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EPISODE 28:

Investing in Times of Uncertainty with Gildas Quinquis

of Windrose Advisors

Robert Morier: Welcome to the Dakota Live! Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know that 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 the Dakota Live content, please check out Dakota.com to learn more about their services. Now 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 recommendation of the investment advisor or its supervised persons by Dakota." Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit DakotaMarketplace.com today. And I am always happy to introduce you to my friend on the desk, Andrew O'Shea. Andrew, welcome back.

Andrew O'Shea: Thanks, excited to be here.

Robert Morier: We're happy to have you here.

Andrew O'Shea: And we have a great guest today. Boston's obviously chock full of different types of allocators. You've foundations, endowments, family offices, multi-family offices, and Windrose has always brought a very institutional approach to investing. So excited to hear more about the process and things along those lines.

Robert Morier: We thought it was only fair, since Philadelphia lost to Boston in the playoffs, that somebody from Boston would come to Philadelphia just to rub it in.

Andrew O'Shea: Yep. Yeah.

Robert Morier: So, thank you for being here to let us know that we lost and that we're going to be restructuring over the next several months. But it's wonderful to have you, thank you. And Gildas, welcome to Philadelphia.

Gildas Quinquis: Thank you. Thank you for having me here.

Robert Morier: Yeah. Thank you for being here. Well, before we-- before we get into the conversation, we have a lot of questions for you. I'm going to just read your biography very quickly and let the audience know who you are, and then we'll get into it. Gildas Quinquis is the chief investment officer of Windrose Advisors. Gildas oversees investment strategy, asset allocation, and manager selection for the firm. He is a member of the Windrose Advisors Investment Committee. Boston-based Windrose Advisors is an independent boutique wealth management firm that delivers sophisticated, customized investment advice to a select group of families, foundations, and endowments. Founded in 2009 by Boston area entrepreneurs and experienced institutional investment professionals, the firm has grown to $3.6 billion in assets under advisement as of December 31, 2022, with 23 employees and a dedicated team of seven investment professionals. Previously, Gildas served as the deputy chief investment officer at Partners HealthCare system, now called Mass General Brigham, a Boston hospital group including leading academic medical centers affiliated with Harvard Medical School. Over the course of his tenure with the investment office, assets under management including operational, endowment, and pension assets, grew from $3 billion to over $13 billion, and his prior responsibilities expanded from analyst to portfolio manager and director of public markets. In his various roles, Gildas managed a money market portfolio of up to $1 billion, evaluated and selected managers across all asset classes, including public and private alternatives, and participated in the Investment Committee of Partners HealthCare. Prior to joining the Investment Office, Gildas worked across the system as an analyst with Treasury, Financial Planning, and Partners HealthCare Care International. Gildas earned his MBA from Northeastern University and his BA from NEOMA Business School in France. He was honored in 2014 with a "Rising Star" award by Investor Intelligence Network and has been a guest lecturer at Boston College. He currently serves on the Investment Committee of the Longwood Collective, a non-profit organization that provides indispensable programs and services in Boston's Longwood Medical and Academic area. Currently, Gildas sits on the advisory committee of Edison Partners. And Gildas is also a CFA and CAIA Charter holder. Gildas and his wife reside in Beverly, Massachusetts with their two sons. And Gildas, again, welcome to Philadelphia. Thank you for being here.

Gildas Quinquis: Thank you, Rob. Great to be here.

Robert Morier: A longer biography than you expected?

Gildas Quinquis: A little bit. It takes one of those events to realize how long you've been working.

Robert Morier: Yeah, it's always, I think, to most of our guests who join us, they'll usually stop and say, OK, I didn't realize how much I've done or how long I've been at this. Usually, it's the gray hair that shows them, but when that's actually read to them, it's a different story. You know, on the podcast, what we usually do is we start with the beginning because you have had a very long and successful career, and we sincerely congratulate you on all your success. So, we're grateful for you to be here. But you know, coming from France, you studied at Northeastern as we mentioned before. And then, of course, undergraduate in France before that. So how does a student studying accounting and finance in northern France find themselves as a financial analyst with a Boston-based healthcare company?

Gildas Quinquis: Go back to the origin story. Well, I think the coming to America is the easy part. Studying in France at my business school, I was fortunate enough that they had an established exchange program with Northeastern where I had the opportunity to come to the US and complete a dual degree. So, getting both my degree in France and the MBA from Northeastern. So, coming here was the easy part. I ended up loving my studies at Northeastern, discovering a real depth of academics, loving the Boston area, wanting to stay there longer. I experienced more of the American culture, and I got engaged along the way and sort of my plans changed. And something that was meant to be a temporary experience became a long-term commitment.

Robert Morier: Yeah, it's always interesting. Sometimes the personal can take us into our professional. So, it makes a lot of sense. We appreciate you sharing that. So, as you're in the United States, you've decided to come here. Now you're going to be staying. How did you think about your career path as you're about to graduate? And you spent a long time at Partners. So, I ask that in the context of 21 years at the same firm.

Gildas Quinquis: Yes, maybe that is unique to me. So, my father worked in the hospital industry, managing a hospital in France. My grandfather, prior to that, managed a retirement home. And so, I felt sort of this natural affinity to the industry. Back in 1994, when I graduated, the economy was not so strong. So, I was not getting a whole lot of feedback from the investment industry where I was trying to break in. But then I started sending my resume to hospitals. And they were kind enough at Brigham and Women's Hospital at the time to bring me in first as an intern, subsequently as a management trainee. And I stayed there out of loyalty because the job kept becoming more and more interesting. It was an interesting time in the industry too. I joined just prior to the merger of Brigham and Women's with Mass General Hospital, where they formed Partners HealthCare system at the time. So, you had this whole healthcare industry in evolution trying to rest more efficiencies from the system. They were really trying to launch the investment program which at the time was very conservative, mostly focused on fixed income. But they had fantastic advisors on the board. You mentioned the ties to Harvard Medical School, so we had a lot of connections to high-profile investment managers in the Boston area. The dean of Harvard Business School was the chair of our investment committee for the longest time, and all those were interesting connections that really morphed over the years into a full-fledged investment office.

Robert Morier: So as that investment office came together, there could be pros and cons to having that type of board. Sometimes that board can have a lot of influence in terms of the decisions that are made from the day-to-day operations all the way through to the manager selection. So how did you see that relationship with the advisory board develop and grow over time, particularly as you were developing and growing in the role?

Gildas Quinquis: It was a great training ground for me because initially, the investment committee supported by the consultant would drive asset allocation and manager selection. So, for years, they would interview the managers themselves. And it was in the later years where they increasingly passed the baton to the investment team to come up with new ideas and eventually make the investment recommendations and become fully independent. You have to put yourself back in the context of hospitals where this was an embryonic investment office really nested within a treasury operation, a larger finance organization. But it was not the main focus of the institution. So, it took years to develop and morph into a professional investment office. Building staff, I think we were three analysts at the beginning to a team of more than 20 by the time we left.

Robert Morier: Well, going from $3 billion to $13 billion is significant. How much of that was consolidation that was going on, you know, in the system itself versus just doing new things, obviously increasing assets through successful performance and manager selection? So, if you think about that growth over the years, that's quite a significant amount of assets and-- to develop with.

Gildas Quinquis: Of course, the system continues to make a couple of acquisitions. Other hospital systems joined the Partners HealthCare group. But by and large, they were not very significant pools of assets. The main source of the assets came from the Mass General Hospital which was the oldest institution that had created an endowment going back 1811, I believe, and really grew that into a significant asset base over the years. So, most of the growth came from successful investment performance. And then, along the way, a little bit of fundraising, certainly. Donations to the system continued. The hospital was in a strong financial position with the AA+ credit rating able to issue debt that would help sustain the pension plan. So that was also a factor.

Robert Morier: Well, as much as I admire you being at one firm for 21 years, I also admire people who decide to leave as it's a long time to be at one organization and then to move to a new place to start new. Andrew, I know, in your role, you deal with transitions all the time, people moving from role to role. But after 21 years, that's-- you know, it's a big jump. So, what prompted it? How did you decide to make the move? What was it about Windrose that was appealing?

Gildas Quinquis: Maybe one of the most difficult decisions of my life. After 20 plus years at Partners HealthCare, it was still going strong. I had a tremendous experience there working with great people. But at the same time, 20 years is a long time. If I was going to try something different, it felt like the right moment to think of something new. I happened to know Bill Heitin-- he was the founder of Windrose-- from his previous time at MIT, and he reached out to me as they were looking to grow the firm. So, it certainly presented a path to becoming eventually chief investment officer, getting an equity ownership into a smaller, more entrepreneurial firm all in the Boston area. So, it became a compelling opportunity. And of course, moving from an endowment to a family office-- smaller, fewer resources-- presented plenty of challenges but plenty of opportunities as well.

Robert Morier: Did you have to change your mindset, that entrepreneurial mindset to start to realize that you had to change the paper and the printer and that things were different all of a sudden?

Gildas Quinquis: Absolutely. You have to learn to wear many hats.

Robert Morier: Yes.

Gildas Quinquis: Well, one thing I never had to worry about at Partners HealthCare was suddenly interacting with clients and being a little more involved in the pitching process with prospects. And so, that was a completely new aspect.

Andrew O'Shea: How about the transition from working with an institution to taxable ultra-high net worth investors? How did that-- what did you bring from Partners, from that experience in investing that applied? And what did you have to learn new, perhaps, in your philosophy?

Gildas Quinquis: Yeah, those are great questions. I think what was very translatable from my experience at Partners HealthCare to Windrose is the fact at Windrose is very exclusively focused on the ultra-high net worth segment. So those are all significant wealth owners or qualified investors able to participate in alternatives. In fact, coming to Windrose to participate in alternatives whether private equity or hedge funds. So, all the skills I had developed at Partners readily applied to the same clientele. Those were all long-term investors typically not looking to spend their whole wealth but pass it on to the next generation or maybe pass it on to a foundation and philanthropic activities. So that allowed us to adopt a similar mindset of patient investing, investing for the long term, looking for active managers, but unlocking value over those longer investment horizons. So, a very similar approach to what we were doing before. What was different, to your point, is the fact that now we had to deal with taxes. So, there's a tremendous friction that nonprofits don't have to deal with, losing up to 40% of a return stream to taxes. And so, suddenly there are a number of strategies that I had to learn such as tax allocation, taking advantage of the various estate planning structures put in place for the clients and these tax-efficient assets in the most advantageous tax locations, but also considering strategies for managers and the returns they could offer in the light of after-tax returns and how much is truly available to the clients after taking taxes into consideration. Certainly, it affects your mindset, the types of managers that you're looking for. One is you're looking for managers with a higher return expectation because you're trying to offset that friction a little bit. You're also looking for managers that will have an inherently more tax-efficient investment approach which gets back to long-term investing, lower turnover to maximize the long-term capital gains. Or you're learning that because you're taking all that risk with individual strategies, potentially moving more and more into more concentrated strategies. You need to build a very diversified portfolio to mitigate the risk that you're taking in order to achieve that higher return potential.

Andrew O'Shea: To that point, did you all create-- you have QP investors, but you've to get that diversification across vintages and managers and substyles. Did you also still create in an internal vehicle to access alternatives where they could get one K-1 from Windrose rose versus multiple managers? How did that work?

Gildas Quinquis: Yeah. That is indeed the approach we implemented at Windrose. It's really a concept I borrowed from my experience at Partners HealthCare where all the assets were managed into various pools. They were organized by investment horizon at the time but same idea. It was a very efficient way to invest where the various components of the healthcare system could buy units into various pools based on the asset base and investment horizon. And then, the investment office would take care of all the investing on the behalf. So, we applied the same concept at Windrose. It's something I helped put in place after I joined the firm, and we organized various investment pools there with a slightly different objective. It was more looking to build asset allocation building blocks. So, talking to a client, a lot of the discussion revolves around how much risk are you willing to take, what returns are you hoping to accomplish, how much illiquidity, or how much drawdown can you tolerate in your portfolio. Those are all important asset allocation decisions that tell you how much to invest maybe in long equities, in hedge funds, in private equity. But once that decision, is made it's really more efficient for an investment team to implement it and put it into practice. So, we created those various investment pools each with a different investment objective in mind. Really looking to have all the constituents of a diversified portfolio allocation on behalf of clients. And so, to your point, there are a number of benefits of creating that structure. Clients can buy units into a pool. They instantly get access to a diversified portfolio of assets that's already in place. It doesn't matter if a manager is close to new money or not. It's already part of the pool. So, everybody gets the benefit. There are no issues for clients of meeting the minimums to participate in the individual managers because it's already achieved by the pool. And then, we simplify the investment experience for the clients. There's one K-1 from a tax standpoint, but it's also all the rebalancing that takes place during the year. There's no need to send a notice to clients for every single money movement. It's all handled in a very centralized fashion.

Robert Morier: So how is the investment team structured? So, are you-- as you came to educate yourself on the challenges a taxable portfolio presents, how did you address what was necessary from your client's perspective as it relates to your team and the resources that you wanted to build around you?

Gildas Quinquis: Initially, we had a very senior team, always have. And considering that we're looking to cover a lot of asset classes and what we bring into the mix, I mean, starting with me, to your point, over 20 plus years' experience in the field, a lot of networks, a lot of connections built with managers over the years, but I can't cover everything. I have my own biases. And so, I need an interlapping networks from different members of the team. So, I was lucky enough to attract my former colleague from Partners HealthCare who worked on the private equity portfolio there. So, she brings a wealth of networks and connections to the mix when it comes to investing in private equity. We found some extraordinary people in the hedge fund field that came out of the funnel fund industry, very focused on all the managers in that space, and again, a wealth of connections. And then, we were lucky enough to have a couple of rising stars among our ranks, you know, people that grew, most of them that we're able to retain. Obviously, always a little bit of turnover. But the team ends up being structured around, I would say, today, three senior investment professionals with different specialties around hedge funds and private equity backed by another three more junior people on the team that help us accomplish all the legworks.

Robert Morier: Since you said it, what are those biases that you have? So, as you were thinking about what you tend to gravitate towards as a CIO, the asset classes or the characteristics of a manager that you tend to-- that tend to resonate with you, what are some of those biases that you maintain? And what were you looking to, I guess, in a sense, diversify away from when you were building the team?

Gildas Quinquis: So maybe it's because I'm French. Maybe I had a quantitative background. I focused on math and physics in high school. But I've always had the mindset that quantitative strategies were very interesting. A lot of diversifying characteristics, you know, it led to some thinking around factor analysis and really what drives investment performance. So that shapes a lot of my own thinking during manager selection. But realizing that quantitative strategies are not very tax efficient, you can't make a whole portfolio out of them. And I've always had my own personal bias growing from fixed income to public market type strategies. So not as developed on the private market side of things. So definitely I had to bring someone with a lot of hefts on the private market side to make sure we had the strongest portfolio possible. And it's definitely one of the lessons as a leader is to realize you can't do everything by yourself, and you want to surround yourself by the brightest, smartest people you can possibly get. So definitely that aspect.

Robert Morier: That's why Andrew is on the desk with me by the way.

Gildas Quinquis: Yeah.

Robert Morier: I've tried to do this by myself. My biases would come out which are that I need help. So, I'm glad that Andrew's here too to be able to support it.

Gildas Quinquis: Right.

Robert Morier: It's good advice, I mean-- I think, particularly, as you're increasing your team and the depth of your team, looking at those long-term strategic objectives of your clients. But if you take a step back in terms of what you refer to a few times as it relates to the asset allocation process, so how does that idea generation work with your team? Now that you've filled out the roles that you think are necessary, you have a combination of very senior as well as the rising star, so when you think about that idea generation process and that asset allocation mix, how are those decisions derived?

Gildas Quinquis: There are two components. One is the top-down sort of views on the market, which really factor into client discussions and where we think maybe they should tilt the portfolio, lean into maybe areas that are a little more opportunistic given current market condition. But that only affects the flows of money into the various pools. The manager selection decisions remain, first and foremost, the bottom-up selection process, and it's driven by ideas from the entire team. I mentioned the interlapping network. We have met different groups of managers over the years. We bring different ideas to the table. Connections, oftentimes, will say something like, you know, this sector is starting to look interesting, valuations are declining, it looks like maybe some catalysts will turn things around and who do we know. And that's when the discussion around the table comes in, and we have people who can draw upon to get some ideas. We have personal connections to maybe managers in the space that we can connect with and start a discussion and start the research process. So, it's usually this very organic discussion. We're a very flat organization. Everybody sort of sits in cubicles very close to each other with constant conversation when we're not disrupted by the whole pandemic. But that's meant to foster a lot of interactions and the flow of ideas.

Robert Morier: So, for example, if you're working in an inflationary environment, right now when you think about asset classes like private real estate, real assets, natural resources, are-- would those come in-- come up then during that conversation and then you'll then tap into your manager network? Or will you keep a stable of managers kind of in the background that you can call on at any time?

Gildas Quinquis: It's not so much a stable of managers you can call up at any time. I think it tend to be too late and too reactive. So instead, we try to skate where the puck is going. We try to be a step ahead of the market. When it comes to real assets in particular, we started building our liquid real asset portfolio in 2017 when this sector was completely out of favor. But the reason we did that is we figured it would take us years to get to know the managers to really make enough selection to build a diversified portfolio, and we want it to be ready for when the winds would shift. So, some decisions were relatively easy, going to people we knew, looking at valuations. And so, it's easier to participate, let's say, with ETFs or very transparent public market strategies. If the markets are conducive, those are easier decisions because you can always pull back from a mistake, right? They remain liquid. And then, over time, pushing more and more toward hedge funds and considering private strategies where you make longer and longer-term commitments. But what we discovered along the way was actually very exciting because the downturn in the market, the long decade of underperformance in that sector had almost destroyed the investment community. Funds were closing left and right. And you had a couple of survivors. And then, you had a couple of greybeards that were trying something new, launching a new effort to take advantage of changing market conditions. So, it was both being connected to the survivors and then knowing enough about the previous firms and the pedigrees and the origin story of all the other funds to select which were the more interesting ones. But our conclusion was there going to be a very limited pool of talent available, you know, particularly when it came to commodity trading, natural resources investing because no one training at the investment banks was going to those fields. So, sort of natural training ground was not happening. So, there would be this whole generation missing that would naturally evolve into asset managers. And so, you had to really go back to people with experience. And most of those strategies would-- by their own nature, markets are very concentrated, maybe less liquid, harder to trade. So, they're all capacity constraint. So, we wanted to be first with our foot in the door, even if it was just a tall position, that we could expand later on even if it was hard to gather assets. But we convinced our clients. We wanted to prepare for the possibility of inflation, even if it seemed remote at the time. And so, we started assembling that portfolio, and it's evolved into some pool, I think, it's 12 managers within real assets covering commodities, natural resources, infrastructure, and then liquid real estate. So, we built it early. It was a long, hard slog for maybe three years. And then, everything changed after the pandemic. And that pool started catching up to the rest of the market. So, I think after five years, from 2017 to 2022, our real assets pool had finally caught up to the broader equity market which went the other path. Shoot up-- shot up like a rocket and then came down hard in 2022, and it was kind of the other pattern with our real asset's portfolio that really, really caught up to it. So, getting back to the idea of building very diversified portfolios, I think that was really a prime example.

Robert Morier: There's something to be said about first-mover advantage. So, getting into certain areas of the market or certain asset managers before the market-- the market realizes the value that's there. You had mentioned convincing your clients to engage with those managers or at least in that investment idea early. Will you also engage with peers? Will you work with other allocators to potentially coordinate an early investment with one of these asset managers?

Gildas Quinquis: Well, I was very engaged with our allocator peers, be it their endowments or family offices. But that's when you started to realize-- so the shifting sands in the industry. The development of ESG and rising concerns with the environment that led many endowments to shy away from investing in the natural resources sector and changing the dynamics around what was happening there. So, most of our conversations with them would be, yes, we know who they are, it sounds interesting, but we're not going to participate. I think early on, the whole industry shifted to private markets to avoid the volatility in the public side of things, and then eventually gave up on it altogether, which is a more recent development. Family offices, on the other hand, were much more willing to pursue that approach, understanding the potential value that lied in it. And I would say foreign investors were much more interested than US investors, which was always an interesting dynamic. European investors very familiar with commodities trading, much more willing to embrace that style of investing, which is not very commonly found within endowment allocations.

Andrew O'Shea: Talking about manager selection, a big part of manager selection is identifying an edge that that manager has, and then understanding why that's repeatable going forward because at the end of the day, you're investing in a manager's future decision making. How do you all go about the diligence process? Obviously, there's performance and where it fits in the portfolio that you can assess, but thinking about the qualitative assessments of what makes a firm unique, what is the process, like, you all employ to help identify those types of characteristics?

Gildas Quinquis: I don't think there's one simple answer to this. So yes, you try to find some comfort from the analysis of historical returns. Sometimes it's available. Sometimes it's not. And you still want to make a decision. So, a lot of the ultimate decision will rely on the qualitative assessment. How smart do we think the approach is? How risky is it? And is it the right mix, the right balance? If it's risky, can we diversify it away within the context of our portfolio? So, it gets back to as long as the manager has a demonstrable edge, there might be a way that it could work within the confines of a broader portfolio. So, it's a lot of interviewing the managers, understanding the structure is stable, if what they're doing today follows a similar process as in years past whether at the current firm or maybe at previous firms. And then, a lot of reference checking, trying to find out who they worked with in the past, what other allocators pursue those managers, and what their experience was. Did they reach the same conclusions that we did? What did we miss? So, there are a lot of fact checking that is involved all along that process.

Robert Morier: One of the attributes that I had read that you look for is a diversified mix of long-term concentrated strategies. So how do you define concentration? We hear a lot of different variables in how concentrated a manager is, particularly in public equities, and it seems like the more concentrated, the better these days-- it's not just these days, it's been now a trend for several years. But what does concentration mean to you and the staff at Windrose?

Gildas Quinquis: So, talking about concentration-- first I'll talk about equity strategies because it's a little easier to grasp, but the magic number is 20-- whether 20-- because it's the right number of stocks that's needed to reap the maximum diversification benefit from a portfolio. Or on the flip side, when it comes to investing and finding good ideas, there are studies that would say that beyond 20, you're moving into second best and in fact, to some extent, areas where managers tend to destroy value. So really focusing on the top 20 ideas usually yields the best results. So, you talked about manager selection. One of the criteria we try and assess whether the top holdings in the portfolio have indeed been the largest contributors to performance. And is that intuition, is that research outcome demonstrated in the manager's portfolio? So that would be one of the factors you might want to look at.

Robert Morier: That highly concentrated portfolio has led a lot of managers to say, yes, you're investing in 20 stocks. However, there are one in two-- one or two names that we're very excited about. So, would you be interested in doing a co-invest? So, both public and private markets as you know well. So where do co-investments and-- with private markets, the secondary market, where does that reside in your asset allocation, you know, discussions and investment decisions?

Gildas Quinquis: So, we do pursue co-investments. We pursue them exclusively with Investment Partners that have already been selected for our platform. And then, they will tend to resize in the natural pool trying to match the liquidity of the pool. So, most co-investments stem out of private equity firms, and they will naturally belong in our private equity pool alongside the managers. They are typically smaller in size, and we try to collect a few of them to build some diversification. We reserved up to 20% of the commitment capacity of our private equity pools for co-investments. It's been a positive experience. And so, we're applying that as well across private real estate, private credit. So, deploying the potential of co-investments but always under the same guise of partnering with managers that have proven themselves that are already on our platform. We get a lot of cold calls of investors suggesting co-investments, but those are not going to be approved and make it into our platform.

Robert Morier: Yeah, understandably. But I would assume though you do get a number of calls from what we talk about often here at Dakota are emerging managers, so managers that are maybe coming out of an existing shop starting their own business for the first time, analysts that are graduating to a portfolio manager, starting their own shop. But generally, lesser-- smaller asset base, smaller assets under management, shorter track records, where do emerging managers sit in your ecosystem, if at all? And I'm always curious if there are different ways to approach emerging managers. For example, if you would either invest in the emerging manager, take an equity stake, potentially revenue share. So, if you could elaborate, it would be, I think, helpful for us and our audience to understand your emerging manager approach.

Gildas Quinquis: So, we've always looked at emerging managers as part of our manager selection process. Really, our portfolios, I would say, are a balanced mix. We have some very established funds, and we have a slew of newer emerging managers that might be lesser known. I think goes back to the idea of a life cycle of hedge funds, but that applies to most firms. Investment firms are not necessarily meant to last in perpetuity. A lot of things change. You need kind of perfect chemistry for this structure to work. But certainly, there are some characteristics of early-stage firms, whether it's the motivation to succeed, or it's the fact that they are not yet encumbered by a large asset base that gives them flexibility to invest in the most interesting areas based on the process and have the potential to show their successful track records early in their career. So, a perfect match for us is a fund that might be one or two years into its launch. They have grown a little bit, but they haven't really exceeded a very large asset base, say $300 to $500 million. They're a little small for large allocators to really work with them. They look promising, interesting process and pedigree is kind of the right, again, chemistry. The team is composed of people who've worked together. They own their firm. So, you sort of start to see the right collection of ingredients to the point where we want to participate. So, for Windrose, even though we're $4 billion in assets, it's significant, but it's not huge. And for us, we're able to participate with those emerging managers with very few constraints. If a manager only has $300 million in assets, and we want to provide a ticket, $5 to $10 million typically, we're not going to overwhelm the fund's capacity or be a significant investor. But we can be a meaningful contributor. We can provide a lot of advice along the way. It creates a tremendous partnership between us and the firm early on where they are extremely thankful. It provides us access to the lead PM for an extended period of time. Maybe we get the first call when the fund closes and then chooses to reopen who is going to get that new capital. So, it provides a lot of optionality to Windrose as well as, oftentimes, the opportunity to participate in a fund or share class, which gives us another way to lower the fees and expenses of-- on behalf of our clients. So, we're really-- we love to participate with those managers when they're just about to embark on their wealth creation phase. Maybe they worked out the kinks, setting up the firm, building a portfolio, they're ready to go, and this is a good time to engage. I think, naturally, on the other end of the spectrum is dealing with firms that are maybe aging, experiencing change and how long to stay. That is always a very, very difficult decision, much harder to take because oftentimes, you've built long-lasting relationships with those people.

Robert Morier: Yeah, absolutely. You actually published a paper called "The life cycle of hedge funds." You touched on the fact that hedge funds have expiration dates, and no hedge fund can exist in perpetuity. I thought that was a very interesting article or white paper. So, can you elaborate on what are the signs that you see then when a manager is approaching the end of their shelf life, and what attributes distinguish hedge fund managers in the earlier fresher days of their life cycle versus, as you said, the end of-- I don't want to say the end of days, it's something so-- but towards the end?

Gildas Quinquis: I think the first criteria is really-- it has to be asset size. It just leads eventually to some impediments to the investment process or maybe some bad habits or new developments that are not helpful to performance. The obvious constraint for-- of a large asset base is you don't want to create an asset liability mismatch. So, it will eventually push the managers toward larger caps, more liquid opportunities, and maybe abandon some of the promising smaller, less liquid opportunities that were a hallmark of their success early on. And so, the nature of the investment performance starts to change. You know, so that becomes an impediment. With assets comes new revenue, sort of either the loss of motivation from making so much money, from just management fees, or the desire to prove to investors they can do something else and maybe branch out into new areas, launch a new product, a private side pocket. You know, expand the size of the team or creating their own sets of headaches, whether they be fundraising distractions for the new products or maybe dealing with managing a larger and larger team of analysts and sort of the risk that this dilutes the intellectual capital of the firm where they have to worry more about compensating analysts and giving them something interesting to work on as opposed to having this cohesive, relatively small knit group of managers working for performance. There's definitely a limit as to the number of managers or of analysts that a manager can supervise from discussions. Five or six seems to be the optimal size. And beyond that, you start creating layers in the organizations where ideas have to make their way to the top one step after the other and create, again, more frictions into the investment process. So, asset size is definitely a red flag for us. We try to talk to the managers in our portfolios about the opportunity set based on size of the market, what their strategy is, what they intend to pursue versus how much they have raised already. And talking about capacity limits and when are you going to close the fund, so always a recurrent question. A particularly dangerous time is a surge in assets sometimes because of windfall returns in a market. And what are you doing with that? Are you going to return capital? Keep the fund size small? Or are you going to keep it and then what? So that would be something that raises a lot of questions. I think the natural step when that happens is to trim your allocation for risk management reasons and just to see what happens with the process. But usually that's a red flag that should lead to a lot of discussions. And then, of course, there's the lack of motivation that happens with the aging, maybe new pursuits whether they be philanthropic or personal. The fact that they would be less motivated by the pursuit of a carry incentive as opposed to just collecting the management fee and what that might do to the organization and the investment process, maybe a stronger focus on risk management and preventing drawdowns, which may have the effect of curtailing upside. So, in a nutshell, adopting a more conservative approach to preserve the capital and keep that return stream for as long as possible, which may not be what early investors would have underwritten. So those are all factors that may lead to a difficult decision, so you know it's time to move on and find one of those younger, hungrier managers. So, sort of restarting-- priming the pump again as managers evolve. The good news is that when you partner with managers early, they have a long runway before you really have to worry about it. I think, especially in the early years, they're much more worried about raising capital and building a good track record for the next five years.

Robert Morier: I would agree I've had a few interviews with asset managers over the years. And I remember one of them well. It was with a hedge fund manager. And I asked him what motivates him. And he said that he can't afford the art that he wants. So, it was really just about upgrading his collection at his house. And I sat on that, and I thought it was interesting. It's certainly a motivator. But is it really what gets you going in the morning? I think that's one of the reasons emerging manager programs have, you know, have really started to burgeon in the industry. It's because you do have asset managers with skin in the game. They have their own money in the fund. Every dollar lost is the dollar that they'll feel. But every dollar they gain is a motivation to do more, and they have the ability to build their own culture and their own business around it. So, all of that makes a lot of sense. Well, I know Andrew likes to ask this question. So, I'm going to front run him. But one of the questions we love to ask is we have a good sense of the types of managers that you look for, we have a good sense of generally how to approach you, but what are you looking for today? So, what are the asset classes or the ideas that are-- that you are all spending a lot of time around as it relates to who should be calling you rather than how we should call you?

Gildas Quinquis: So, we're always looking across a number of dimensions. I think what has changed, however, in the past year is the fact that interest rates have increased, and it's changing a couple of dynamics. You have strategies that used to short a lot abandon the practice during a time period where interest rates were very compressed, leading to low dispersion, less successful shorting. There was no short rebate to earn. And now that environment is changing. So, a fund with a lot of shorting on the book is going to earn 5% on that cash, is suddenly providing a tailwind. Maybe that's sufficient to help offset the fees. And that was not the case before. In addition, there's definitely data showing that there is strong correlation between higher interest rates and higher dispersion which tends to benefit long-short strategies. So long short after going through the desert, maybe for 10, 15 years being pointed at as an area with declining alpha, in my opinion, a lot of it had to do with the macroeconomic environment and just the compressed interest rates. And this is likely to change. So, a greater emphasis on long-short strategies. But I would say not the types of managers that like to invest in privates and do pursue crossover. Really, the emphasis should be on the traditional long-short that used to implement a lot of shorting and maybe slightly higher gross exposure overall.

Robert Morier: So those long-short managers can stop talking about their long-only portfolios now?

Gildas Quinquis: Yeah, finally. Sure.

Robert Morier: I think I just heard fees across the industry go up as a result of those comments.

Gildas Quinquis: Well, now they'll have to prove that they can short effectively. But I think that is a very promising area. The other area that is maybe overlooked going back to quantitative strategies is all funds that rely on derivatives. And typically, those are financed with some collateral, but you only put up, say, 20% as collateral. And 80% of the portfolio really sits as cash. And that cash earns 5%. So again, strategies like global macro, trend following, commodity traders that buy futures, I think those are all strategies that are certainly benefiting from this tailwind from higher interest rates.

Andrew O'Shea: You mentioned higher dispersion for long-short manager, and there's been a lot of talk now about the concentration in the public market's indices. Do you think that dispersion also favors maybe a concentrated long-only manager that's much different than the index going forward?

Gildas Quinquis: I think it's, to a point, differentiating from the index. So, this concentration within the index has been very worrisome because it's sort of the larger caps that drive the index, and they're the most expensive stocks. And the reason they've been expensive is, yes, they are high-quality great companies, and they've proven to be safe havens in the past. But is that going to persist if you have this valuation overhang that could reverse? So, trying to lean away from the benchmark seems like a good idea prospectively. It's that-- that's where it introduces carrier risk a little bit and the prospect of underperforming for a period of time. But that's where we rely on our history. You know, my story about real assets and underperforming for three years before catching up to the markets, I think, is probably similar in equities. Like, you need to be willing to stomach a little bit of underperformance if you have the conviction that it's the right way to build investment returns for the long term.

Robert Morier: Well, as we're getting close to the top of the hour, I always like to ask our-- particularly our CIOs. It's been a very challenging 18 months. It's really been a challenging four-year kind of beginning in the pandemic and then through. And we're now in May, not to date, the episode specifically because sometimes these airs-- these air a few weeks after. But the quote that I've been asking a lot of our guests is-- or sharing with a lot of our guests is there are years that ask questions and there are years that answer. So, as you think about where the year has gone to date and where we may go for the rest of the year, do you think we're going to end this year with more questions? Or do you think we're actually going to get some answers, whether it's from interest rates, the Fed, or geopolitics? I'm always curious just to hear more of your predictions.

Gildas Quinquis: There's no shortage of questions right now that go unanswered. The big one looming the market is pricing or is betting that the Fed will cut interest rates by the end of the year. And I think we'll know. By the end of the year, we'll get that answer. And it probably will have some momentous consequences. It's usually not a good idea to fight the Fed. Maybe the market is right this one time, maybe this time is different. It seems like a dangerous thing to say. If-- there's just a high potential for markets to be disappointed. And what would happen to this narrowly led equity market if that was the case? What would happen to interest rates if inflation is stickier, the Fed decides they really want to fight inflation? They're not going to cut rates this year, maybe it's late next year. And what would this shift in the calendar, you know, full 12 months, what would how would that impact valuations today? So, I'm sure we'll get answers by the end of this year. I think what will change by the end of this year is, very likely, we'll be in a recessionary environment by then. The banking crisis that just happened in March is only going to accelerate that movement. You've seen lenders pulling back on lending, tighter lending standards, more firms looking for rescue financing. So, all the elements are there. The question is, how much of a credit crunch is it going to be, how pervasive there are a couple of areas of pain that are obvious, such as commercial real estate. But how much is that going to pervade, say, the direct lending, the private credit industry, all those firms that have raised capital in the past couple of years, most of them private equity sponsored. So, this interaction between the two industries, private equity and private credit-- so we'll get, I think, a lot of answers very soon.

Robert Morier: What are the questions your clients are asking?

Gildas Quinquis: What do you do now? That's a waste now. I think the propensity of clients is to, to your point, realize the number of questions in the market, the high uncertainty and remain frozen and maybe prefer the safety of treasuries to the prospect of long-term investing. It's hard to disagree with them now that treasuries have risen to a more reasonable level. But I would argue that cash is still below inflation. And it's not-- definitely not going to achieve their investment objectives, the return objectives for the long term. And opportunities to invest happen at times of uncertainty. Valuations are lower. You need to position for the way market changes because once the market starts to change, it's too late to capture the full benefit. So, I would argue that now is a good time to start positioning for what might develop over the next 5, 10 years.

Robert Morier: The benefits of a long-term investment horizon.

Andrew O'Shea: Yes. And I read a lot of investment commentaries, and a lot of them say broadly the same thing, very conservative in their outlooks. But I've always enjoyed Gildas' commentaries and letters, very thoughtful, in-depth, and he's been spot on. So, thank you for joining.

Gildas Quinquis: Thank you.

Robert Morier: We appreciate it. I do have one more question for you because you are approaching 30 years in the industry. And as Andrew had just mentioned, I think, just myself personally, I've been speaking with you for over a decade now, and you're one of the people who I've always enjoyed hearing from and getting a sense of what you're thinking. So, I can take that out and make myself sound smarter than I really am. So, I appreciate that insight. But I I'm just curious. As you think about yourself now close to 30 years in, what's the type of advice you would give to people who are earlier in their careers? It is an uncertain environment. You've got two young sons. I have two young daughters. Andrew has a very young baby as well. So, as you think about advice going forward based on the experiences that you've taken yourself, what would you share?

Gildas Quinquis: Starting with advice my parents would have given me, which is always do the right thing, never lie, and adopt that attitude throughout your career. It will only bring benefits. But beyond that, you mentioned the high uncertainty. I think what it means is you need to cultivate the characteristic of having a curious mind, being willing to explore and ponder questions along the way, not remain pigeonholed into one way of thinking or one way of investing. So certainly, adopting this spirit of continuous learning, being willing to discover new things at all times, which is very appropriate for our industry. I think we have-- as allocators, we have a lot of opportunities to speak with very smart managers that can point out the books we should read or the thinking that is evolving, whether it's what's happening with artificial intelligence or new trends. So, there's always something to learn. So definitely a big piece of advice. And you know, I think, show a spirit of initiative. Ideally, I would like everyone on the team to behave as a leader. Show ownership in the work, in the portfolio, in a firm. And demonstrate that by volunteering for projects, speaking up during team meetings, bringing new ideas, being openly curious. You know, and I would say as a leader of an organization developing that spirit, fostering that teamwork is one of the most challenging aspects. It goes against human nature. It forces you to get out there, maybe take a chance. But those are the people that will eventually get promoted the fastest and reach interesting positions.

Andrew O'Shea: It's great advice.

Robert Morier: Yeah, it is. Thank you for being here, and congratulations on all your success. It's been a wonderful hour. We've really enjoyed it. Andrew, as always, thank you for being here. If you want to learn more about Gildas and Windrose Advisors, please visit their website at www.WindroseAdvisor.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. 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. Gildas, thank you for joining us today. Andrew, thank you for being here. And we hope to see you again soon.