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EPISODE 20:

Home Country Bias with Ernst Knacke

Head of Research for Shard Capital

Robert Morier: Welcome to the Dakota Live! Podcast. I am 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, sales leaders, 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 their Dakota Live! content, please check out dakota.com to learn more about their services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. 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. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or a recommendation of the investment advisor or its supervised persons by Dakota. This episode is sponsored by Dakota Studios. Looking to take your marketing to the next level? Look no further than Dakota Studios, the premiere video production studio located in the heart of Philadelphia. At Dakota Studios, we take the pain out of marketing and video production. You don't have to worry about traveling to a studio or not knowing what to say. Our experienced investment team knows just the right questions to ask to bring your story to life. We specialize in creating high-quality, engaging video content that captures your brand's unique voice and message. And with our state-of-the-art studio, cutting-edge equipment, and experienced team of professionals, we ensure that your videos are always up to date and effective. Don't settle for less when it comes to your brand's marketing. Partner with Dakota Studios, and experience the power of great video content. Visit our website today at dakota.com/dakota-studios to learn more and book your session. I am always happy to introduce you to my partner on the desk, Chris O'Grady.

Chris O’Grady: Great to be here.

Robert Morier: It's good to see you, Mr. O'Grady. Thank you for being here. We appreciate it.

Chris O’Grady: Always. Any time.

Robert Morier: Dakota has been spending a lot of time in London recently. So you and the company have been going overseas more regularly. The database is growing. Your clients are growing. How has that been going for the business?

Chris O’Grady: Well, we started the database to really assist managers to kind of punch above their weight. And distribution need not be expensive. You're a distribution background, as am I. But we always thought one of the really applicable usage cases, or use cases, would be non-US managers, in a very cost-effective way, to identify buyers in the US. And that's really why we go over to the UK. And, Ernst, we mentioned pre-call that we're going to host a cocktail event, I think, in the next six weeks over there. And really, I think there's a lot of great-- I mean, the UK is chock full of great managers, and obviously Western Europe, that just look over across the Atlantic and say, there's got to be a lot of money there. Where do I start? And I've known a lot of people from other firms that have come over to serve the consulting community, come over. You get your consulting meetings once a quarter. But there's so many other places to see. So we're excited about that. You were going to ask me about Europe. And I haven't been to Europe in a while. But my daughter is going to be going to Florence in the fall, which, as a father, I'm scared to death. But, Ernst, I want to, in case she goes to the UK and gets in a little bit of trouble, I've got to make sure I got your email and phone number. So I'm trying to make connections in every country, so if she winds up doing something stupid which, if she's anything like her father, she's going to do something stupid.

Robert Morier: Well, Ernst is a good father. So he'll keep an eye out for her.

Chris O'Grady: Good.

Ernst Knacke: I can try. I can try. I don't promise anything.

Chris O'Grady: No, just, she gets her one call, and it's going to be to you if she's in London.

Robert Morier: Well, this is an exciting day for us because Ernst Knacke, our guest today, is our first international guest. He is dialing in from London. Ernst, it is very nice to have you here. Welcome to the show.

Ernst Knacke: It's great to be here, Rob. Really looking forward to speaking to you and Chris and all your Dakota listeners.

Robert Morier: Well, thank you. Well, Ernst Knacke is the head of research for Shard Capital. Ernst, we have a lot of questions for you that we're going to try to squeeze in in the next 30 to 35 minutes. Before we do, I'm just going to let the audience know about your background very quickly. Ernst Knacke is the head of research at Shard Capital Partners, as well as its subsidiary, LeifBridge Investment Management. Shard capital is a leading wealth and asset manager advising over $1.6 billion. Shard offers investment dealing and capital market services to private, corporate, and institutional clients. They support clients to achieve a broad range of objectives through highly tailored services, backed by a diverse and expert team. Founded 12 years ago as an institutional fixed-income broker, Shard Capital has evolved into an organization with over 100 professionals and a presence in the UK, Jersey, Ireland, and Singapore. LeifBridge is a private investment firm established with the primary focus of managing the investment needs of US citizen expats. Their highly tailored service, together with their expertise in this area, allows them to implement portfolio strategies, which integrate all aspects of global multi-asset investments while considering other complex issues, including cross-border tax. Prior to joining Shard Capital, Ernst spent 12 years with Quilter, previously Old Mutual Global Investors, in both their multi-asset and, more recently, the discretionary wealth management business. Before joining what was then Old Mutual in 2008, Ernst spent two years at Goldman Sachs and Morgan Stanley in London. He has a BS in mathematics and a BS with honors in financial engineering from the University of Pretoria in South Africa, where he is from originally. And he is also a CFA charterholder. Finally, Ernst calls London home, where he lives with his wife Marta and their two children. Ernst, thank you for being here. Congratulations on all of your success.

Ernst Knacke: It's a real mouthful. Thanks. Thanks, Rob. Like I say, it's an honor. Looking forward to it.

Robert Morier: Well, you flew in last evening from your home country of South Africa, Rugby World Cup champions. This year's World Cup is going to be held in France. Are we going to see you in a Springboks jersey in Marseilles in September?

Ernst Knacke: You bet, you bet. I have my tickets. And I'll be there with my green and gold. I don't know how familiar you guys are with rugby. But if you haven't seen France or Paris, it's a great opportunity. And see some great games, as well.

Robert Morier: Yeah, well, I think they're coming into it ranked fourth, I think, in the world, if I remember correctly. So even though they won the last World Cup, they dropped a couple pegs in the rankings.

Ernst Knacke: Ah, I don't think that will matter. I don't think that'll matter. Rankings are just statistics.

Robert Morier: As you think back, you had mentioned actually you had played rugby as a younger person. I'm always curious of people who have played sports, particularly organized sports, what influence did sports have on you growing up as you think about your early days in and around Pretoria?

Ernst Knacke: I think it's been enormous. You will agree, and listeners will know, that a team sport is, it's about the team, right? It's about picking the right individuals in the right places. And a winning team is rarely made up of a group of superstars. I'm not sure if you know PSG, the French football team. They went out, and they literally bought a bunch of superstars. But their trophy cabinet is rather empty. And so I think looking back at my journey and my experience through sport, I think what it taught me is that in order to be successful, you need to achieve certain objectives. And in order to achieve objectives, you need the right people in the right places.

Robert Morier: That makes a lot of sense. I appreciate that. And it's helpful for our audience as we're getting to know you and your approach to life and your career. Well, one of the other differentiating attributes of yourself is that you did grow up in South Africa. You're living in London now with your family. But as you think about the transformations you've seen and experienced in your lifetime, growing up in South Africa, having moved to a new country as an expat, you're advising expats now as part of your responsibilities with Shard and LeifBridge. How have those experiences impacted the way that you approach your life and your career?

Ernst Knacke: There's so many emotions. And there's so many different levels at which one could answer this, right? As you know, I grew up during the apartheid regime. And I was part of a truly privileged society within this regime, not knowing that the cost of that privilege was arguably immeasurable to millions of people. And as I grew older, I realized the immense inequality. And it was really a manufactured inequality as a result of racial oppression. And even though apartheid was abolished and President Mandela was released out of prison when I was only 10 or 11 years old, I still feel guilt. However, it's an experience. And it's my experience. And like any experience, you can take positives and negatives from those. So I've thought of a lot about this over the years. What are the unintended consequences of this experience? And one is confidence. I'm not sure of how many South Africans that grew up in this privileged society you know, but they tend to be rather confident. And confidence is a real asset if you use it in the right way. One of the other aspects that I think that has stuck with me and especially, I guess, amplified through my career is the importance of aligning interest. Whether as a team or as a society, having your interests aligned is crucial in order to achieve objectives and successful outcomes. And then, finally, I think I always try and teach my children that life is not about what we are owed or what we deserve. It's about the consequences of our decisions. And whether that's individually or collectively or knowingly or unknowingly, making the right decisions will have significant consequences. And we need to consider those.

Robert Morier: Well, like a lot of South Africans interested in finance, it sounds like that confidence with others took you off to London. You pursued a career beginning with Morgan Stanley and Goldman Sachs. And you did quickly move into a manager research role with Skandia Group. So what were those first few years like for you, coming into a new country as an expat, having to find your footing inside and outside of the office? And what were some of these experiences that you took away in that manager research role at a relatively younger point in your career?

Ernst Knacke: Being dropped in London, you know, it was lonely. It was scary at times going into this world of 12 million people. And I really felt like I was all on my own. I didn't have a lot of cash with me. But I had a good education and confidence. And as I mentioned, confidence can be a real asset, right? And I think that's the great ability of humans, is our ability to utilize the assets we have and survive any experience really or survive anything that gets thrown at us. So it was tough, those initial years. But the foundation was really laid when I joined Skandia. And as an investment analyst, the process that was ingrained in me of how to look at investment managers, how to identify investment opportunities, what does good look like relative to bad. So you know, it was tough. But it was required, I guess.

Robert Morier: As you think about that, those lessons that you learned at Skandia and then taking them into Old Mutual and Quilter, I mean, you were there for over 12 years as part of their multi-asset team, responsible for manager allocation and selection, among many other things. I'm just curious, because it's a long run in manager research, you've been doing it now successfully for a long time, what attributes in asset managers have you prioritized over the years as you consider an allocation to a strategy? So what are those core characteristics that always sit at the top for you when an asset manager calls you for the first time? And I ask it in the context of your experience because I'm just curious, over time, have some of those attributes become a little less important? Have some moved up a little bit more? For example, governance may not have been something that we talked about as openly maybe 12 years ago. But nowadays, it's at the front of our conversation. So we'd love to learn a little bit more about what types of attributes you look for in asset management partners.

Ernst Knacke: I think I was very lucky in that the opportunity that I was given with Skandia as a junior analyst, it really laid the foundation. And we looked at - we called it a 4P process. We looked at performance and people and the process and the philosophy. And there was an organization resources part to that, which included governance. So I think it really laid a good foundation. But to your point, as you go through this journey, you realize that there's certain factors that are more important than others. One of those is something like performance. I try and really detach myself from recent performance when analyzing a manager. Performance is more of an indicator of what has happened rather than confirmation of a competitive advantage. And I think what I've realized is that, again going back to that idea of alignment of interest, it is crucial. And alignment doesn't always have to be monetary. It could be emotional. And often, alignment is an emotional factor. So having an individual or a team that is passionate is crucial. Having, again, a team and individuals that are aligned and all working towards the same objective, I think those are crucial characteristics. And then the other would be longevity and sustainability. And I don't mean sustainability in the modern-word context, but sustainability in the competitive advantage or the skill that a manager has. I believe that luck is a cyclical factor, can go against you or for you. But skill is structural. And going back to that idea of detaching yourself from performance in the near term, if you identify an individual or a team or even a computer with a sustainable competitive advantage and you partner with them for the long term, there will be periods of bad luck. And there will be periods of good luck. And periods of bad luck tend to be buying opportunities even though performance might look bad. And periods of good luck is perhaps an opportunity to take some profits off the table and allocate elsewhere. But it's really identifying that skill, sticking with the manager, and making sure that the interests are aligned in the long term.

Robert Morier: That makes sense. Thank you for that. Well, take yourself back to 2020. You're in the middle of a pandemic. You think to yourself, hey, let's try something different. So I would say congratulations for making the move after a long time. But it was an interesting time to make a move, if it wasn't forced. So how do you think about the move to Shard Capital? What prompted the relocation? And what did you see in the role that was exciting for you?

Ernst Knacke: Yes. Yeah, Shard started off just over a decade ago as a corporate finance business, really a fee-orientated corporate finance business. And over time, the owner and the board transitioned the business from this fee-based business to a annuity-type model. And they have a very successful venture capital business, private debt business. And about three or four years ago, they decided to enter the outsourced CIO private wealth and private client universe. And they contacted me. And the reality is, Robert, it was a blank sheet of paper. They had a vision of how to manage money, how to achieve these objectives. It aligned with my philosophy of investing and allocating capital. And they asked me to join them and create this investment process. I can tell you now it was very tough to say no. It is a very tough journey. But it was a wonderful opportunity-- really, really good opportunity.

Chris O'Grady: Ernst, can you talk about, what's the best way for an asset manager to think about-- here we are in the States. There's a huge advisory network, independent RIAs. Obviously there's quite a few over in the UK. But how does a US investor think about your practice and how you look at managers? Obviously there's got to be a structural need to invest in a non-US manager-- or a non-UK manager, I would think. So just walk us through a money manager wanting to penetrate the UK advisory market. What advice do you have? And then through the insight of Shard, really expound on that advice.

Ernst Knacke: So one thing I would say is that if you're a money manager or asset manager over in the US, you don't just come to the UK and start selling the product. You need to either partner with a distribution channel or third-party distribution marketing business over here in the UK that has a network that they can introduce you to. Or you need to, I guess, make sure you have individuals based here that can service the needs of the individuals here. I find that very often an American firm with-- perhaps they have institutional clients all over the world. But then they want to access the retail market, the wealth management market, which is a very large market. And they come to the UK, and they just don't get meetings. They don't get any traction. And three years later, they close down their UCITS fund, which they launched on the back of hopes of success. So I think it's very important they plan the distribution of the product correctly. As for the quality and the characteristics, I don't think it differs that much anywhere in the world. Ultimately what investors are looking for is a manager that can offer them repeatability of positive outcomes. And I don't think that differs too much. And ultimately, that can be achieved by anyone. So I would say if you do have confidence in your own ability, just plan it. And make sure you target the market in the right way. Rob is probably the right person to ask this question to, given his background and experience.

Robert Morier: Well, it's funny. As you were talking, I was thinking, just in terms of vehicles, one of the challenges in the US market is we're thinking about retail versus institutional as the type of vehicle that you have to offer relative to what the buyer needs. So I was actually thinking it as a question to you too, Ernst. So as you're thinking about it from your seat, if a US manager is calling you potentially and has some presence in the UK, either existing clients or some type of distribution partner, what are the vehicles-- because to your question to me, it used to be, go home if you don't have a UCITS fund, and come back when you do. Even if you have a separate account business, it's not going to work for us unless there's a UCITS platform. Does that still hold true from your perspective, sitting in your seat, as you think about what's necessary from a vehicle perspective before making that call to you?

Ernst Knacke: I think what has been really eye-opening is managing money for Americans because obviously it's not a DuPont. But you shouldn't invest in a UCITS fund if you're an American national, because of your tax rules and so on. So all of a sudden, that restriction opened up a new world to me. But if I look at the majority of assets in the private client and wealth management space in the UK, the usage requirement is becoming more and more ingrained onto that cohort expectations. But the reality is without a UCITS vehicle, gaining any traction is very difficult. It's not impossible, but it's very difficult. Now, I think where our business do have perhaps a differentiation is that we have a need to access other vehicles. And accessing those other vehicles might allow the money manager to start to establish a presence over here whilst managing money for, perhaps it might be Americans through an existing vehicle.

Chris O'Grady: In terms of your firm, Ernst, just give us an overview of asset allocation. I want to get in deeper into a non-US investor's vision of the US or perspective of the US. But talk about investor comes, plunks some money on your firm. What experience should they be getting? Is it 60/40? Is it nothing like that? I know the thing that we know about Europe is big ESG investing community, big into global investing, big into managed futures. There's a lot of just really nuances that seem to be ingrained. So just walk us through what the experience at Shard would be if an investor were to give you money.

Ernst Knacke: So the first thing I would say is that 40, 50 years ago with interest rates at 15% and PE ratios at 5, the 60/40 model made complete sense, especially given the opportunity set in terms of vehicles and access to those. In the world we live in today, and at least for the last two decades, the 60/40 model doesn't make sense. And I don't know of any firm here in the UK that offers a balanced proposition that is effectively benchmarked against the 60/40 model. So I think the UK has definitely moved away from that. Whether they've sufficiently moved away begs the question. Personally, I don't think so. If you look at our model, we probably have as much as 50% in what you might define as alternative assets, looking at those managed futures, private markets, infrastructure. And I don't see why you would necessarily constrain yourself to stocks and bonds in this world we live in today, especially given the valuations, right? But generally speaking, I think the UK is significantly further ahead in terms of diversifying that stock/bond portfolio into alternative assets for the majority of individuals. Perhaps institutions-- well, I know institutions are otherwise, right? Institutions over here are just as savvy as institutions in the US. But from a private client and retail market perspective, I think the UK is significantly further ahead.

Robert Morier: As you think about those managers-- so if you could take maybe a top-down view for us of the manager research and selection process into the bottom-up-- how large is the team? How are responsibilities allocated amongst you all? And we would love to hear a little bit more detail as to what that manager-research process looks like in terms of underwriting a new manager that comes into your ecosystem.

Ernst Knacke: So look, I think we're a relatively young business. But I think we are a model for the future. We're now five individuals on the team, investment individuals on the team. And I see all of us as generalists. I don't think we have a specific specialty. Personally, I have a lot more experience and experience in specific asset classes and niches. But generally speaking, where the five of us are today is we're generalists. And we would use external parties either to gather information or collect data that will provide us with the necessary information that a specialist would. So I think in this world going forward, technology will become more and more important in both identifying opportunities, narrowing universes, but also providing us with information that is perhaps otherwise identified by a specialist. So we are generalists. We have a relatively wide, diverse asset allocation framework. And what I always try and remind our team of is that we want to partner with specialists that have that skill and that competitive advantage. And we want to partner with them for the long term. So we'll probably spend a little bit more time on due diligence, months rather than weeks. But then the investment time horizon, I always think of, it should be decades. There shouldn't be a time horizon attached to the investment. It should be, the condition attached to the investment, that once we either realize we're wrong in our decision or something happens that means that that competitive advantage is not there anymore, that's perhaps when you make a change. But otherwise the time horizon should be really long. And when we allocate capital, let's take for example, allocating capital to a US small cap manager. This manager is our eyes and ears into the US small cap space. I'm not going to be able to get the information myself that he's going to be able to collect. And that doesn't necessarily mean that if he's very focused, very fundamental, I'm not going to get the right information. I can still get information through him that is super valuable in the asset allocation framework. So that allocation becomes a partnership. And I see that as a partnership based on trust and collective sharing of information, that is a truly long-term relationship, like you would with a colleague, right? So I think that's how we approach it. And that's how we try and look at the asset allocation, or the manager-allocation process.

Chris O'Grady: Yeah, no, it's a long-term-- long to hire, long to fire. The sales process does take a while. But there's small windows with great opportunities. Talk about, you're looking at a global perspective. I used to assist a firm out of Canada. And they always looked at things from a currency perspective. You know, obviously there's been a lot of volatility around the globe. There's been idiosyncratic situations obviously in your country with the pension scheme. As you look globally for your clients, are you seeing any near-term opportunities? Or are you waiting for a little bit more clarity on global monetary policy, credit, et cetera, et cetera? What are your thoughts? And if you had to allocate capital over the next six months to investment ideas, is there anything front-burner?

Ernst Knacke: We have a lot of capital in what I would define as idiosyncratic alternative investments. We have a lot in gold. We have a lot of in managed futures. We have quite a lot allocated to infrastructure, especially infrastructure that will benefit from this transition to net-zero. So we are quite nervous on traditional, remain there. We've been there for, what, since our inception really in 2020. And we remain nervous on financial assets, equities, and bonds. And we try and diversify as much as we can. There is, I think, a significant opportunity-- managed futures, I think, offers a phenomenal opportunity in the near term. It's always a great diversifier. But I think with the markets that I'm expecting to experience over the next three to five years, I think managed futures will offer a very attractive opportunity to diversify away from traditional assets. Private markets, I think, in many ways, private markets are not trendy anymore. It was trendy two years ago. But there is a long-term underlying trend in private markets that are not going away. So I think that opportunity remains attractive. And individuals should expect to allocate more when there's weakness. And then this world of digital assets. And it's not only digital assets, but I think innovation is-- the pace of innovation is accelerating. And you can find that in the overlap of technology and health care. I think that universe is very, very attractive. And then digital assets offer some opportunity. We don't know how, and we haven't allocated yet to that market. But again, I think that is a market that will offer opportunity to investors over the next three to five years.

Chris O'Grady: It's interesting you just said that. We've been talking to-- Robert and I have been talking to investors for a while. And the best way to understand something thematically is for what people say. And obviously the carnage that occurred in coins and certain exchanges for the crypto world has been headlines. But we're starting to hear more and more the last few weeks-- innovation of digital assets, which tells me that investors are licking their chops when there's a huge downdraft in a long-term trend. So it's something to keep our ears-- so obviously we've heard that recently from somebody, you, and then somebody on the East Coast of the United States. So that's quite interesting.

Robert Morier: Yeah, we actually heard this investor access digital through venture capital. So I'm just curious if there is an allocation currently to venture capital. And if so, what has that looked like for you all? And if not, could you see it taking the form of some type of digital asset allocation?

Ernst Knacke: Yes, the private equity market as a whole is fascinating at the moment. I think there's going to be so many developments. I'm not sure if you're familiar with Moonfare over in Europe, which is similar to Capital IQ over in the US in that they are creating these platforms for smaller investors to go onto and execute, effectively creating a secondary market for a universe that does not have any market in reality. So the reality is that liquidity will always be a problem, right? And individuals like you and me, we need liquidity. And we might not know when we need that liquidity. So that is a significant barrier, is the lack of understanding of when that liquidity or liquidity event might occur. That said, in the UK, we have investment trusts, which is a form of permanent capital. And then the price of-- it's a company. It's an investment company. We had to close an investment company. And the price of the company deviates from the net asset value. But ultimately, the managers can allocate that assets to any investment. And that could be digital assets. That could be venture capital. And we do have some investments in venture capital through those structures. It provides us with an exit route if required. And as it stands today, I actually think it's a little bit-- the market is too pessimistic on some of these venture capital and early-stage growth opportunities.

Chris O'Grady: You have a high-net-worth client base. What percentage do you like to allocate to venture capital? Because let's be honest, you allocate x percent of venture capital. You're not writing it off to zero. But you're like, this 5%, if it goes to

2, it's not going to ruin my life. If this 5 goes to 15, wow, there's a little bump in wealth. So how do they reconcile investing in something that's speculative, yet you're obviously in the job of finding the best speculators, for lack of a better word, in venture capital?

Ernst Knacke: Yes, yes. And that is the challenge, right? So we have probably, I would say, two investments that are early stage venture-- the one is really venture; and the other one is more growth capital-- both in these investment trusts formats. And they make up collectively-- again, depends on the risk appetite of the client. This is not a suitable allocation for everyone. But it makes up somewhere between, let's say, 3% to 5%, maybe a little bit more for some individuals. And I think, exactly to your point, that these are speculative. And ultimately there is significant upside potential. I think there will be opportunities-- there might be opportunities to further increase exposure over the next 6 to 12 months. I don't think the negative sentiment in financial assets and the hiking cycle that we have seen have run through the economy sufficiently. So that exposure could increase. It could go higher. But yeah.

Chris O'Grady: One of the trends we're seeing here in the US are the advisory firms, the wealth advisory firms like yourself, the clients are starting to really embrace private equity venture. There's a little bit more liquidity for them to access. There's smaller investment minimums for them to access. And it rounds out a portfolio. You have to be patient. I mean, we live in a world that you want to check your phone, you want to look at the ticker every five, 10 minutes. But when you invest in this stuff, just forget about it. You know, we'd all be better off. Rip Van Winkle is probably the best investor of all time. The guy invested, went to sleep, woke up, and was probably a billionaire. I think we all can learn something from that.

Ernst Knacke: That's very true. That's very true. And I think one problem I have-- well, it's not a problem, but it's like a pet peeve-- is that people invest in equities, listed equities. And you might take a position in Amazon or in Snowflake. And you go and you say, well, just because it's listed, you believe you need to trade. And that's not necessarily the reason, right? You buy it because you can see how this company is going to grow because there's a great management team that makes the right decisions to direct the business into the right direction. And so you don't necessarily need to trade just because it's listed. So from an equity perspective, there's no reason why you shouldn't see venture capital and listed equities in the same kind of bucket of equity. I think it is crucial, however, to find the right individuals to help you speculate because you and me might not speculate as well as a specialist.

Chris O'Grady: Well, it's that old joke-- I sent two kids to college trading stocks. Unfortunately they're my broker's kids.

Ernst Knacke: Exactly, exactly. And that is one of the-- I'm hoping that we could change this dynamic. That's one of the visions of our business, is that idea that you're sending the kids of the broker to college. The reality is that fee structures in the world we live in is still significantly biased and misaligned. And we should focus on that, right? And we can fix that, I guess, collectively. And we should fix that collectively.

Robert Morier: Well, we talked a little bit about early stage. And we talked about different channels. One of the channels that's growing increasingly important here in the United States is the emerging manager channel. So these are asset managers generally with less than $2 billion in assets under management, relatively young track records. And investors here in the US have developed essentially a marketplace for these emerging manager programs. Have you seen the same trends in the UK market? And is that something that you would engage in, like looking at an early stage? Let's say, like you said, US small cap manager that's recently come to market, maybe spinning out of a firm where they had an established track record, where do you see that fitting broadly from a geographic perspective and then specifically to your business?

Ernst Knacke: Rob, I would say we always joke-- me and my colleagues-- you can go to an American with a good story. And you only have to tell him 60%, 70% of the story, and he would say, OK, where can I put my money? When you're in the UK, you have to tell the guy 130% of the information. And then he would still be like, hmm, yeah, it's great. But I'm not sure. So that conservatism over here, if you don't have a UCITS fund, you don't have a three-year track record, you don't have 100 million, it's very difficult. And that's sad. That is sad, right? But that is often a barrier for managers to get across. But that doesn't mean there's not opportunity. I mentioned managed futures earlier. And I got put in touch with a team-- they literally started the business in September-- via our CEO. And it's a phenomenal product. It is a market-leading product. The problem is they have no track record. They have no assets. So if you can identify these exceptional opportunities at an early stage, there is potentially significant benefits of partnering with those at that early stage and partnering with them for the long term. Sadly we don't have these platforms that you have in the US. And I think that is an opportunity for someone to come in and perhaps create that platform.

Chris O'Grady: Ernst, you talk about managed futures. I mean, listen to your portfolio-- idiosyncratic credit infrastructure, which is definitely an inflation hedge-- you get some duration-- gold, which is nice. But manage futures, digital assets, it's a very-- I'm not going to say eclectic. It's probably going to be something that will be considered mainstream. Managed futures have always fascinated me, whether it's short-, intermediate-, or long-term trend. They kind of go through these dark periods. And then they work really, really well like last year. How do you have that conversation with clients, saying, look-- but it's a cheap way to put a variance hedge on. It's not like you have to roll volatility puts every quarter and just watch premium go out the window. But it's something about the UK, something about the European investor. There's some great, obviously, managed-futures managers we know out of Ireland. What is it about that that really takes effect in that part of the country-- that part of the world, I should say?

Ernst Knacke: So I think there's a couple of factors, Chris. One is, if I can just focus on the risk side of this equation, is that single-manager managed-future risk is very significant. You can get drawdowns of 20%, even 30% in a space of a week. And the programs are created in such a way that it's not necessarily mean-reverting, meaning you can't just go and buy expecting it to go back. So these trend-following strategies tend to be very idiosyncratic and not necessarily mean-reverting. So diversification across a basket of managers is probably preferred. Now, a retail investor with a couple of hundred thousand pounds diversifying across a basket of managed-futures products is quite difficult. So how do we get across this? Well, we've identified certain strategies, certain replication products that I think is exceptional. So it is achievable ultimately. And then shifting over to the return side of this product, if you look over the last 20 or 25 years, they tend to offer attractive returns, especially in periods like last year, 2008, 2001. So these are periods when equity markets or bond markets have destroyed-- is down. And you're looking at your sheet, or the client looks at his report, and he sees everything is red. At least having one green line is-- emotionally, it is important. So that emotional consequence is that having a diversifier in a portfolio, I think, is important. The other factor is that if you look at the long-term outcomes in trend following, it's not too different from equity markets. It offers you probably about 6%, 6 and 1/2% return in the long term. And obviously it depends on the amount of risk and volatility you create in these structures. But ultimately you can create attractive long-term outcomes that diversifies away a lot of the risk from the traditional financial asset in equities and bonds. And I think that is the key difference in these products.

Chris O'Grady: No, it's interesting. I saw a stat the other day-- since 1996, the annualized rate of return of gold in the S&P have been 6 and 1/2%. Now, you're obviously not incorporating the dividends on the S&P. Maybe you don't incorporate the dividends, because you don't get them in the managed futures. But in terms of raw return, everything seems to be right around the same sphere of between 6 and 1/2%, to 7 and 1/2%.

Ernst Knacke: Exactly. And that 6 and 1/2%, 7%, that's a fair, let's say, long-term assumption for a lot of assets or baskets of assets, right? And if you can then go and say, well, I have these baskets, I don't have to allocate to 60/40. I can include these other assets into my basket. And then I can tactically be smart about it, right? When my equities are trading at 35 times earnings, then you say, well, let's reduce a little.

Let's take a bit of profits there. Let's go and allocate to this manager, which have lagged the market. Or let's allocate to that manager that has underperformed because of non-specific reasons. So I think you're absolutely spot on, that these assets offer attractive returns. And we don't necessarily need to constrain ourselves to the traditional 60/40 basket.

Robert Morier: Ernst, how about some of the more traditional relatively mature asset classes, for example emerging market equities or emerging market debt? They obviously have been relatively punished over the last few years, particularly emerging market equities. So as you think about some of those more beaten-down traditional asset classes, where do they stand in terms of your views on the asset class and where they fit in your clients' portfolio?

Ernst Knacke: Again, this is not investment advice here. I have realized, though, that if you speak to an American, he considers his equity allocation is probably going to be 90% in the S&P 500, if not more. That tends to be very biased towards that local country bias. Now, a local country bias exists everywhere in the world. If I think back to South Africa, right, the average South African has a South African equity basket and a non-South African equity basket. But outside the US, the non-local country bias is significantly greater. And that is especially true for the UK, where the average UK client probably has about, I don't know-- somewhere between, let's say, 40% to 60% of his equity allocation might be in UK equities. But often, he has a greater proportion invested in non-UK equities. I think one of the factors you mentioned earlier is the effect of currencies, right? So currencies and purchasing power of currencies, the consequences of inflation, I think these are all crucial matters to consider when allocating to non-local, local equities. And one of the reasons non-US markets have struggled so much is because of the strength of the US dollar. And because of the strength of the US dollar, more and more investors have gone and said, well, actually I need a little bit of Alphabet. Or I need a little bit of the S&P. Or I need a little bit of Apple in my portfolio. And that reinvigorates the strength of big tech and the S&P 500 and the relative outperformance. And at some point, the wheel will turn. And investors just need to be ready when that happens. And having such an extreme bias towards local country exposure is not necessarily the right position. Indeed, we believe especially Asian markets is a very attractive opportunity, not-- even excluding China. Japan is a phenomenal opportunity. I think India is a phenomenal opportunity. And investors need to be open. But the currency factor needs to be considered alongside the allocation.

Chris O'Grady: And obviously, Robert, your background with your firm with an EM exposure, I mean, people ran from emerging market equities in 2002. And that's when you were-- you don't want to run into a fire. But investing, sometimes you want to run into a fire. And I think Southeast Asia, Japan, all these countries are offering a ridiculous opportunity set from a long-term valuation perspective.

Ernst Knacke: It would be interesting. Have you guys noticed the significant local exposure bias when you speak to clients or allocators over there?

Chris O'Grady: Well, I mean, it's a US-centric view of the world. It's mid-cap, small-cap, large-cap. It's private credit. The allocations to non-US are really captured in the All Country World Index or the MSCI. I know the endowments, foundations want to really find local feet on the ground, and in India, in Japan, in Southeast Asia. China has got its own tricky conversations. But here in the US, it's a dollar-driven world. And we think in terms of the dollar. And that's why it's wonderful to read the Financial Times and to speak to folks that aren't domiciled in the US.

Robert Morier: Yeah, and I think also, too, the history. Non-US equities, if you think about non-US equities as part of an asset allocation model, it's only a 25- to 30-year-old phenomenon. Prior to the mid '90s, other than one or two firms-- more than that, but a few firms that were offering dedicated non-US equity strategies, it was a US-equity-centric business. So there's some history there, as well.

Chris O'Grady: In terms of alpha, I mean, when you look at non-US managers, these are under-covered companies, especially in the emerging markets-- one to two analysts covered. Perhaps there's no analyst coverage. Talk about the opportunity set for alpha if you're correct. Trade and liquidity might be an issue and the expertise of trading. But here in the US, I mean, how many companies cover the top 500-- analyst coverage in the top 500 companies? Multiples-- tens, fifteens, twenties. I always crack up. They always have a gentleman on talking about the Apple quarter. I mean, what can anybody say now that's going to give any value-added information to a company like Apple? I think the news is out there. It's a pretty brokered story. But if you could find me a consumer products company in Bangladesh that makes something really interesting-- but that's really where the op-- but with that comes volatility and things like that.

Robert Morier: We talked a little bit about sustainable investments. Another area of difference between at least the UK and the European markets with the US is that you have a significantly longer history in investing in sustainable investment products or having it being integrated into asset managers' processes. So do you think about sustainable investment strategies as a separate sleeve? Or is it really just baked into what all of your managers are effectively offering as it relates to integrated or integrating sustainability?

Ernst Knacke: Yeah, look, we take a holistic approach. We include it into our allocation framework. The reality is, though, Rob, I think-- and this is maybe a different view, a non-consensus view. But I think the ESG acronym-- the capitalist society that we are, certain individuals or firms or societies have jumped on this acronym and tried to monetize the ESG acronym as much as they can. And that is not necessarily conforming to the intent, right? It might be later. But that's not the intent. I think we need to consider the consequences of greenhouse gases, the consequences of all the emissions, the consequences of not treating societies-- or having negative impacts on societies. But the reality is that if you invest in a company that is corrupt, 30 years ago, your outcome is going to be exactly the same as it is today. Governance has always been important. Investing in a company that is going against regulation is equally difficult today than it was 30 years ago. So I think it's, again, finding individuals and teams that understand the problems we face as a collective today, that are trying to invest in a way where we are providing solutions or finding solutions to these problems and solutions for these objectives. So we're not specifically ESG investors. I don't want to say we have a specific bias. But we do consider the manager's views, the manager's approach. And some of them are perhaps even impact-orientated. And some of them have a very specific ESG framework. And we will probably not invest with someone that is going to tell us ESG is nonsense. But it is important to understand the consequences and the approach a manager has towards ESG to ensure that their interests are aligned.

Robert Morier: Well, you shared with me that one of your personal beliefs is that life is about the consequences of our decisions. So as you talk about consequences, as you look back on your career and look out to the many years ahead of you with the success you've had, what are the decisions that you've made that have impacted you most? So if you think about your life as an impact portfolio, where have your ESG metrics been? And what have you taken from them?

Ernst Knacke: Thinking about decisions, I don't think-- it's rare that we come across a junction where the decision is so significant that it will truly change the direction of our life, right? And those decisions might happen at any point in time. But they do not happen all the time. So I think it's important that investors and potential investors understand the journey they're on. And then when they come across one of these important junctions, they identify them and make sure that the decision they take is an informed one. I think as a society, we are close to one of those junctions. I think that the consequences of 40 years of monetary easing and falling interest rates and falling inflation and globalization has resulted perhaps in a period where tensions is going to go in the other direction. And we need to understand when we get to these junctions, what is the right decision to make? Personally, decisions like coming to London was a big decision, right? Getting married was a very big decision. Taking the job with Shard Capital was a big decision. But we don't have to make these decisions every day. But there will be points in time where we're going to need to take them. And it's important we are informed so we ensure we pick the right one.

Robert Morier: Well, we're very happy you decided to be with us today. So thank you for joining us. Thank you for speaking with Chris and I. Congratulations on all of your success. We wish you the best of luck at Shard and with everything in your life. If you want to learn more about Ernst and Shard Capital and LeifBridge, please visit their websites at www.shardcapital.com and leifbridge.com. 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. If you would like to catch up on past episodes, check out our website at dakota.com. And 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. Ernst, thank you for being here today. Chris, as always.

Chris O'Grady: Thanks for having me, Robert. Ernst, look at your inbox for an invite to Dakota Cocktails London, coming to a drinking esta-- I don't have the date off the top of my head. But I know it's in the next few weeks. So we'll make sure you get an invite.

Robert Morier: They'll be bringing some home-country biased beer, maybe some IPAs.

Chris O'Grady: Bring your friends. The last one we had in London was a super huge success. So we're trying to get over there more and more. So I don't know if I'll be there. But you'll be surrounded by very bright, fun colleagues of Dakota. So thank you so much.

Ernst Knacke: Fantastic. Thanks, Chris. It was great talking to you. Thanks, all.

Chris O'Grady: You, too. Take care. All the best.

Robert Morier: Thank you, Ernst.