unfortunately, I was too far along in my undergraduate career to go get a finance major because I would have had to have stayed another year at the University of Iowa. So finished out the business program, and then looked for the first opportunity to get into financial services, which is what led me to Chicago and Morgan Stanley.

Robert Morier: I'm impressed that you were watching CNBC. I was watching "The Matrix."

Joe Cortese: We watched "The Matrix" too.

Robert Morier: I was also at school in the late '90S trying to figure out… watching, as you said, the world imploding. I ended up going to Greenwich Associates looking at it from the outside, an off Wallstreet job, but interesting to hear your perspective. But you ended up staying in Chicago. I'm sure you've traveled quite a bit over the years. What's kept you loyal to Chicago all this time?

Joe Cortese: Well, first I think my Midwestern roots. Chicago is a wonderful city. It's close enough to Des Moines that I can get back and forth and visit family very easily. It's also for me, not coming from a big city, very livable. I think if I had tried to go to New York and navigate that sort of environment or something like that, it probably would have been a bit overwhelming for me. So, it was a perfect fit. And then also, a number of the friends that I made while I was at Iowa in undergrad were from the Chicago land area. So that's how I got introduced to the city was through those friends and just kind of fell in love with Chicago and everything it had to offer through visits with them and taking in all the city had to offer.

Robert Morier: What interested you in that first role with Morgan Stanley?

Joe Cortese: Well, really it was just an opportunity to get into financial services. I took a job at the bottom of the totem pole as a client service associate. So, I came in not having a ton of knowledge, frankly, but I think a pretty good attitude and willingness to learn and work hard and started opening accounts, moving money, around, placing trades, all of those sorts of things. And did that for about two years, and then eventually kind of proved that I could be useful in more of an analyst type role… so helping clients think through trading strategies, those sorts of things, finding information that clients wanted to use to look at their own investment strategies, kind of helping with some of the things that Morgan Stanley was offering at the time to clients in terms of helping them understand it and those sorts of things. And so did that for another couple of years as well. And then one of the families that we were working with at the Morgan Stanley office hired me away to go work directly for them. So that was a very unique experience. I had gotten to know the family really well and particularly, executing a lot of trades for them on a liquid portion of their portfolio. And so, they said, hey, we're on the phone with you all day long. Why don't you just come on over and work with us directly? And so, I gave that some thought and decided to give that a try. That was about 2007. And so, I left to go work with the family office, kind of started in that role, and then, obviously, the financial crisis hit, and the family started experiencing some difficulties with other investments that they had as a result of what was going on with the greater financial crisis. And so, it was pretty clear that what I had signed up to do wasn't going to work out with them, and so that's when I started looking around for other opportunities and was fortunate enough to find, at the time, DiMeo Schneider, which was the name of our firm when it was originally founded by

Bob DiMeo and Bill Schneider. And so joined DiMeo Schneider in 2008 and was at DiMeo for about six and a half years-ish. And then during that time, also did the MBA, started the MBA at University of Chicago Booth and subsequently completed that. And through that program, I was introduced to another gentleman who was a Booth graduate who had a really successful asset management career, had run a couple funds, both equity and fixed income. Did that, sold that business, and then wanted to do a second act in the hedge fund space. And so, he was working on a long-short deep value equity strategy based on Chicago Booth research and Chicago Booth value methodology. And so got to know him really well, and he invited me to come and join him. And so, I left, at the time, DiMeo Schneider to go work with him. It was really hard to raise assets in a deep value long short equity strategy in 2015. So, a little harder than I anticipated. We can get into it, but that ultimately led me back to DiMeo Schneider, again, at the time. And I've been there ever since through the transition to Fiducient, and here we are today.

Robert Morier: That's great. Thank you for sharing all that. It's unique that you've had that family office experience. I think a lot of our listeners really try to understand how family offices allocate assets, whether it's capital preservation or growth, depending on what the family's goals are. What experiences did you take away from that time working for a family office?

Joe Cortese: I think the most sort of impactful bit of experience that I took away from that was that families can be very volatile. It's not like working with an organization. You're dealing with—

Robert Morier: I have daughters, and you have children.

Joe Cortese: Yeah. Exactly. We all have families, right? So, then you mix the business side with the family side and what can be tremendous amounts of wealth and all of the considerations that go along with that. And it can present its own, obviously, rewards, but then obviously, challenges, particularly when things get difficult with financial markets and those sorts of things. But I've worked with a number of family offices throughout my career, not only the one that I worked with directly. And I would just say, the industry trite joke is that you've if you've worked with one family office, you've worked with one family office. And it truly is that. They are all unique because families are unique. And so, in that environment, it really is important, obviously, to really understand what the family… the background, the history, what the family's trying to achieve, the family dynamics, and what they're trying to achieve going forward. And you really become a sort of a member of that close group of folks that manage what can be large pools of capital.

Robert Morier: And what was it about DiMeo, now Fiducient, that attracted you to go back to the firm? Because I also think it's unique and also says something about the business that you wanted to go back. You wanted to go back to the colleagues and go back to the business. So, it's also been through an evolution over the last several years, but what were the attributes of the firm that really attracted to the role and keep you engaged?

Joe Cortese: Yeah. So, it kind of goes back to before I left initially. I had grown up in the private wealth business and that's the work that I… I joined Fiducient originally to work in what we call the wealth office, which is the private client consulting practice. And so, I was working with family offices, ultra-high net worth individuals, and a couple of other institutional nonprofit clients. But in addition to that… and this is the origin story of the outsourcing practice, kind of all weaves together a little bit… in addition to that, just organically, we would be approached by other financial advisory firms, and they would ask for our help. The original story is one of our founders, Bob DiMeo, he was overseeing a university endowment portfolio and there was a trustee on the investment committee for this endowment. And the trustee came to Bob one day after the meeting and said, hey, Bob, love what you're doing for the endowment. I have a wealth management business. Can you help me? This is two years into the founding of the firm, and so Bob was like, of course, we can help you, not really understanding what that meant. And then every couple of years, we would be approached by another financial advisory firm of various, ilks, like a bank trust company, a multi-family office, and they would ask for our help. And so, while I was there initially working in the private client practice, I was also placed on a couple of these financial advisory relationships, partly because I was doing the work at Booth at the time and sort of had this deeper technical investment knowledge that kind of worked in that environment versus the types of conversations that you have with end clients. And so, before I left, I was working on a couple of those clients. When I left, worked on the asset management side for a couple of years, which, by the way, was phenomenal experience. I would never change a thing because it made me a better consultant and better at my job today having had that experience. But then keeping in touch with some of my colleagues at Fiducient and just talking about, hey, this is really difficult. We're not having the success we thought we would have. And it was sort of like, well, you know, we're thinking about formalizing this practice where we work with other advisory firms, and you were doing some of that work before you left. Would you consider perhaps coming back and working in that business? And so that's what ultimately led me back to Fiducient and now where I spend 90% of my time in the outsourcing practice today.

Robert Morier: That's great. Thank you for sharing all of that. So, tell us a little bit about where the team sits in the organization and how it's structured.

Joe Cortese: The firm… structure is probably the best place to start, and the way we describe it is we have four lines of business. And I say three of those are B2C businesses, direct end client businesses where we're overseeing assets for the end client. Those are our retirement plan businesses where we work on 401k plans, cash balance plans, defined benefit plans, pension plans, those sorts of things. That's originally how the firm was founded, by the way, was doing that type of work. The second leg of the stool then is the institutional nonprofit practice where we work with university endowments, nonprofit organizations, foundations, and those types of clients. And then the third leg of the stool on the B2C business side is the private client practice, where we're working with family offices and ultra-high net worth investors. And then the fourth business unit is the outsourcing practice, which is what I talked about in terms of the outgrowth, really organically, of those other three lines of business. And in the outsourcing practice, we essentially take all the tools and resources that we've developed over our nearly 30-year history serving those three traditional client constituencies, and we deliver all of those tools and resources to other financial advisory firms on an outsourced basis.

Robert Morier: And what do those clients look like? I'm assuming that you've got some very small… we had said before the episode got started that there are over 20,000 of these potential clients out there.

Joe Cortese: Yeah.

Robert Morier: So how does that work in terms of the type of clients that you're working for from the smallest, to some of the largest?

Joe Cortese: Yeah. So, in the practice today, we have about 70 clients. And I say about because some are sort of single location independent RIAs, and some are some of the largest firms in this country that have offices all across the country. And so, we'll work with some of the… so it's a little bit amorphous but call it 70 clients. About, I would say, 2/3 are traditional RIAs, wealth management firms. The other part of that is, again, some bank trust companies. We've carved out a really nice niche where we work with, I think, probably a dozen bank trust companies, multi-family offices, some other wealth management businesses, like inside of a large national insurance firm, wealth management business inside of a large national accounting firm like those sorts of specialty organizations within larger organizations. So, it's a very broad range of client type. It's also a very broad range in terms of client size. Some oversee a couple hundred million in assets on the very small end of the range, and some are 10, 20, 30 billion in assets on the high end of the range. And all of that, I think, just really speaks to the ability we have to customize our solutions to what the end client needs to move their business forward.

Robert Morier: Before we get into the process of your outsourced business, I'm just curious, how do you source these relationships?

Joe Cortese: It's a good question and one of the reasons that we're all sitting here together today. But initially, it's been completely organically driven. We've, up until really this year, have done virtually no outbound marketing for the practice. We've developed really deep industry relationships in our B to C businesses, which have led to some opportunities. We've also developed really deep relationships within the asset management community, within the custodial community. If they're working with a firm that says, hey, I need some help with whatever it may be and it's something that firm isn't providing they'll say, hey, you know what? You should contact Fiducient. I know they have this outsourcing business. I've heard that they do this type of work, and so up until really this year, that's how the practice grew. We've now embarked on some outbound business development activities, utilizing the Dakota Marketplace and things like that as well, partnering with Dakota, which has been fantastic. And so, we're new at the outbound side of things and just kind of organizing our strategy and get our arms around it. But that's an exciting part of it too just to embark on a different aspect of growing the practice.

Robert Morier: One more follow up question, just curious, is there a consistent problem that your clients are facing? I can't help myself, I teach venture capital, so it's all about the problem and solution statement.

Joe Cortese: Yeah.

Robert Morier: We're going to talk about your solution. I know Andrew has some great questions to ask you around how that process works. But are there consistent problems that your clients are looking for? What's the solution that you're solving for?

Joe Cortese: So, I could spend an hour or more talking just about why firms look to outsource. But if I sort of summed it up in a few sentences, I would say that, if you're a firm that is less than $10 billion in assets under management, you cannot… you cannot build out a research effort that has the resources to cover global financial markets in addition to alternative markets, like private equity and those sorts of things. You just really can't do it. And if you want to compete with the largest firms out there, you have to find a solution, and that's what we offer is the resources that you can bolt on to your existing platform, to your existing resources to give you what you need to be able to compete with really any firm out there and do it in a way so that you're not spending the money that it would take to build that on your own and the time and the effort and the mistakes that we've made over the years that we've overcome on all of those sorts of things. So, at its core, that's really what it is.

Andrew O'Shea: One of the things that's always impressed me about clients that I speak to that utilize is they all seem to use you in a different way. Some rely very heavily on you. Some are using you for certain niches. But they all seem to love the experience. So, can you talk about the variety of services you all offer when you're working with a particular advisory firm?

Joe Cortese: Absolutely. Great to hear that. We're getting good feedback too. Appreciate that, certainly. And we're maniacal about that. Client services is really our guiding principle, and I'm sure a lot of firms say that, but I think we do a really good job of it. And sort of the way I would describe that is some firms hire us to be the entirety of their back-office investment research effort. So, think about a financial planning firm… for example, one of these accounting firms that they're doing tax returns. They're doing financial plans. And that's really their core competency and core area of expertise. They'll then hire us to build a suite of model portfolios for them, select the investments that go into the model portfolios, curate and manage and maintain the models over time, leverage the content that we have so that they have a monthly market and economic commentary that they can share with their clients. Many of these firms actually spend very little time talking to their clients about the investment side because they're really financial planning focused, but they need a resource to ensure that they're delivering the investment solutions that the clients need in order to achieve their financial plan. So that's the holistic approach where a firm will hire us to do everything. And then the other end of the spectrum is where firms will hire us to do very specific things. Many times, these firms, they have a chief investment officer. They even oftentimes have a few internal investment research professionals that work with the chief investment officer. And then we come alongside them as an extension of their staff. I kind of like describe it as the swat team model. And the example that I give is let's say you're a very large firm, but for whatever reason, one of the offices needs a new small cap value manager. Well, your internal team could go out to the marketplace and look at the thousands of small cap value managers that are out there at the top of the funnel and narrow it down and do all that work and ultimately select that manager. Or with us in the picture, they call me up and they say, hey Joe, we need a new small cap value manager. Send me your roster. And so, we provide that menu of four or five different flavors of small cap value, and then we work with them to determine which particular manager is the best manager for this particular engagement that they're working to solve on behalf of their client.

Andrew O'Shea: Could you elaborate on the wealth office versus the financial institutions practice? Is the wealth office… are you all operating with discretion on that portfolio, versus the financial institutions practice would be more outsourced due diligence and research, or is it a combination of both?

Joe Cortese: Yeah. So, the way I would describe it is the wealth office, that's what we've named it, is our private wealth business, essentially. So, we're working directly with the end clients. We're overseeing their portfolios and their pools of capital. We're designing the asset allocations. We're doing all the investment selection work or reporting on the portfolio's performance over time. So, your traditional private wealth business, that's what the wealth office is. The outsourcing practice then leverages all of that intellectual property and intellectual capital to deliver those same resources to other advisory firms. So, when I'm working with another RIA, I don't see the end clients. I'm just delivering the

IP. I'm helping them build the portfolios from an asset allocation standpoint, helping them curate that roster of recommended investments that they're going to use to build out the portfolios. And then, helping them with just general sort of business strategic things and what it takes to build and maintain a wealth management platform.

Andrew O'Shea: It's been a lot of talk about the private wealth channel increasing interest and allocations to private alternatives. Is that something you're seeing with your client base as well?

Joe Cortese: Absolutely. Yeah, I'd say it's one of probably three major trends in the industry. After tax, focus is one, direct indexing is another one, and then alts… the democratization of alts and the utilization of alts in portfolios is the third trend, and that's a big one. So many firms out there are still woefully underexposed when it comes to alternative investments. If you think about your standard endowment model where you've got 10% to 30% illiquid alternatives, many of these RIAs that we're talking with and working with have zero, in terms of alternative investments, or a nominal allocation, and are trying to figure out how to do it better for their clients. And again, so that they can compete with the largest firms that have great resources and great capabilities on the alternative side, and that's oftentimes what these firms lead with. So again, from a competitive standpoint, if these smaller firms… and by smaller, I don't mean really small. I mean, again, like sort of your one to $10 billion advisor. If you want to compete with the largest firms that are out there, you have to be able to offer solutions in the alternative space or you'll get ruled out of the equation very, very quickly.

Andrew O'Shea: One of the things we've talked about with your research group as well is embracing more specialist managers, particularly on the alternative side, whether it's in private equity, small mid-market buyout, or long only concentrated, more boutique managers. Have you found that within the advisory channel that's helped you differentiate that you have sort of these specialist boutique managers versus just the largest household names that everyone might already know?

Joe Cortese: Yeah. I think that's true. I also think it's true that there's the dynamic of you can't go wrong with the large tried and tested firms that are out there. So, it's a little bit of both. And we don't necessarily look at it in terms of, is this a big firm, or is it a small firm? We're trying to find the best asset managers in the business, and that's really the guiding, sort of, North star for the investment research office, for our firm. So, we work with big managers. We work with boutique managers. I do think we have an expertise on the boutique small side that's tended to be a little bit of an area of focus for us just in terms of when you're working with a boutique manager, you can eliminate a few of the questions that you have to go through with the larger firms, like, what's the resource allocation? Are you sure that the resources are going to be directed to this strategy and that all of a sudden, a business decision is going to be made, and it's going to go in a different direction and this strategy's going to be resource starved? When you're working with a boutique manager that does one or two things very, very well, you can take some of that out of the out of the equation and can be assured that that is the single focus of that particular firm. And so that's something that we think about and something that we look at when we're when we're looking at working on investment selection.

Robert Morier: As it relates to that alternative exposure, how is that being reflected in clients' portfolios? What are the building blocks look like as it relates to each client's needs? I understand it can be different depending on the client, but if you had to generalize where some of the consistent building blocks are being reflected.

Joe Cortese: It sort of spans the spectrum. On one end, I would think about the platforms that are out there, the technology solutions that curate a number of options, and many firms are utilizing those platforms. And they can be great for a lot of firms. We could spend another hour talking just about those platforms and the pros and cons and those sorts of things. But in certain scenarios and for certain firms, they work well. The other end of the spectrum would be sort of building out diversified portfolios of direct strategies, direct private equity strategies, direct private credit strategies, direct hedge fund strategies, for example. And so, it kind of depends on the firm and really the client base of the firm. One of the things when we start to go down this path with an advisor, we'll talk about, OK, do how many QP clients you have? And it's funny that a lot of them have never sort of even thought about that, haven't looked at their book like that. So how many QP clients do you have? What would be your annual demand in terms of dollars that you would need to put to work in alternatives? What do you have on the accredited investor side? What would be the demand on the AI side that you would need to put to work? So just kind of taking firms through that really basic high level client demographic segmentation is a start, and then from there, figuring out, OK, what's going to work best in this in this environment and these scenarios? Are we focused more on the AI side? Are we focused more on the QP side? Are we looking at potentially some solutions that exist on the platforms? Are we going to be building out diversified direct portfolios? And then from there, we'll identify the solutions that would work best for the advisor and their end clients.

Robert Morier: Are there any solutions that are being reflected in your clients' portfolios that may not be reflected in what your competitors are recommending? You could ask that as well in regard to maybe a contrarian position that you are thinking about—

Joe Cortese: Sure.

Robert Morier: … but something maybe that's differentiating you today.

Joe Cortese: That's a great question. The first thought that popped into my mind when you asked the question is I kind of thought about it the other way, it's what's not in portfolios that we're seeing in a lot of portfolios that are out there. For us, we've been a little cautious on the private credit side over the last few years. We do work in private credit and we're doing two, three, four sort of unique private credit deals a year, but a lot of firms are very, very interested in private credit and have larger allocations to private credit and those sorts of things. Venture capital is another one where we've been a little bit cautious only because we really want to access the top quartile, sort of, best managers that are out there. And frankly, even at our size and scale, it's really hard in venture. The most successful firms, they've had the same LP base for 30 years and they don't need our capital, let alone other capital. And so that's an area where we're probably maybe doing a little less than some other some other firms that are out there. Where we are different in terms of what we are doing, I would say, on the traditional buyout side, really focused on those smaller niche managers. I think our average fund size last year was about $350 or $400 million, and so it's finding these managers that are doing one thing and maybe a particular sector or a couple sectors have done it really, really well through a couple of business cycles. Those are the types of managers that we really, really like. We do stuff beyond that, of course, but I think to zero in on where we might be unique relative to other firms that are out there, it's that being sort of really focused on that unique niche boutique-type manager that we talked about a second ago on the public side, sort of carrying that ethos and philosophy over to the alternative side as well.

Robert Morier: Are you defining that specifically? It's one of the questions we ask our guests quite often. Is that definition of an emerging manager or a boutique manager program, how quantitative is it as it relates to the parameters that you'll kind of fall within as it relates to sourcing those managers and ultimately funding them?

Joe Cortese: Yeah. Maybe surprisingly, probably not as quantitatively based as you would expect. We have all the tools to do the quantitative screening and all of that sort of stuff, but we're as focused on the qualitative side. A good example I'll give you is a professional that was working at one of the larger firms that then spins out and launches their own firm. We're not afraid of that dynamic at all, and in fact, we've invested in a number of first-time firms because we could attribute a track record of that particular investment professional back to what they did at the previous firm. Other unique situations have been born out of there was a family office with a very large operating company that started to make direct investments, and then was approached by other families that wanted to invest alongside of them and said, we have this operating business, but now we also have this asset management business. So, let's formalize this. And we were in fun one with a family like that, for example, that had set up this asset management business. So, it's less driven by sort of screening and looking for things like that and more driven by the qualitative aspects of just identifying these types of managers. And then the question is, well, how do you do that? And it's really boots on the ground. We have a team of five folks that focus on private markets all day, every day, and a lot of their time goes into just building relationships and finding these sorts of opportunities that don't exist on the platforms and that don't exist in the wire house environments and those sorts of things.

Robert Morier: I was going to spare you of a question on artificial intelligence, but I'll ask you it in the sense of tools and services that clients are currently looking for outside of the due diligence support.

Joe Cortese: Yeah. It's interesting. Obviously, artificial intelligence is a very hot topic, not only on the investment side, but then also on the business side. We certainly are spending a fair amount of time there in our business and figuring out how to leverage AI tools and those sorts of things just to increase productivity. I'll give you a good example, we started working with an AI tool that will sort of sit in the background when we're having a meeting with a client, and then will summarize the entire meeting, and then also summarize the action items that came out of that meeting, so that you're not trying to furiously take notes as you're talking or the other a person's talking and then you forget something. I'd say it's about 85% accurate. It comes up with some interesting things every once in a while. But just the productivity increase in that alone has been phenomenal. And then we have a, we call it, the application development team, I think is their name, but the technology team that focuses on rolling those sorts of tools out. I'll tell you what I would love. I would love to be able to utilize artificial intelligence tools to kind of scan the universe of investments that are out there. If I could go to any asset management strategy and get a summary of what's helped and what's hurt that manager from a dispersion standpoint and have an AI tool do that very, very quickly, that would be amazing. Not there yet, but we're having those discussions internally.

Robert Morier: We talked a little bit about the industry. There have been a lot of changes going on, particularly a lot of acquisitions and consolidation among your potential clients. So how are you all seeing that development in the industry? And maybe a little bit of a look ahead if you could think about the next five to 10 years—

Joe Cortese: Yeah.

Robert Morier: … how do you see the firm either capitalizing or just monitoring the situation?

Joe Cortese: It's a huge force in the industry right now, and I tend to think we're still in the fairly early stages, call it sort of third inning. And the reason I say that is because I think you mentioned it, there's still 20,000 independent registered investment advisors in this country… 20,000 unique independent registered investment advisors in this country. That's a huge number. Think about the banking industry where you have the four or five large banks and then 2,000 to 3,000 sort-of regional-ish banks that are out there. That gives you some sense of the road that the wealth management industry, the financial advisory industry still has to go in terms of it's natural to consolidate, of course, and virtually every industry does it over time. And it's something that we are very aware, of course. It can be disruptive. We've had clients that have been taken out by larger firms, and then all of a sudden, they're gone. And we've got to we've got to do something else, not because we were not delivering what that client needed, but just because they did a transaction with a larger firm. Interestingly this year, I would have thought that transaction volumes would have slowed down in 2024. I would have thought that multiples would have come down a little bit in 2024. Neither of those two things have happened from the folks that I talked to on the investment banking side. And on the aggregator side, in fact, an investment banker I was speaking to a couple of weeks ago at a conference, he told me that first quarter of 2024 will be the largest in terms of deal volume, number of transactions that have taken place yet in this cycle. That really surprised me given where interest rates are today and how far they've risen and just the change in the capital backdrop and those sorts of things. Again, I would have thought that this train would have slowed down a little bit, but it hasn't, and it's continuing on. And so, it's something that we're continuing to pay very close attention to.

Andrew O'Shea: I think it would be interesting to hear… I know you a lot of different clients and very different situations, but are there themes that are popping up that you're seeing, whether its people asking about international equity or fixed income? Is there a theme, or is it just idiosyncratic to the client?

Joe Cortese: Yeah, there are a few themes. We talked about the alternative investment theme. That continues to be, again, one of the three major themes that I see out there, direct indexing, sort of those tax-loss harvesting strategies focusing on after tax returns, thinking about how to be able to customize those strategies for a particular client. There are a lot of tools and platforms that are springing up that are sort of able to do a little bit better job of that in terms of just being much more customized, so a lot of focus on that as well. Some of the things just on the traditional investment side, you mentioned international equity, for example, where over the last few months, we've started to get the question again, why are we in international? Why don't we just invest in US? I tend to think that's probably when you should move a little bit more into… half-jokingly, but being a little bit contrarian there, once you start to get the question, maybe the time is right. But that is a theme, right? People look at AI and people look at these secular themes that are taking place and they say, well, the US is going to continue to lead. We've led for the last 14 years coming out of the financial crisis and with the innovation that's taking place in the US, we're going to continue to lead. So why should we own anything outside of the US? And the answer to that is the same answer that we've heard through time is that first of all, valuations are compelling outside of the US. And there are great companies outside of the US. No doubt there are problems outside of the US. There are also problems that we are facing on a daily basis. So, we're going to continue to maintain that broadly diversified stance. We're going to try to get it correct in terms of the allocation of US versus non-US and those sorts of things, but that's something that's popped up recently. Obviously, the interest rate environment, firms are looking at, should we extend duration now? How far should we go? How do we maybe be a bit more tactical on the fixed income side with what we think is going to happen with rates, whether we're going to stay high for longer, when the Fed's going to begin to cut? I'm sure you've heard it too, over the last few weeks, this notion of a potential additional interest rate increase has been sort of put back on the table. That's not sort of my base case. I don't think that's necessarily going to happen. I think it's a low probability. But listen, if we continue to get inflationary readings that are higher than what the Fed expects and higher than what they're comfortable with, it's not a probability of zero that there could be another interest rate increase before this cycle is all said and done. And so just thinking how to be thoughtful around fixed income allocations, reduce some of the volatility that's taking place there. That's another big theme that we're working on with many of the firms that we're working with.

Robert Morier: Well, before we turn the lights on in the studio, I asked you about some longer-term goals, specifically, you had mentioned that you'd love to get in the classroom maybe someday before your career winds down.

Joe Cortese: Yeah.

Robert Morier: So, if you were in the classroom with undergraduates and grad students, what would you want to teach?

Joe Cortese: I think I'd want to do something focused on investment consulting specifically because it's a little bit different than traditional financial advisory, traditional wealth management, and in particular the way our business is structured. What we what we try to do is sort sit in the middle of everything and offer that objective lens, that objective viewpoint. Now, there's no way to filter out all sort of potential conflicts or perceptions of conflicts and those sorts of things, but our firm in particular, we don't have any asset management products, so I do think it gives us a unique lens with which to view the industry. And so, talking to students and folks that would potentially want to get into the industry just about how… that's one of the things that led me to Fiducient, coming from the wire house environment where there's an orientation around product. And those are great platforms, and they'll always be there, and there are folks that need those platforms. But moving away from that to an environment where we have no product and really what we do is try to provide that advice to solve the clients need and then go out to the marketplace and find the right product, that really resonated with me. And so just educating others coming into the industry about that sort of an orientation, I think, sounds really interesting to me.

Robert Morier: That's a class I would take.

Andrew O’Shea: Yeah. Thank you for sharing that.

Robert Morier: And we always like to finish these conversations about the people who have influenced you in your career, the mentors who have who have shaped you professionally and personally along the way.

Joe Cortese: Yeah, that's a tough question to answer. I've had so much help along the way. I've been extremely fortunate to work with amazing people, work in amazing firms, including Fiducient where I am today and hope to be for the rest of my career. And so, I would just say, it's hard to boil it down to any one or two people. The colleagues that I work closely with today, obviously, have a big impact on me and how I'm working with clients and how I'm working within our firm, and so that's very important. But just, I try to be intellectually curious all the time, and I try to take away, bad or good, something from every interaction that I have with folks that are out there that I'm working with. And so yeah, it's a really tough question for me to answer to narrow it down to one or two people, outside of my folks, obviously, had a huge impact on me, both attorneys back in Des Moines Iowa, just their work ethic, being third generation Americans and that whole dynamic and the first people in their families to go to graduate school, for example, was something that kind of propelled me as well. So, it's a very tough question for me to answer. I would just say that I try to be thoughtful about everyone that I'm meeting and working with and learning from everyone along the way.

Robert Morier: Well, you answered it very well. Thank you for sharing that. Thank you for being here today. We greatly appreciate you being in Philadelphia. Answering our questions, it's highly valuable for us, our audience, and anyone just tuning in, so thank you.

Joe Cortese: Thank you. Thanks for having me. This is a lot of fun.

Robert Morier: If you want to learn more about Joe and Fiducient Advisors, please visit their website at www.fiducientadvisors.com. You can find this episode and past episodes on [Spotify](), [Apple](), or your favorite podcast platform. We are also available on [YouTube](), if you prefer to watch while you listen.
If you'd like to catch up on past episodes, check out our website at dakota.com. Finally, if you like what you're seeing and hearing, please be sure to like, follow, and share these episodes. We welcome your feedback as well. Joe, thank you again for being here. Andrew, thank you as always. And to our audience, thank you for investing your time with Dakota.