EPISODE 13:

Finding Fixed Income Opportunities with Will Beck

of Wilshire

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Chris O'Grady: Great to be here, as always.

Robert Morier: We appreciate you being here.

Chris O'Grady: Any time.

Robert Morier: What do you think, Chris? Notre Dame, University of Colorado Boulder, fixed income? Is this a trifecta for you?

Chris O'Grady: There's back-to-back national championship-- the Orange Bowl was in, what, and '91. Yeah, yeah, way back. But Deion, let's see what Deion does. He told the whole team to go in the portal, so that'll be a lot of fun watching him. But this NIL stuff is really changing the landscape, and that's a shame. But I still think you'll have the legacy rivalries.

Robert Morier: He seems to have to have mastered it, though, so far.

Chris O'Grady: Yeah.

Robert Morier: He's got; a handle on it.

Chris O'Grady: The fan base is riled up. We're ready to see what the season brings. Yeah, he went to a-- oh, he brought his son in to play quarterback. It looks like a player. But I saw he showed up to a CU basketball game, and the place went absolutely bananas. I mean, Deion's a character, but I'm going to be rooting for him.

Robert Morier: Yeah, Denver's buzzing right now.

Chris O'Grady: Yeah, yeah.

Robert Morier: There's a lot going on sports-wise. But we're in a football town. How does it feel to be in football town?

Will Beck: Super Bowl champion football town where you live.

Chris O'Grady: Yeah, yeah, no, but it's exciting. There's a buzz in the air here. The cabdriver was telling me about the excitements over the weekend.

Robert Morier: Yeah. There's no shortage of cab drivers talking about the Eagles right now. That's for sure.

Chris O'Grady: Nor shortage of cabs being tipped over after they won the NFC, so we're going to see. I can only imagine if they won the Super Bowl out there.

Robert Morier: That's right. We are in Philadelphia.

Chris O'Grady: Yeah, we are in Philadelphia.

Robert Morier: Well, I am very happy to introduce you in Philadelphia to our audience, our guest today Will Beck. Will's the Senior Vice President of Fixed Income Manager Research at Wilshire. Thanks for being here, Will. We really appreciate it.

Will Beck: Yeah, thanks for having me.

Robert Morier: Yeah, so all the way out from Santa Monica, we're excited to have you in Philadelphia and glad to be having this conversation with you. This podcast speaks with folks just like yourself who work in manager research positions, talking to asset managers and different allocators across the industry. So we're really grateful for your time, and we're happy you're here. Will, we have a number of questions for you. Before we get into our conversation, I want to share a little bit of your background for our audience. So Will Beck is a Senior Vice President and member of Wilshire's traditional manager research group where he focuses on traditional fixed-income strategies for over 13 years now. He is a rotating member of the Wilshire Investment Committee. He is also a portfolio manager on Wilshire's active fixed-income products and a senior member of the consulting team for the firm's clients. You graduated from the University of Colorado Boulder-- hence our comments in the beginning-- with a BS in Finance. And you received an MS in Finance from the University of Notre Dame, which is also Chris's Alma mater, as we were saying off camera before we got started. So, Will, welcome to Dakota Live!. Congratulations on all your success. I think we're talking to the right person given where we are right now in the fixed-income market. So we're glad you're here. So tell us a little bit. Where did it all start? You mentioned off camera some of the people that brought you to Wilshire and into the industry. But as you think back high school into college, what took you to Boulder? And what were you thinking in terms of those early, early days as you were contemplating the career path?

Will Beck: Yeah. So I grew up in a family. Both my parents were bankers. Their parents were bankers. So going back to fifth grade, everyone's writing, "What do I want to be when I grow up," and there's proof that everyone else was writing the Major League Baseball player, or astronaut. And I wrote banker. So I guess that there was no other choice. Going through high school, looking to colleges, I was tempted by the mountains, I have to admit. I was looking at a number of large schools, I think, that suited me. And doing a tour of Boulder, having the mountains right there, great business program. There was no question.

Robert Morier: And I remember we talked about this. I had a similar background. My dad was in banking as well. I also chose the mountains. But I went to Burlington, Vermont. So I went on the other side. We had a lot of transplants from Boulder up in Burlington. But most of them transferred back to Boulder because of the weather, which they've experienced, is not great.

Will Beck: Phish fans in both towns.

Robert Morier: That's right, exactly.

Will Beck: Huge Phish fans in both towns.

Robert Morier: And two Pearl Streets-- so yeah, same architect. So it sounds like finance would have been almost a sure thing for you. But did you consider any other opportunities as you were coming out with your degree from UC Boulder?

Will Beck: So the only other-- not coming out of Boulder-- through high school, grade school, I was thinking about being a lawyer because I really like to argue a lot. And then someone showed me the reading involved and the legalese language you have to get to know, and that wasn't for me.

Chris O'Grady: And three more years of school.

Will Beck: Yeah, yeah, exactly. So no, I had an opportunity to go to London out of school and work for a telecommunications firm in their corporate finance. They were looking to do a lot of M&A at the time. And so that was the draw out there, the tie into banking at the time. And when I landed, got there, that pipeline had closed off. And so it was more strategic planning, which was really interesting. But it was always, always finance for a path.

Robert Morier: What was that time like in London?

Will Beck: It was great. I loved it. It was only six months. I had an accident while I was out there, hit by a van. I was looking the right way. They were running the light.

Robert Morier: Let's get into that. Were you crossing the street? Did you look the other way? I mean, London is notorious for actually telling you which way to look.

Will Beck: I looked both ways. And it was someone making a turn, coming up from behind me, trying to run the tail end of the light. So did a few more months out there, but needed to come home and get taken care of.

Robert Morier: I can imagine. Well, it's glad we recovered well. So how did Wilshire find you then? Did you find Wilshire? Did Wilshire find you? Because it sounds like not too long after that, you had moved into the Consulting side of the industry.

Will Beck: Yeah, so that time was '06-'07 time frame. I found a job with Fidelity in tax analysis and classification of tax payments for 1099. And it was about as exciting as it sounds. And looking for a role in the '08-'09 time frame was not ideal. But was talking with some people, networking, and found this role where Wilshire was looking to build out its research team and bring in some analysts that could do really generalist work-- so covering everything from equities to alternatives to fixed income. And that was the starting point. The idea was to do a couple of years, go out East. It was-- or sorry-- out West. It was a no-brainer at the time. Middle of a snowstorm when I got the offer, so I said, I'll take the beach.

Chris O'Grady: From a snowstorm to the most iconic, coolest offices on Earth with that view. I mean, if I was at Wilshire, I'd climb those stairs, and I'd be staring out the window, and I'd probably be dismissed after half an hour. It's such a beautiful view. It's unbelievable.

Will Beck: No, it's great. And watching the boats go by is pretty calming when things get stressful.

Robert Morier: So you've seen a lot of evolution though. I mean, thinking about going back 13 years, if the manager research team started out as generalists, it seems like it's so specialized these days. It's very few and far between where we have conversations where firms your size, even back 13 years ago, that would take more of a generalist approach. How have you seen that evolution of going from a generalist into a specialist evolve for you personally in the position?

Will Beck: Yeah, so just to be clear, at the time, we did have specialists that were further along in their career paths. And it was the entry-level point. And we still do have this generalist program. But it was great. You really got to see the market. I was meeting with everyone from EM equity managers to some of the big-value names at the time. Some big hedge fund names were coming through. So I got a real taste of the market and the environment. And between my interests and opportunity within the firm, it allowed me to specialize into fixed income, really starting with global high yield, which was a lot of fun, but not a lot of demand. So I had to evolve that coverage from there.

Robert Morier: That might be different this year.

Will Beck: Could be, could be, yeah. Well, I think it's turned into multi-asset credit is really-- global high yield is still a thing, but multi-asset credit is more in demand and covers the same things, plus.

Chris O'Grady: Wilshire's the anchor of anchor meetings in Southern California for a sales professional. How do you decide who you want to see? I'm sure you get gobs and gobs of requests on a daily/weekly basis. PMs are traveling again. Obviously COVID put the kibosh on that. So PMs are traveling again. What makes you interested to want to visit and take 45 minutes of your time to see a manager?

Will Beck: Well, I mean, first and foremost, we have to go with areas where we have exposure. Make sure we're monitoring, maintaining. In terms of new ideas and people coming through, it's great when a PM is coming through or a really knowledgeable person on the sales side is great to come through and get a sense for what's going on. What we're looking for is really idea generation within the asset classes that we're covering because we do kind of take an asset class approach. So we all cover core and core plus on my team, but we have some credit specialists. We have some rate specialists. We have some muni specialists. And what we're trying to do is build out a variety of styles in each one of those categories because we have a variety of clients. And so we don't want to just say, hey, I'm a high-yield analyst. I'm looking for broad market all the way down to triple C. Maybe we can do some distressed, that kind of thing. We want some conservative managers as well because we may have some clients that need that. So looking for Best in Class, but wide variety of styles.

Chris O'Grady: Because the fixed-income market can get pretty granular. I mean, obviously it's not student body. Let's take a duration credit play, and let's figure out how to be on either side of the index. I mean, you look at some of the name-- obviously Canyon's another great name in Southern California. You look at some of these managers doing the non-traditional asset-backed trade and really trying to work that into the index. So the fixed income is obviously gotten very granular. And talk to me about this disintermediation, this BDC world, this direct lending. Has that brought in a whole new complexity to analyzing a fixed-income manager? And has it brought on a whole new opportunity set for investors?

Will Beck: So I mean, the latter, yes, absolutely. So just to clarify, the way we do break up the world is I'm more on the traditional side. And so some of these will filter through into multi-asset credit. But where it's a true direct lending type of product, that would really fall onto our Alts team. So I would let them speak for themselves. But where you get some of the esoteric ABS filtering into core bond, portfolios, or multi-asset credit, I think it provides a real opportunity to differentiate. We'll have clients coming in and saying, hey, we have two core-plus managers that are really adding value through the corporate side of things, but they trade in line with each other for the most part. And so how can we differentiate some of that, especially now that volatility is back? So it provides great opportunity. But again, going back to looking at managers, they have to have the capability, not just the line item.

Chris O'Grady: Yeah, not just the trade, have the depth.

Robert Morier: As Chris was saying, there's more granularity in fixed income these days. But there's also a lot of older incumbents that have a significant amount of assets, and it's always been a challenge for newer fixed-income managers coming into the market, trying to access some of that capital. So how do you think about new managers? So if you're a fixed-income manager who's maybe relatively young to some of the older incumbents, what's that process like in terms of emerging managers giving you a call and trying to get your attention?

Will Beck: No, absolutely. So we're looking for best-in-class managers, not just biggest-in-class managers. And so we take the meetings and get to know them just as well. And if there are areas of improvement, we try and provide some of that feedback as well. So if we say, OK, well, this might be a reason why we might not look at you, for example. You're going into some esoteric ABS, and we don't really see the talent there to support the positions that you're investing in. So we'll dig a little bit deeper and try and understand if they really do have that capability or explain to them why we would be hesitant to move forward with that type of strategy. So it's really a conversation. It's taking the meetings. It's not all PIMCOs, and BlackRocks, and Westerns--

Robert Morier: Yeah, I've been in a couple of smaller fixed-income shots.

Chris O'Grady: All great firms.

Robert Morier: Yeah, all great firms. Coming from a couple of smaller fixed-income shops, it used to feel like it was only them. So you felt like you were always competing with the same five or six managers. But I know that's not the case. It's good to hear it from you. I think it makes a lot of sense thinking about best in class and making sure that you're doing something different, you have a competitive edge relative to the peer group. So how is that competitive edge ascertained? You've got managers who are coming in. What are the types of characteristics that you're looking for in asset managers that distinguish them from Wilshire's perspective relative to some of the other managers out there?

Will Beck: Yeah, so first and foremost is pretty simple. It's doing what you say you're going to do. And so best in class is good communication, good process, and not surprising us or our clients. That seems too basic, but it really is. And if you can underperform and we can expect you to underperform in a market environment, that's totally fine as long as we expect it, and we build the portfolio around that so that it's not a surprise at the higher level.

Robert Morier: Part of the exercise that Chris and I go through and then a lot of institutional asset managers go through is that you've got to take this relatively complicated strategy-- particularly fixed income, there's no shortage of things to say about fixed income. And I've never met a portfolio manager, particularly in fixed income, who doesn't have a lot to say about their product. So I always found that one of the more interesting exercises for people in your seat is trying to distill what the real competitive edge is relative to the 35-, 40-page presentation that you're being presented with. And just to finish that is that we'll hear from one guest.who will say, well, we actually want to hear the granularity. We want the complexity. We want to understand what you're doing. Where somebody else will say, you've got 15 minutes, so tell me how you do it. So I'd love to-- getting to what I was thinking is how does that take place for you as someone who's been in manager research for a long time?

Will Beck: Yeah, no, so we definitely want to get into the granularity to assess if they have those capabilities. But it's first looking at the materials or the elevator pitch, if you will, to understand, do you know where you differentiate? Are you able to identify that through attribution through the numbers so that we can assess it? So then what we'll try and do is then dig further in to say, let's say, going back to the smaller manager or emerging manager example, maybe they're differentiating through taxable munis in a core-plus portfolio. So talking through how they're sourcing that, how they're researching that space, how they think about the duration of that space relative to their broader portfolio. So those are the kind of conversations that we want to have with them to see if they're adding value or just buying bonds to differentiate.

Chris O'Grady: If you Drew a circle around 20 managers in fixed income, the dispersion of returns isn't going to probably be that great. And if it is from number 1 to number 20, number 15 through 20 are probably in trouble. That's the complicated thing about fixed income. So you could index it away, but the index has got a heavy weight to a duration bet on treasuries, and probably some corporate credit, and a lot of mortgages. So active management in fixed income, as we just talked about with nontraditional ABS, can be a value added. It's definitely an asset class that might not face passive cannibalization, true? Do you lean towards active fixed-income managers?

Will Beck: So we do have clients that will implement through passive, and that's more utilizing our CAPM models and our asset allocation work. So we will implement through passive where we think we can save some cost but still add value through our process. And that would really be client demand. But a majority of what we do is active management for the reasons that you've described. And I think you have seen more dispersion in performance now that we've seen some dispersion in the markets, rates of-- it's not a 30-year trend in rates, and you just by credit and duration, and you're golden. So now it's seeing who's really adding value and how to pair those managers together.

Chris O'Grady: I mean, it seems like there's convexity in mortgages, which has usually never been the case. I was talking to a non-for-profit, and they're looking at munis, and my instinct was, what? But these munis are trading at a discount now, so there's a taxable accretion to par. So it just shows you how the transition from zero interest rates-- and I still can't believe that people would pay negative-- you buy a bond for negative. As Jim Grant says, you have rate-free risk back when rates were at zero. But there's just incredible opportunities for these right teams to really be nimble and generate performance because I think you're looking at expected returns, probably in the high single digits, low double digits for fixed income over the next couple of years.

Will Beck: And relative to liquidity in the market, historically it's not as great as it once was for a variety of reasons. But it's still better liquidity than moving out into the illiquid products and that type of vehicle. And on the muni part, I mean, you're looking at muni managers themselves monitoring how that market has changed. So more SMAs coming into the space, some of the banks and insurance companies moving away. It's changed how the demand is on different parts of the curve. So it may be cheap on the long end where you may not have as much retail or other demand, but it may be expensive coming further in the curve. So active managers can play that and monitor the market and really add some value beyond just bond selection.

Chris O'Grady: Yeah, there's curve. It seems municipals are one of the top ideas out there for the people we call in the RAs, and the family offices, and platforms as such. Municipal bonds are going to give you some really nice returns here with the obviously the trading at a discount with an accretion. So sometimes munis can be considered boring, but you're getting paid now.

Robert Morier: Yeah, sometimes fixed income overall can seem boring, but it's clearly not. There's a lot of complexities to it. So how is the team structured to cover all of these strategies and these managers? And you had mentioned before, you had mentioned liquids just thinking about private credit, because if you think about that continuum from traditional fixed income manager research through alternative. So how do you how do you structure the team? How do you work with other teams within the organization in terms of thought sharing?

Will Beck: Yeah, so I'm part of the traditional side-- and so if you're thinking about that liquidity spectrum, the far end, the conservative end of that spectrum. And it's about 10 of us, four dedicated to traditional fixed income. But we're working very closely with our alternatives counterparts, and that's anything from hedge funds to liquid alternatives, all the way out to private markets, private credit. And we've brought some of those teams together because there's a lot of managers that are-- it's not just a private credit manager anymore. It's not just a hedge fund. They have liquid alt products. They're going across that liquidity spectrum as well looking for value. So we brought those teams together, and we work closely with them where there's overlap. But it's 10 of us on the traditional side. I think we have 70-plus people contributing to research across the firm. So it takes a village.

Robert Morier: It sounds like it. So is there a top-down component to it? So if you're thinking about just kind of overall asset allocation ideas, potential shifts. How does the top-down, I guess, interact with the bottom-up work that you're doing?

Will Beck: Yeah, so we have our traditional longer-term asset allocation assumptions on the traditional consulting side of the business, the advisory side. But we also have some more tactical views, and we have an investment strategy committee that meets quarterly. And it's to tilt into that asset allocation view. So we're not saying, hey, we're taking this large position in emerging market debt. It's, oh, we're going to allocate an extra 2% to 3% and source it from somewhere. And the idea is for six- to nine- to 12-month view on that. So we all get together-- consultants, portfolio managers, research. It's a three-day meeting that we get together discuss the markets. We invite managers to come in and speak to us and really have a debate and talk through all these ideas and opportunities. And if there's something that we are not quite agreeing on, it could be an hour-long conversation on how do we end up at that decision point, or do we? If we're really not agreeing, do we take a view there?

Robert Morier: So carrying that emerging market fixed-income manager example forward, so let's say that there's a tilt towards EM debt. And I'm sure you'll have a roster of emerging manager or emerging market managers who are potentially in the database, maybe ready to deploy capital. But for listeners tuning in, particularly sales professionals, as you think about scoring or rating your managers, is there a formal process that Wilshire adopts that can give us some context as to how we're doing?

Will Beck: Yeah, so at the end of doing all these reviews, collecting DDQs, Due Diligence Questionnaires that are these long documents that describe your firm, your process, your team, everything that we might want to know, we then create an evaluation. And an evaluation will really be on seven different components. So it's the organization, which is a team and a firm component. And the idea there is a BlackRock firm score. It may not reflect what the EM debt team is-- not to pick on BlackRock, but just a large asset manager.

Robert Morier: We can pick on BlackRock. It's OK.

Will Beck: OK.

Robert Morier: They're big enough.

Will Beck: So but it's a different firm than the team, so we want to be able to highlight the difference between what's going on at the firm versus what's going on at the team. And our entire team will get together and have that firm score because we do share in that view. Then we're going to look at the information that you're bringing in. And so it's not the information that you're bringing in in isolation because most everyone has access to the same information. It's how are you analyzing that information, and how are you analyzing it relative to your process? So then we look at the forecasting. And forecasting is not just performance, but it's are you performing the way we would expect? So going back to the No Surprises idea. So we want to know that you're going to perform in line with how our clients would expect because there's a lot of work on the asset allocation, on the modeling, on the manager selection done. So that's another category. Then we look at how you build the portfolio, portfolio construction. This is guidelines. This is the logistics of bringing it all together. Attribution-- sorry-- implementation is next, and that's trading. That's your systems. That's your risk tools. That's do you have access to the market? Are you are you able to source the bonds to really add some value and not pay too much but ask there? So finally it's attribution. Are you taking a feedback loop and looking at how you're performing and allowing that to inform yourself? Or are you just saying, hey, we're a credit-focused manager. Credit didn't do well. Attribution is going to be bad.

Robert Morier: Yeah, we'll get it next time.

Will Beck: Yeah, yeah. And then there is an ESG component as well. It's not part of the rating, but we do-- the ratings that I just laid out are decile rankings that are an overall ranking that are relative to your peer group. So emerging market debt managers, we would be looking at versus each other, core-plus bond managers versus each other, so on and so forth.

Robert Morier: I mean, that makes sense. I mean, obviously there are some larger firms that will score higher in some ways, maybe with implementation, smaller firms that might not have the same scope of resources. Or how do you see that? Is there a differential? Or are you taking that into account in your rating?

Will Beck: Yeah, I wouldn't say it's large versus small. There's a benefit to either. If you're small, and you can be nimble and access markets that maybe the large managers can't buy. So non-agency mortgages, that market's not growing. You have CRT and other product that they're trying to develop that are non-agency-like. But to be at size, a small manager can be a little bit more active in trading those, whereas a large manager may have to wave in as much as they can to get a position size. So it's more how they're able to use their process, their investment strategy, and access the market. So you can have edge and be small. You can have edge and be large.

Robert Morier: Correct me if I'm wrong. I did not hear fees on that list. So do fees come into play at all during your seven-factor analysis?

Will Beck: So they certainly come into play during the decision-making portion. And there's been a race to the bottom in fees of over time. But with that race to the bottom, there's also some concessions made in terms of if you're asking for a discount of x basis points, you may not be able to get the full capabilities of some managers. So fees are a consideration, but they should be considered holistically in terms of what are you getting for that fee.

Chris O’Grady: Is the search activity-- it will share a function of the end client? Or is it, boy, we think we have some exposures here that we really want to invest in, so let's go to our clients? I mean, one of your competitors, I think, told me a year and a half ago, they did 810 searches across the whole consulting firm. So you probably do a lot of searches, but what drives the search activity? Is it client-driven, or is it investment committee-driven to go to clients?

Will Beck: Here's a consultant to answer for you. It's both. Clients may have a reason to want to reallocate, or change managers, or diversify managers.
Through our ISC process, we may say, hey, we want to add to an asset class, and you may not have an allocation there currently. So that may drive a search. Yeah, it's a bit of both.

Chris O’Grady: Technology is everywhere, infecting fixed income appraisal rights, litigation, finance, directly, and everything. Are you seeing traditional managers start to drift into those type of exposures? Or is that really led towards just the alternative managers that will play those-- what is it-- appraisal rights? Did I say appraisal rights? I mean, just really interesting long-tail, unique nontraditional sources of income.

Will Beck: I think what you're describing probably falls more in the Alts group. But where technology does innovate and provide opportunity is things like AI or machine learning tools for scraping local language newspapers for emerging market debt to get a sense of what the real environment is on the ground rather than just reading BBC or Wall Street Journal, or things like that. Obviously these managers are going to be on the ground and meeting with these administrators of finance, and bankers, and the like. But daily that helps maybe be a--

Chris O’Grady: I think that's where we are. That's amazing that I'm sure the managers have that technology where all these individual small publications around the world can give you some sort of edge. It's like the drones looking at parking lots for retail stores to see how they're crowded.

Robert Morier: Yeah, NLP, Natural Language Processing.

Chris O’Grady: What was the old-- the insidious folks that would-- they'd create their own homemade bombs in Latin America, blow up a bomb just to have the bonds go down? And there's like a legendary story of somebody in the early '90s. And just to inspire a market volatility, they would create some sort of conflict via a man-made bomb in Venezuela, and bonds would sell off. So we've gotten a long way from there to AI, so it's a whole different—

Will Beck: That's a different regulatory environment.

Chris O'Grady: Technological growth, better humans.

Robert Morier: Yeah, better humans.

Will Beck: But it's also data science and tracking tail numbers to understand how commuting's and tracking cargo ships to understand trade. And so there's a lot of ways.

Chris O'Grady: You see that in China, they track the subway riders. I think pre-COVID was 43 million. Now it's about 26 million, so you're going to really gauge this working from home catching up to you. But for those managers listening, it has to be this type of edge in granularity. These are really value-added ingredients you can do to apply to help your returns.

Robert Morier: Yeah, absolutely. Well, even with all this technology, 2022 was a pretty tough year for all types of managers. So as you're going into this new year, what types of opportunities in fixed income are you seeing re-emerging? So as you're thinking about that top-down and bottom-up discussion process, where is there some excitement, if you will, from your perspective?

Will Beck: No, you absolutely can't take away from the year we had last year, one of the, if not, worst on record. But I'm trying to make this a thing, so forgive me if it doesn't take on. But I think the way we're thinking about markets right now is-- the CDC is not just about COVID anymore. It's about Conservative Diversified Carry. And so it's really looking to allocate across fixed-income markets where you can maybe be a little bit higher in quality in terms of each category-- so in credit space, maybe being more in high-yield versus loans right now because the quality of loan issuance has fallen off a bit, but high-yield issuers have really been able to take advantage of the low-rate markets pushing out maturity walls and improving quality, whereas some of the lower quality issuers have migrated to the loan space. So that's carry. That's credit. But it's diversified with some high-quality emerging market debt. It's diversified with IG. It's diversified with mortgages, like you said. It doesn't have to have a lot of carry to be--

Chris O'Grady: But the high-yield index-- the construction of high yield is much more conservative. The high-yield index is a really tight, well-run, less-stress-on-credit type of index, correct?

Will Beck: For now, yeah.

Chris O'Grady: For now.

Will Beck: But there could be dispersion in there as well. So you may see an increase in defaults. But that's really finding the managers that can play that broad market opportunity and avoid the 4% or 5% historic default rate. So yeah, but absolutely.

Robert Morier: So where do we stand then on high-quality investment grade or long-duration fixed income?

Will Beck: Yeah, so high-quality investment grade's still absolutely a part of that. It's diversification. There's yield there. Spreads have come in a bit, but there's still a good starting point of yield. And one of our CIOs put out a piece a few months ago about the utility coming back to the bond market. And so yields are there and are helping you provide value to your clients. And IG is a space you don't have to reach that far to pick up a little extra yield in terms of dipping down in quality, dipping down in liquidity. So yeah, absolutely an opportunity.

Chris O'Grady: You do macro forecast the team. We obviously had the duration move last year. The credit move is probably coming at some point. When do you think the spread widening really occurs? Will it be commensurate with when the recession hits the economy, if it does, et cetera, et cetera? But you would think we're going to have a little bit of spread widening.

Will Beck: Yeah, that's a great question. And I think everyone has their views. If we get this perfectly engineered soft landing, do credits widen out too much? I'm not sure they do. But I think there's so much dispersion in some of the economic data, traditional economic data, as well as some of the high-frequency stuff we were talking about, that there is a risk for that. So I don't know if it's a geopolitical shock that scares the market and causes spreads to widen out or if it's over tightening and a forced recession, forced hard landing. But there are risks out there, and that's why we're conservative diversified if what I'm trying to make a thing.

Chris O'Grady: So you're speaking to your managers monthly? I mean, you're on top of all-- I mean, because I'm sure they're all saying probably not too dissimilar things but might be playing it in just a little bit different way.

Will Beck: Yeah, exactly.

Chris O'Grady: The worst thing ever is always to just lean against an index long or short and be wrong because when you're wrong in fixed income, it's really hard to dig out of that hole.

Will Beck: And duration is a low sharp error of trade-- or sorry-- a low sharp ratio trade. And so we're talking to managers on a daily basis-- not every manager on a daily basis. But we're five, 10 meetings a week with managers, hearing what they have to say across asset classes. So we try not-- especially on the fixed-income side, try not to all be just core bond. We want to hear what the credit people are saying, the emerging market people are saying because people talk their book. And so you want to be able to play ideas off each other and understand where we're managers are maybe taking risks that others are not seeing.

Chris O'Grady: We saw through COVID, all these distress cycles become shorter and shorter. We had a two-week distress cycle with COVID before the government programs kicked in. It seems one has to act quickly. Take distress, for example. If we do get a distress cycle, it might be really rapid. And for a firm like you that does such thoughtful research, you might have to move quickly. I mean, let's pick on Best Buy. The bonds are trading at $0.10, but there's equity value. It's incongruent. But I mean, one would say that if there is a quick opportunity-- and we saw that with financing of commercial mortgage loans a couple of years ago. There was some quick-rescue capital or a lot of these commercial lenders were going to lose their properties. How do you reconcile thoughtful research with perhaps having to act quickly and timely for a great opportunity?

Will Beck: Yeah, so we can be ad-hoc in some of our views. And while we meet quarterly, we can meet ad-hoc if necessary. And we're meeting on a weekly basis as a team anyways to discuss tweaks to the portfolio throughout the quarter. But I think what might reflect your question a little better is there is a trend towards maybe opening up some guidelines for managers talking about multi-asset credit. Spreads at high yield don't stay 700 for long. And you can't really buy 700 because if the index is 700 that means a few bonds might be way out there, and everything else is trading in. So getting those managers that can be a little bit more tactical in going into that and trading a little more timely than we might because we're looking to have six-, nine-, 12-month views, whereas they can allocate tomorrow if they can source the bonds.

Chris O'Grady: That's why it's important for us as investment professionals to make sure that all the firms like you are aware of what we're doing.

Will Beck: Yeah, absolutely.

Chris O'Grady: So that is timely movement.

Robert Morier: So as you're thinking about inflation, it seems to be cooling. We haven't talked about it directly yet. But CPI reflects items like gas prices, but it seems like the stickier items like rents, for example, are staying put. How are you contending with elevated inflation in your clients' portfolios? And what types of recommendations are you making? Or what are clients looking for?

Will Beck: Yeah, so we've been talking about this for some time, as have most. But OER is Owners of Equivalent Rents, and talking about these components of inflation are something that we do a lot in trading emails back and forth. And so we were discussing how rents trailed home prices by six months. And we were breaking that down a year-plus ago, 18 months ago, something like that because it's really important to look at the underlying, not just the headline data. But in portfolios, I think we've looked to expand into areas like diversified real assets and adding some TIPS exposure as parts of client allocations so that there's that lever there to pull rather than necessarily going out of benchmark to allocate to something like that. But at the same time, you need to know what's underlying that and, if it makes sense, to hold diversified real assets for yield, or if it's an inflation play, or how you construct that portfolio. So while we may see inflation cooling a bit, there may still be a case for some of those components.

Chris O'Grady: Yeah. Let's see if you can reconcile this question that I have with what you've studied in your team. So inflation is going to come down. That's just math, right? The rate of change is going to-- another day I didn't use calculus, but let's use calculus. The rate of change is going to slow, but we're going to be left with legacy high pricing. Rents are going to stop going up. They're never coming down. They're just going to go flat. So inflation has taken prices high. Mathematically the rate of change is going to slow, but we're going to be left with legacy high prices. Car prices aren't coming down-- used cars, maybe, from a really high level. So talk about how that's working in your macro views or your macro team that, OK, wow, we're back to 2% inflation, but eggs are still 30% higher than they were 18 months ago. I don't think anybody's talking about that, or unless I'm just not paying attention.

Robert Morier: Well, I think more people should be talking about egg prices, Chris. I don't disagree.

Chris O'Grady: Seriously.

Robert Morier: If you go into the grocery store, they're $7 for 12.

Chris O'Grady: Here we are in Philadelphia. That glass of raw eggs that Rocky drank in 1976 is $14. He wouldn't be able to fight. So what are you guys talking about in that reality?

Will Beck: I mean, I think we have to look at the other components that may adjust to that-- so wages and things like that. We have to look at the labor market and see what's going on there. But you're spot on. It's rate of change. It's not level that are those headline numbers.

Chris O'Grady: There's a higher carry for the consumer. You're starting to see it in car loan defaults. You're starting to see it in delinquencies with credit cards. So yes, great, inflation-- let's celebrate the inflation coming off a really high level, but leaving with legacy prices that are going to really extract discretionary income from people just to service debt, which is going to have to show up somewhere. I mean, I think I think the missed celebration of a rate of change slowing rapidly back to a previous regime doesn't take into effect that we're left with the collateral damage of stuff that's going to stay with us for a while.

Will Beck: So I think the longer term on that is if you do get a leveling off, and let's say rate of change levels off, but prices stay high, is the benefit and yield will turn into a benefit and coupon as more issuers have to reprice to that. And so that would likely offset some of that impact that our clients would be feeling.

Robert Morier: Well, behind all these conversations are our clients. Actually, I should have asked to start, do you meet with clients directly?

Will Beck: Yes, yeah, across from advisory to discretionary.

Robert Morier: How does Wilshire think about that client experience? I had a question for you that I had sent you in advance because I'm always amazed. There is a lot of responsibility in selecting these managers. It's hundreds of millions of dollars on behalf of planned participants, university endowments, individuals if we're meeting with RAAs. So I'm just curious, as Wilshire thinks about the client experience and as you think about your role in selecting managers, what's the approach that you take with clients as you're distinguishing yourself from other consultants?

Will Beck: First of all, everything's a conversation. There's no buy list of, oh, you want this, so here's your buy list. We have high conviction ideas for managers specifically. But any time a search comes in, my first response is about five questions back. It's not, OK, let me go to work. It's, OK, well, what are you really trying to accomplish here? And that might be to the client-facing person, the consultant within our firm. So trying to solve for what they really want. And then I think the other part of the communication is really speaking a language that's accessible so that they understand what they're getting. And so I think finances, as many industries are, is guilty of jargon and the alphabet soup of ABS, CRT, what have you, CMBS, and just helping to make sure that they understand what that means-- so speaking more of a common language. And that's in conversations with the client directly. That's in writing commentary to deliver to the client. It doesn't help to talk about curve strategies if they don't understand what curve strategies are. So it's really trying to make it accessible as well as informative.

Chris O'Grady: From a sales perspective, the Do's are just be a good professional, be smart. Some of the don'ts-- give us some of the don'ts, other than daily correspondence at 1:15 in the morning for a sales person to-- assuming they have a good product, a good team, and they just want to get your attention with the PM in town, just grease the skids a little bit to get your team's attention.

Will Beck: I mean, you hit on the number one. The golden rule is don't overcommunicate. Don't be a pest. Friendly reminders are--

Chris O'Grady: Is it surprising how many pests are out there? Is it embarrassing? Or is it just people have figured out, meaning when you're calling Wilshire, you have to have your sales hat on?

Will Beck: I mean, I think it's a fair amount relative to the universe, probably lower than I would expect. The pests are louder than everyone else. So it might feel more than a smaller cohort. But a friendly reminder-- we get so many emails every day, and it's not that we're trying to ignore things. Sometimes we need a second and third reminder.

Chris O'Grady: That's actually good to know because you're not sitting at your Bloomberg looking at fixed-income managers all day, every day. You have so many things to do. Robert just mentioned you're working with clients. You've got quarter end. You've got a family. You've got to live. And it's good to know that you shouldn't take it personally as a sales person. I always say, I take everything personally.

Will Beck: I knew a few people who would know the area coffee shop that Wilshire employees would go to. And they would sit there all day and do work there all day. So you would always see that person whenever you walked in for your morning coffee or afternoon coffee. So I've seen that employed a few times. I thought that was a little bit more clever than the email approach.

Robert Morier: There are different ways to go about it. Well, it sounds like persistence relative to pest control is probably the way to go.

Will Beck: Yeah, and it's a do more than-- it's a don't in that don't be defensive, and don't be deceptive.

Chris O'Grady: What can we do to help you with your job? Can we provide up-to-date performance, provide timely performance at quarter end? Just I mean, really be provocative in our thinking. I mean, if you're using the manager, obviously you're connected there, and hopefully you're getting rapid response, especially around quarter end. But I mean, I always say it's our job to do your job for you. What can we do to make your job easier?

Will Beck: Never a surprise is great. And that's really more on the communication of turnover, or underperformance, or things like that. Just talk to us. Say, hey, this is what's going on. And if it's an email that we don't get to and we reference later, that's fine too in terms of sending us monthly or quarterly performance. It's nice to have in the inbox there. It's nice to have the data populated in the databases. I know there's a lot of databases out there, but just having basic information there lets us do our job. And sometimes that becomes a hurdle. So yeah, I would say those are pretty basic. But then in addition to that, I would say, if you have good thought pieces, try and differentiate the email that you send it through so that it catches an eye and maybe gets us thinking. But some of the idea generation that I've had have come from thought pieces, from white papers that really caught my eye. It got me thinking. There's also some great emails out there just about market data, not necessarily about the product because it's all an education game at the end of the day. If we understand the markets and how you're thinking about it, then we can look at the portfolio and understand how you as a manager might differentiate.

Robert Morier: One more question on the manager research side-- you mentioned ESG informs the seven steps of the process. Notoriously fixed income always struggled with ESG and ESG integration. And there was also a relatively small pool of diverse and women-owned managers in fixed income. Have you seen any improvements in either of those two areas of fixed income as it relates to ESG and DEI?

Will Beck: Yeah, well, on ESG, everyone has a process now. And it was always we've always done the G. And so that's natural, and that makes sense. It's kind of joking, but it makes sense. There has been improvement in ESG and further to that impact and sustainable. But the way we've built our process, I think, is not trying to be prescriptive of here's the best process, and how are you meeting our expectations? We understand that the market's evolving. Our client demand is evolving. Regulation is evolving. So we've tried to make it more of a peer group neutral integrators or leaders in the space, which will naturally ebb and flow as some managers catch up, some managers fall behind. So we do try and be thoughtful in that and not just saying, here's one way that's the best way. But areas like securitized product, it's just going to be more difficult to have an ESG process and securitized product relative to maybe emerging market debt where you can go in and see social impact and see governmental impact. But there, you also have to have maybe a little bit more of, again, the rate of change idea. Is it fair to say, hey, we're just going to cut off the bottom quartile of E names in the emerging market space and never let them get the financing to then grow out of coal and things like that? So it has to be a dynamic process. In terms of DEI and diverse zone managers, we have been actively doing more-- well, COVID put a stop to it. But hopefully we'll be launching again Welcome to Wilshire programs and reaching out to managers and having them come in and sit with our research people, sit with our consulting people and understand the Wilshire process a little better so they can figure out how to break in if they're not already doing so. In public searches, we try and include diverse-owned managers where there are highly rated managers. And we've seen that number increase over the years, which has been great to see. and, I think, is a value add for our clients because finding good managers is a good thing for our clients at the end of the day. So sometimes it's not the big names, like we talked about.

Robert Morior: Well, speaking of your seat, I assume you have to get out of this seat every now and again. So what do you do for life outside of the office when you're not thinking about the questions that guys like Chris O'Grady are priming to ask you?

Chris O'Grady: Completely off script, by the way. I apologize for--

Will Beck: No, no, no, no.

Chris O'Grady: I joke. I says most meetings out of courtesy or half an hour or 45 minutes. But I could sit here and talk for-- I'll call you and say, you know, well, I'd love to meet you. Do you have seven hours? Can you take next Wednesday just to listen to my questions?

Robert Morier: Well, we haven't edited any of them out yet. So so far, they're all unmarked. So but I am curious, what's life like outside of the office? I mean, you're doing an incredible job with Wilshire. And congratulations on all your success. But once you get back to Santa Monica, what do you get up to?

Will Beck: Yeah, I want to jump to that real quick before we get into that because it's another thing that sales people, CR people can do when a PM comes in. We'll geek out on the fixed-income stuff and go off on tangents all the time. And it was just happening in the meetings we were having this week. And reining it in is a skill that's-- the great people in those seats are able to rain the conversation back in a respectful manner and make sure we all accomplish what we set out at the beginning. So start your meeting with an agenda of what we all want to get done in that meeting. Track any follow-ups if there's follow-ups to do. But bring it in, and check in with us, and check in with the PM every once in a while, make sure, hey, just time check here. Are we good on this? Or should we pivot?

Chris O'Grady: It's one of those as a sales person, you're sitting here, I got to shut this PM up. I might be out of a job, so how do I do this delicately?

Robert Morier: That's exactly right.

Will Beck: But we'll chase it too. So I'm not pointing any fingers. And we'll follow it too. But outside of work, I love getting down and walking the beach, walking around Santa Monica, Venice, going up into the mountains, doing some hiking, throwing podcasts in, zoning out for a few hours. I sail as much as I can. It's not that frequent, but love it. There's something just calming about being out on the water, not hearing the motor of the boat or anything like that, and just calmly going by LA and seeing it from a much quieter perspective because I don't really like driving or anything in LA. I try to stay close to the office for my own sanity. And that really helps me to unplug. But I wish I could say my reading list was full of all this fun fiction and all of that, but I tend to gravitate towards history of finance and investing. And I'm starting to read some books about producers and things like that in the music industry-- so trying to stray away a little.

Robert Morier: Well, Will, thanks for sharing all that. Thanks for sharing life outside of the office. It's always interesting to hear where people decompress. And a sailboat sounds like a great place. So thanks for being here. Chris?

Chris O'Grady: Robert, thank you. Thank you for letting us go off script. As a sales professional and you have somebody from Wilshire's attention, you want to probably overindulge in the questions. But the learning is incredible, and it's a top anchor meeting for anybody on the circuit to understand what your team is thinking about and how you're allocating to manage it. This was completely educational and informative, so thank you so much.

Will Beck: Thank you, guys. It's great to hear what you all are thinking about as well. So this is great, great conversation.

Robert Morier: Well, we appreciate it. Well, if you want to learn more about Will and his work at Wilshire, please visit their website at www.wilshire.com. You can find this episode and past episodes on Spotify, Apple, Google, or your favorite podcast platform. We're also available on YouTube if you prefer to watch while you listen. Finally, if you want to catch up on past episodes, take a look at our website and dakotalivepodcast.buzzsprout.com. Thanks again, Will. Chris, thanks again.