EPISODE 17:

Going Off Script with Razmig Der-Tavitian

CIO of SLK Private Wealth

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Tim Dolan: Good to see you. Thanks for having me again.

Robert Morier: Yeah, thanks for being here. Welcome back to the show. Well, I'm very happy to introduce you and our audience today to today's guest, Raz Der-Tavitian, chief investment officer at SLK Private Wealth. Raz, welcome to the show.

Raz Der-Tavitian: Thanks, Rob. Thanks for having me.

Robert Morier: Yeah, we appreciate it. Well, we have a lot of questions to ask you, Raz. But before we do, I want to quickly share your background with the audience. After more than 16 years in institutional asset management, Raz joined SLK as chief investment officer. His responsibilities include but are not limited to overseeing the firm's investment philosophy, strategy, and process. SLK is an independent $1.6 billion RIA based in Los Angeles, which we can see very well. Raz, thank you for opening that shade behind you. We are envious here in Philadelphia. Prior to joining SLK, Raz spent six years as director of research at HighMark Capital Management, the wealth management arm of Union Bank, overseeing $8 billion in assets under management. Prior to joining HighMark, Raz spent four years at Wilshire, leading their hedge fund and liquid alternative research efforts. During his time at Wilshire, he advised large state pension plans and endowments on their allocation policies for alternative investments. Prior to his time at Wilshire, Raz led event-driven and long-short equity research for Dorchester Capital Advisors, a hedge fund of funds firm, where evaluated investment strategies implemented by top-tier hedge funds. Raz earned his CFA and CAIA designations, and holds a BS in Finance and Business Administration from Cal State University Northridge and an MBA with honors from UCLA's Anderson School of Management. Most importantly, Raz and his wife Adrine, and their son, Vahn, live in the Los Angeles area and enjoy all Southern California has to offer. So Raz, thanks for joining us, and congratulations on all your success.

Raz Der-Tavitian: Thanks, Rob. Thanks for having me.

Robert Morier: Yeah, Raz, one of my favorite things about looking up your biography before starting this podcast was that you have run three Los Angeles marathons, but you haven't enjoyed one of them. Is that true?

Raz Der-Tavitian: Very true. My dad is the athlete in the family, and he is the one that encouraged me to do all three of those marathons. It was a father-son experience. Another father-and-son experience was summiting a 17,000 foot mountain, and I promised myself that I would not let him lead me into one of those adventures again. And he's actually going to climb Mount Kilimanjaro this summer, and I decided not to join him on that one.

Robert Morier: That sounds like-- in some ways, it sounds like you might be missing a really great adventure, but it's also probably going to save your legs a little bit of pain. How about you, Tim? Have you ever run a marathon?

Tim Dolan: I have not, and I don't feel bad for you not climbing Mount Kilimanjaro. There's a lot of people that aren't doing that. So we're in that camp with you. So all good.

Raz Der-Tavitian: I'm in good company.

Robert Morier: Well, Raz, we first met over a decade ago. You were beginning your time with Wilshire on the hedge fund research side of the business. I think I was probably trying to sell you a Japanese equity long-short fund, if I remember correctly. So how did you find working for a large consultancy like Wilshire? And what were some of those big career takeaways from then as you think about where you're sitting today, with SLK?

Raz Der-Tavitian: I mean, it was a fantastic experience. Wilshire is a great brand name. I worked with a lot of very smart people. And we consulted to some of the largest state pensions and endowments, really understood their needs and how we can best help them achieve their investment goals. I'd say my two biggest takeaways working at Wilshire, first, was I've always considered myself to be a student of markets. That's why I decided to go down the hedge fund analyst route. I figured what better way to learn about markets and how they function than by studying some of the best money managers out there. And while I was at Wilshire, Rob-- I know you teach at Drexel, so you appreciate this-- I felt like I got to pick my professors and dictate my own syllabus. So if I wanted to learn, for example, about certain elements of distressed debt investing, I could go out there and schedule meetings with some of the best distressed debt hedge fund managers. And ahead of time, I would send them a list of questions, very in-depth questions, not the type of typical questions that they were used to getting from allocators. And I just really wanted to understand what it was like to be in their seat and do their job, really understand the nuances of their strategies. Not only do that, teach me a lot more about markets and their strategy, but I also got to really get to know them as individuals and how they tackle some of these critical challenges that they face in their business. So it made me much better allocator as well. Another big benefit of working at a firm like Wilshire is I sat alongside long-only analysts. As you mentioned prior to Wilshire, I was at a fund of hedge funds, and all we did was hedge fund investing. At Wilshire, we consulted to all strategies and asset classes. Sitting alongside my long-only colleagues gave me a much better understanding of how the long-only world operates, which made me a much better hedge fund analyst. And later when I went to HighMark and had the entire world in front of me, being a long-only investor also made me a hedge fund analyst, and being a hedge fund analyst also made me a long-only investor. So it ends up complementing-- the different skill sets and what you learn end up complementing each other quite well.

Robert Morier: And that's interesting. I mean that makes a lot of sense because if you think about just the evolution of the hedge fund industry, so many long-short managers, particularly 10 years ago or more, were introducing-- long-short managers were introducing long-only. So you had this blending of the two worlds, and that blending has been happening in all different areas of the market. I know, Tim, in your seat, you see that across the board. I am just curious. It's interesting. It sounds like you weren't asking the typical questions. I think that's a great way to get investment managers in particular off script. So as you found that off script, what did some of those off script moments look like for you when a process or the story of a process really resonated from an allocator's perspective?

Raz Der-Tavitian: I mean I think you really hit the nail on the head because the way the process works as you know is, first, you are introduced to a marketer, and you get to know the marketing message. Once you go off script, that's when you can really tell whether what's actually happening on the floor aligns with the marketing message that you've heard. And it also allows you to build a personal connection with the individual that you're working with. And I've gotten to know both analysts as well as the portfolio managers quite well on a personal level. And I think that's critical also. At the end of the day, you have to keep in mind that this is a people business. It's a service business. You're investing with people. And understanding how they think, how they operate, how well they work together is one of the critical aspects of the job.

Robert Morier: Well, you mentioned HighMark Capital. As we noted in your introduction and you just had mentioned as part of your previous answer, it was part of Union Bank of California, and you had full discretion in investing and selecting investment managers. I guess a couple of questions. Tim, I know you had a question about the structure.

Tim Dolan: Well, I'm more just curious with everything that's going on there, which started in the West Coast and now in Europe. Being a wealth management component within inside of a bank entity, I'd be curious to get your thoughts of what's going on in the banking environment, not from a regulatory standpoint or deposits, more just the wealth and management component that are tied to these banks. First Republic, as we know, is a big wealth management arm. Silicon Valley Bank with their acquisition of Boston Private. Can we get your opinion on working as an RIA within a bank, that kind of nuance?

Raz Der-Tavitian: Yeah. Each bank is different. At Union Bank, it was a separate ecosystem, so it felt like I worked for a small company within a large parent. But you bring up a great point that banks, historically, have made money off of a net interest margin. And during the decade of post-financial crisis, when interest rates had really collapsed, that wasn't as viable of a business model. Both the interest rate environment as well as the regulatory environment created a lot of challenges for the traditional banking model, and they want to diversify their revenue stream, so fee-based income became a huge component of that. And these banks started to really focus a lot more on their asset management arms. I think what's going to be interesting is what happens in the current environment. I know that a large bank like a JPMorgan is going to make a lot more money off of a million dollar checking account that pays nothing in this environment than if they raise a million dollar in the fee-based account, which was not really not the case five years ago. It's still in development, and I'm curious what's going to happen to this dynamic between focusing on net interest margins and focusing on fee-based revenue. I feel like it's going to be a constant balance as they try to diversify their revenue streams.

Robert Morier: It makes a lot of sense. Thank you for taking us through that. Well, we're going to talk more about your investment management and manager research process in a few minutes, but would you mind just sharing with the audience a little bit more about SLK? Could you tell us about the business, your role in the organization, and what the objectives of the organization are overall?

Raz Der-Tavitian: Sure. So SLK has been around for six months. We're a young company, but we manage a billion and a half in assets, which is probably very atypical for a company that's been in business for six months. And that asset base really comes from the partners at SLK who are some of the top producers at Wells Fargo Advisors on the West Coast and consistently ranked amongst the top-tier financial advisors by Forbes and a lot of other ranking companies. So they've had these relationships and these clients for decades and decided, a year ago, that they wanted to go independent. I joined the team last January while they were still a part of Wells Fargo. I actually did not know at the time that they had plans to spin off and go independent. And they sat me down, maybe four months into the job, and said, hey, we've been wanting to do this for five years, and we finally feel like we have the right team to go out and do this. And I felt like I was a kid in Disneyland, and that feeling hasn't left me since. Leaving a bank, it is great. There's a lot of positives of working with a big bank, but in this business, once you go independent, it really opens up your flexibility on how you can serve your clients. And our advisors have always been focused on doing what's best for the client. And I think we are far more capable of doing so now that we are independent than when we were part of a large bank.

Robert Morier: Raz, can you touch on the relationship that SLK has with Sanctuary Advisors? We understand that you work with them, whether it's from a broker-dealer standpoint and your registration, but they have a number of RIAs across the country, in their network. Just for our listeners that might not know Sanctuary, what does that relationship look like? And what tools do they bring to you and your clients?

Raz Der-Tavitian: So when you go independent, there are a couple of-- it's like a spectrum of how far down that independent route you would like to go, and we decided to go down the path of what's called "supported independence." We really did need support, particularly, in a lot of back office functions, management functions, like HR, tech, and that's really where Sanctuary is critical in how we operate. In short, it allows us to focus on the areas that we want to focus on, which is managing our client portfolios and focusing on the investments, and having that support from Sanctuary really alleviates a lot of the other things that tend to take up a lot of the tension of the business.

Robert Morier: Stepping into the CIO role, Raz, at SLK, you're now taking a more holistic view of your clients asset allocation decisions and how the firm, independently, is looking at various investment options. So what are you seeing right now just in terms of opportunities as we start from the top-down and then dig into the bottom-up aspect of the manager research selection process? What is the opportunity environment look like today? And how do you originate or come to those decisions?

Raz Der-Tavitian: So I start by categorizing that we're in the middle of a regime shift, and I don't say that lightly. If you think about what's worked in the past decade leading up to 2021, we were in a period of easy monetary policy, and a lot of the strategies that work then are facing challenges now. And I think we're in the early innings of those challenges. So it's very interesting to be in my seat where you're looking out at the world, and you can't just look at what's performed best over the past 10 years because that's not a good representation of the environment that we're heading into and the environment that we are in. So from a very top-down level, let's start with equities. The focus of our portfolio right now is on price and quality. It sounds like it's common sense, but it didn't really work out that well post-financial crisis. Post-financial crisis, you could be a company that has no revenues but has a pretty cool idea, and you're going to raise money, and your stock can skyrocket as that idea starts to catch on. We're now in an environment where the market is starting to ask you, how much cash are you producing? How profitable are you? How stable are those cash flows? And it's exciting because there is a whole segment of the market that I feel like has been overlooked over the past decade. And despite some of the challenges that we might have about the macroeconomic environment, when you can buy a portfolio of very high-quality, large-cap stocks at 10 times earnings, that is still growing, where management is still buying back shares, so that's an environment that we're very excited in the value that we can add to how we allocate to the space. On the fixed income side, that's probably the area that we've had the most amount of change over the past year. If you think back a year ago, it was a low-rate, tight-spread environment. And we all know what's happened to interest rates, both the level of interest rates, volatility of interest rates, as well as what's happened to credit spreads across the board. We have increased our duration, heading into the year, to interest rates. A lot of that was because should the fed over tighten, interest rate duration is going to be your best hedge to your equity portfolio. So we decided to be more neutral on duration from underweight stance, and we also decided to be a lot more selective in how we take that credit risk. And all of this is done through managers, but we wanted to be very careful, particularly of our BBB exposure to investment grade corporates, which I like-- if we face some headwinds when it comes to corporate profitability, the BBB segment can really face a lot of downgrades and can be stressed pretty quickly.
So rather than focusing on our BBB segment, investment grade is much higher in quality, and we're also focusing on credits that are not economically sensitive or not

as economically sensitive as corporate, so a little bit more of a overweight to structure products in this environment. The third component of the portfolio is alternatives, which is really my background and what I'm most excited about implementing. We have a 25% weight to alternatives across most of our client portfolios, which I think is much higher than most of our peers. That part of the portfolio made me look like a rock star last year. And at the end of the year, I had to of caution people, hey, this was a great year, don't expect this every year. Here are the merits over time, but I don't want you to-- that portfolio was up 13% last year despite the fact that almost everything was-- stocks and bonds were down. And it's a very simple objective of what we're trying to do within alternatives. We're trying to, essentially, be a third leg to the stock and bond stool. And we're trying to generate returns that are independent of any macroeconomic events, that are independent of macroeconomic risk factors, which we define as economic growth and inflation. And we're also trying to find strategies that are also unique to one another. So you get a lot of this diversification benefit that not only are you creating a return stream that's offering a lot of diversification potential to your stock-bond portfolio, but the volatility of that return stream is reduced because the strategies themselves complement each other quite well.

Robert Morier: You touched on, briefly, within fixed income and now alternatives, looking at managers and allocating to managers to express those allocations. Is that the same for equities as well? Are you picking individual securities there? Are you using managers in the US or outside of the US?

Raz Der-Tavitian: On the securities front, international, we do use managers. Most of the US large-cap and small-cap is done in-house.

Robert Morier: So let's dig deeper into that, the manager research process. What are the sort of things-- just from an underwriting standpoint, quantitatively, we can all agree on MPT statistics or whatever it might be, but you touched on, at the top of the call, the certain questions that really get deeper, the second level, if you will, third level type, questions. What does your manager research process look like?

Raz Der-Tavitian: So off the bat, I'll tell you what it's not, which I think differentiates us. It's not based on recent performance. And recent performance, I'd even categorize as five-year performance. All the research is quite clear that chasing performance destroys a lot of value over time. And if you want to use performance at all as a metric, by what hasn't worked over the past five years, and that tends to get us very excited. We've invested in managers that have had some of the worst five year periods in their history, and it's been actually quite helpful, beneficial for us. So I break down the process into two. The first has nothing to do with the manager. The first is you have to understand the market. If you want to invest in a manager, you're essentially investing in a strategy that they're implementing. And in order to understand whether that strategy is appropriate, whether it works, you have to understand the market that they're investing in, and you have to understand what are the inefficiencies that market presents, what type of strategies can best take advantage of those inefficiencies. Once you have the strategy in place, then you go out there and do the work on the manager. And it also saves a lot of time if you think about it. Because if you have a thousand managers in a certain category, once you've already narrowed it down to what strategy you're interested in, you narrow it down quite a bit, so if you really focus on the ones that you're interested in. Once you've picked the category and, say, you have a short list of managers, I'd go back to that point I made earlier, that you have to keep in mind that this is a people business and you're investing with people. People respond to incentives. So what is that individual's incentive? What is that team's incentive? And how well do they work together? One of the key questions I always ask is, how much of your own money do you have invested in the fund? You'd be surprised that a lot of managers don't have their own money invested in their fund. So if what you're running is not good enough for your money, then why is it going to be a good strategy for me or my clients? And by the way, we hold ourselves to that same standard. Everything that we own-- if you look at our investment portfolios as advisors, it mirrors what our clients are invested in. And I tell our clients that that's the only way we know how to do business. When you celebrate, we celebrate. When you feel pain, we feel pain. We're right there alongside you. If an idea is good enough for us, it's good enough for you, and vice versa. So one of the most important questions is, how much of your own money you have invested in the fund? Then you also want to-- going back to that point on incentives, you want to look at team stability. You can't really succeed as a people business, as a team, if you have a lot of turnover. So are people being compensated fairly? Is there a high level of retention across the staff? Are assets are stable within the firm? We don't want a firm that's going gangbusters because then you're really focusing on ramping up, rather than focusing on the portfolio. You also don't want to focus on a firm that has had a significant amount of assets leave the door last year because now they're more in survival mode. The analyst team might be starting to think about finding another job, which, obviously, doesn't serve the purpose that you want. So really, at the end of the day, it goes down to understanding people, understanding incentives, and understanding the strategy that they're implementing and if it's appropriate for the market that you're investing in.

Robert Morier: Raz, just getting back to the equity side of the book, it sounds like from an external perspective, you're looking at non-US, so mostly international IFA, emerging markets. You mentioned quality. I'm just curious, maybe putting yourself in the seat of an asset manager who utilizes quality as part of their process, how do you define quality for non-US equity? So I'm shining the spotlight the other direction in a certain way. You mentioned stability of cash flows, which makes a lot of sense. And I think that's something we hear quite often, but I think for our managers who are listening in, trying to understand how you think about quality relative to what they're doing, would be very, very helpful.

Raz Der-Tavitian: I think you touch on an interesting point because quality means-- it's different things to different people. And there's been a lot of research as to what is quality, what type of quality works, why it works. It's probably the one component of investing that has a lot of varying opinions. A lot of people agree that buying a company below its intrinsic value, cheaper than what the market is trading at, is a good strategy. But when it comes to quality, some of the things that I really like are stability on both revenues and earnings. How profitable is the company, and how stable is that-- are those profit margins? The amount of leverage on their balance sheet, I think that's critical in this environment. Given what's going on to debt markets and interest rate markets, you want to make sure that you have management teams that are prudent with how they use leverage. It's also a reason why we're avoiding those BBB companies within credit because a lot of companies binged on the cheap financing boom, and now they're teetering between a BBB and a BB rating, so you want to be careful from management teams that have been a little bit too excited about levering up their balance sheets. You also want to invest in high quality management teams. So what does that mean? You want to invest in management teams that are returning capital to shareholders. That, historically, has been a great strategy, both in terms of dividends and in terms of share buybacks. It says a lot about the type of individual that they are. Everyone's tempted to build empires and reinvest that capital, that they feel like they're overconfident in their ability to best deploy that capital. So for a management team to go out to the market and say, hey, we made a lot of money last year, and we do have a lot of great ideas, but I think that this money is better served in your hands, and you can make a better decision of how you want to utilize it, so I'm going to return it back to you. I think that's a big indication of quality of management as well.

Robert Morier: That's really helpful. Thanks so much. Would you mind breaking down-- you mentioned 25% of the asset allocation mix was private-- I should say, alternatives, rather. Would you mind breaking down that 25% for us? What is the mix look like in your alternatives book? And what are some of the areas that you're focused on now, coming out of, as you said, a higher allocation? Maybe you might be taking that down a bit or you may be looking to expand it. We'd love to hear what you're thinking in terms of that allocation.

Raz Der-Tavitian: At a very high level, I'd characterize it as liquid alternative risk premium. It's not so much alpha-driven, it's more what are-- if you think of equity risk premia, interest rate risk premia as your two dominant components of the portfolio, what other risk premia are out there in markets, be it asset classes or investment strategies? We are diligently staying away from longer lock-up vehicles in this environment. So that's one area that we're not excited about. When I started in this industry, locking up your money for 10 to 15 years was viewed as a bad idea, or at least as a negative as a cost that you're paying, and you demand some type of a premium for that. And being on the side of the business, I see a lot of individual investors very willing and excited to lock up their money because private equity or private credit has been the sexy part of the investment landscape. But when other people are very excited about something, we tend to be cautious. And when everyone else is running away from an area, we tend to be running towards the fire. Because at the end of the day, it's all about supply and demand. And if you want to-- the name of the game is pretty simple, buy low and sell high. You buy low when there is a whole lot of demand for something, and it increases in supply. And you sell high when everybody else comes around to it and thinks that it's a very exciting space.

Robert Morier: That's interesting. Thanks so much. Well, I assume you're not a one-man band. A $1.5 billion startup is usually means you probably have some resources behind the effort. So what does the team look like in terms of how you cover all of these various asset classes and how you work with your underlying clients?

Raz Der-Tavitian: We have six investment professionals. Three of them are the main advisors, and most of their time is spent on working with the clients and constructing client portfolios. We also have an investment analyst on staff, who is an extremely bright guy out of Stanford, was captain of the volleyball team. So that, I think, tells you a lot about his work ethic. He ends up putting me to shame sometimes. There's myself, and we also have a dedicated portfolio manager who runs a specific closed-end fund strategy. He's been doing that for over 20 years, has a fantastic track record in doing that, and it's one of the differentiated offerings that we are able to put to market because as you know, active closed-end fund management is-- going back to that supply demand concept, there just aren't a whole lot of people that are doing that, and it creates a lot of inefficiencies in that space.

Robert Morier: That's great. That's very helpful. Thank you so much. Maybe just as we get close to the end of the conversation, I think just given everything that's been going on in the markets, it's, I think, a useful time just to ask again about how you think about risk management and governance as it relates to your fiduciary responsibility, working with clients, and of course, your role, working with asset managers. So as you're talking with your asset management partners and then, ultimately, your clients, what is the conversation looking like today in terms of how risk management is being applied to what you do day to day?

Raz Der-Tavitian: I think you have to really be careful. You have to be very diligent in how you think about risk. Because there are a lot of different things that might be correlated to one another that might not be apparent on the surface. So you have to really distill it down to first principles of what is the core driver of a short-term investments performance. Is it related to any form of macroeconomic event, macroeconomic outcome? So not to count on private equity too much, but in private equity, if you look over a decade, it's going to correlate to public equities. That's because both public stocks and private stocks are going to be correlated both to economic growth and also the interest rate environment. They're both companies-- they both-- private equity more so use leverage as one of their financing tools. So you have to think about more longer term at a cyclical level. What are the macroeconomic risk factors that affect a certain asset class? And try to diversify as much as you can but also maintain a high level of conviction. A lot of people think diversification is a dirty word, means that you're not convicted to anything. We're very highly convicted in every strategy that we implement. We have a very high bar, a very high threshold to invest in a strategy. We're also trying to find 5 to 10 ideas that we have an equal amount of high conviction in that complement one another. And I think that's the best way you're going to go into the environment that we are in, which has a lot of macroeconomic uncertainty. You're seeing inflation that you haven't seen for 40-plus years. Feds taking actions that they haven't taken for a very long time. So you want to maintain a high level of conviction, but also be prudent in not over concentrating in the specific outcome.

Robert Morier: Raz, thank you so much. That was a very interesting, and it was a very insightful conversation. Definitely, for us. I'm sure for our audience as well. So thank you for taking time to be here with us today. Thank you for sharing your insights and your career journey. Congratulations again on all your success.

Raz Der-Tavitian: Great, guys. Thanks. And it was great seeing you again.

Robert Morier: Absolutely. Well, if you want to learn more about Raz and SLK Private Wealth, please visit their website at www.slkprivatewealth.com. Or you can find this episode and past episodes on Spotify, Apple, Google, or your favorite podcast platform. We are also available on YouTube. If you prefer to watch while you listen, I encourage you to watch and see Los Angeles over Raz's shoulder. Once again, you can tell I'm envious. And finally, if you would like to catch up on past episodes, check out our website at www.dakota.com. Raz, thanks for joining us again. Tim, thanks for being here. And we'll see you soon.