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EPISODE 38:

Decoding Manager Research

with R.J. Smolenski of Pitcairn

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, 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 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. I'm very happy to introduce our audience to RJ Smolinski, managing director of investment research for Pitcairn. RJ, welcome to the Philadelphia Studios at Dakota.

RJ Smolenski: Rob, it's great to be here today.

Robert Morier: We really appreciate it. It's nice that you were able to make the trip in, seeing the studios, as I understand, for the first time.

RJ Smolenski: That's right, that's right. Great to be here. Thank you for the opportunity, ultimately, to be here and talk a little bit about myself and the organization and my role.

Robert Morier: That's great. And I'm always happy to reintroduce Andrew O'Shea from Dakota. Andrew, welcome back.

Andrew O'Shea: Thank you. Happy to be here and happy to have RJ. A longtime friend of the firm.

Robert Morier: Yeah, this is not your first rodeo with Dakota.

RJ Smolenski: No, we've done a few of these. I think a couple of the original just audio only calls, and then I did one where some of the Dakota folks were here in the studio, and I was at home during the pandemic. This is my first one completely live and under the lights.

Robert Morier: No, that's great. Well, we're going to talk a lot about evolution. And you've seen the evolution of Dakota and Dakota Studios. And I know you're taking part in the Dakota members conference coming up on October 23rd.

RJ Smolenski: Yes, looking forward to it.

Robert Morier: Great. That's going to be at the Union League of Philadelphia. So, for those of our audience who are interested in joining us, they can register at dakota.com/conference if they're interested. But we're very interested to hear what you have to say there as well. So hopefully you don't give away too much today for the podcast. We're very excited to hear more about that experience. So, thanks for sharing. Well, so as we had said, it's not your first time here. So, we're excited to speak to you again. For those who aren't familiar, Pitcairn is a multi-family office headquartered in Jenkintown, Pennsylvania, with over 125 client families with approximately 500 households across the United States and an additional 20 single family offices, making up nearly $7 billion in assets under advisement. So, we have a lot of questions for you. Before we do, I'm going to read your biography for the audience, and we'll get going.

RJ Smolenski: Sounds good.

Robert Morier: Great. As Pitcairn's managing director of investment research, RJ is responsible for managing all aspects of the investment manager research process and open architecture investment platform. With over two decades of industry experience and a 20-year tenure at Pitcairn, RJ has held a multitude of investment roles prior to Pitcairn's move to open architecture in 2008. RJ supported the firm's proprietary investment program, as an analyst, developing keen insight into investment management styles, portfolio analysis, and client service. In 2008, RJ was a key member of the firm leadership responsible for the collaborative multidisciplinary build of Pitcairn's open architecture investment program, including a pioneering tax overlay program, a program he built and managed for its first five years and now provides oversight to. In 2011, he was named director of research and was named managing director in 2019 for his contributions to the firm. RJ's research expertise is in equities. And under his leadership, Pitcairn domestic equity portfolios have significantly outperformed the market since inception while also tallying a double digit annualized total return over the first decade of the open architecture program. He also led the development of Pitcairn's sustainable investment offering, which launched in 2016 and currently represents an area of significant growth for the firm. RJ is a critical hands-on resource for the Pitcairn's ultra-high net worth families, designing custom portfolio solutions and educating clients on wide ranging topics from investment management and market commentary, asset allocation, tax management, and manager selection. RJ has a BBA from James Madison University with a concentration in finance. He is a member of the Investments and Wealth Institute and holds the designation of certified investment management analyst. He has completed the CAIA chartered alternative investment association fundamentals of alternative investments certificate program as well as Cal Tech's innovation through education certificate program. Passionate about high functioning teams in and out of the office, RJ enjoys following baseball, basketball, and football and analyzing each sport's finer points. He particularly enjoys those of his Alma mater James Madison and those flying the banner for the city of brotherly love here in Philadelphia. RJ, thank you again for being here. Congratulations on all your success.

RJ Smolenski: Much appreciate it. Thank you for having me.

Robert Morier: Absolutely. Well, we're all living in the Philadelphia area. So, what constitutes a high functioning team as it relates to Philadelphia?

RJ Smolenski: It's an interesting question, and kind of a deep question. I think it starts with having a group of people together who are competent. And if we're talking about sports, competent in whatever that particular sport is. A desire to improve, so the whole idea of continuous improvement. But it's also important, since we're talking about a team, that those people enjoy the time that they spend together. And I think that's part of the culture that's built. I'm sure professional sports organizations, just like businesses, there's a sort of culture that is cultivated and that ensues. I think it's also important for the individuals, again, whether it's the athletes or the coaching staff or employees and managers, to find that in themselves and not just take in or absorb whatever the corporate culture is. You have to really like what you do, like who you're working with. And that's going to motivate people to do more than they would have done otherwise, which I think is what makes them oftentimes higher functioning than just someone who's average.

Robert Morier: Yeah, I like that that's interesting. We're interested to learn more how you evaluate teams and how you evaluate asset management products. But that's a helpful context. So, we appreciate you sharing. Well, we always like to start with the beginning. So, you could share with us we hope… that you went to James Madison. And we're always interested in how people end up where they start. So how did you end up down in the Shenandoah Valley?

RJ Smolenski: Yeah, also a good question. And we talked a little bit about this offline. I attribute a lot of that to my dad indirectly. He was in sales. He sold bio chem research equipment to research organizations. A lot of those are at major universities growing up playing baseball as a kid. And I was spoken for until about until about August. So, we would take our week-long vacation in August. But prior to that, there were long weekends that we would take, places that weren't necessarily vacation spots. But a lot of that was going on the road with him and seeing schools and the education side of things, perhaps more obvious. But at a pretty young age, I understood what it was like to be on a college campus and culture and momentum and things like that and being part of a community. So JMU was on my list in terms of having a solid academic reputation. But being on campus down there when I visited, some of those things that I had grown to learn and to understand about what it was to be at college, even beyond just the academics I think really just kind of came out to me.

Robert Morier: And what did you take out of that experience? So how did you find Pitcairn? I mean, it's always interesting for us to speak with someone who's been at one firm for as long as you have over two decades, nearly two decades I should say. So, it's really interesting that you can discuss and talk about an evolution of a firm. But how did you find it in the first place?

RJ Smolenski: My first job out of school was doing fund accounting, which there are a lot of firms in this area, at least there were prior to consolidation, that were providing those third-party fund accounting services. So that was something I knew I didn't want to do for my entire career and began exploring because those were the early days of internet job postings and the like. I think folks were still working with recruiters as well. So, I had a recruiter, and I was looking at some stuff on my own. And ironically, I found something on the internet, not Pitcairn, that was a multi-family office and Pitcairn through my recruiter as a multi-family office. And I interviewed at both, not really knowing how similar exactly the firms might be or how similar their duties were. Had a great vibe with the interviews that I had at Pitcairn and the process moved quickly. There I was, a few weeks later with a new job as a support analyst for our equity portfolio managers at Pitcairn. While my role has evolved in a few different ways since then, been with the firm since.

Robert Morier: And the firm was the ripe age of 80 years old when you started. It's now 100 years old. So, it's celebrating its Centennial this year. So, congratulations to you and the firm on that success. It's amazing to see that. But would you mind just kind of taking a step back. Tell us a little bit about Pitcairn, what the business is, what your mission is as an organization, and how you work with your family relationships.

RJ Smolenski: First and foremost, I mean, we work hand in hand with our client families. It's an approach that, while wealth management and planning is a part of it, it's not all of it. And I think as a member of our investment team and looking at a lot of firms who may be just outside of the multi-family office space, they're really more investment advisors, it's something that everyone who is present on our investment team, you must embrace. Investments are key, but they're not the only thing. They fit into a planning process, but then they also fit into stewardship and tax planning. And ultimately, our goal through a wealth momentum program that we have where all of these different services are integrated, it's aimed at keeping those client families with our firm for generations. It's not just working with the decision-making generation, whether that's the first or the second generation. It could be the next generation as well. The second or third generation and making sure that they know that they're being heard and that they're being taken care of.

Robert Morier: Would you mind describing the core philosophy that guides Pitcairn's investment manager research process? So as our audience is thinking about Pitcairn, thinking about your role and responsibilities, taking a step kind of from the beginning, what's the philosophy that drives it?

RJ Smolenski: First and foremost, we see ourselves as asset allocators. And again, not surprisingly, it's not a one size fits all asset allocation. It's a goals-based asset allocation. It's focused on how much volatility our clients ultimately can endure, what their goals are, what spending requirements look like or philanthropic objectives. So, getting that asset allocation right is really important. And then it's incumbent upon us as a research team to build allocations at the asset class level within those that are ultimately populated with managers. And our goal, just like any asset manager would be, is to outperform the broad market with the asset managers that we put together. And we want to make sure that we have a wide and broad representation of those managers. But ultimately, the goal is to outperform that particular asset class as benchmark and meet or achieve whatever our total return goal is at the asset allocation level for our clients. So, I'd say building block approach, but maybe more top down from the asset allocation first, and then focusing on the managers and making sure that we're fully outfitted.

Andrew O'Shea: And doing that on an attractive after-tax basis as well. And I think it's interesting to hear you starting the tax overlay program. Obviously, that's become a lot more popular in recent years whether it's through Parametric or others. But you were, 20 years ago, I guess, establishing this program. Could you talk about how you came into pick Pitcairn and saw that as an opportunity to add value to your client base?

RJ Smolenski: Yeah, absolutely. So, it's interesting. Prior to our move to open architecture, we really started dabbling in some… when we had our proprietary structure, dabbling in some… I would say relative to Parametric or where we are today, less sophisticated methods of managing those taxes. But it was effectively managing multiple portfolios in one portfolio where we made sure, hey, if we trade our highest cost lots, that's going to be the most advantageous from a tax standpoint. And if we're doing that in one structure, our clients will be better off. We didn't perhaps do a great job of quantifying it all in those days. I don't know that we even had the tools to quantify it. But we knew almost by default it was going to be better. Fast forward then just a couple of years to our move to open architecture, and you mentioned Parametric who has been a partner of ours, going all the way back to '07, '08. Integrating active and passive, doing it in a single portfolio, having a partner alongside of us to be able to carry those out, it was already kind of an idea or a concept that we had. It was just through that move to open architecture and partnering with a firm that this is what they did really that took that to the next level.

Robert Morier: Just talking about high functioning teams, could you tell us a little bit about your team? So how is the team structured in terms of coverage and how are you working with the various asset classes that you were inferring?

RJ Smolenski: Sure, absolutely. So, our director of research… and I think as you mentioned at the top, my area of focus is equities. So that's long only, and I will I'll do some work and really anything that's equity linked on the alternative side as well. Mike Pidhirskyj is our head of fixed income. So similar to me on the equity side. He would cover anything that's credit. We have a newer member of our team, Rob Mileff, who is squarely focused on alts in private equity. So, he's a third member and one that is newer this year. And then Nathan Sonnenberg is our CIO. Nathan also joined us at the start of the year. When we moved to open architecture, a full open architecture approach in 2008, we engaged a firm down in Rockville, Maryland, called Fortigent. So, Nathan and Rob were both at that organization. We had some history with both of them. Nathan joined us as CIO in January of this year. So, I think the four of us that are focused, Nathan perhaps a little bit less so, on manager research. Rick Pitcairn, who was our CIO, moved into a chief global strategist role. So still heavily and highly involved with the investment story at Pitcairn. Although, I would say the four of us provide a lot of the day to day. Actually, I'd be remiss if I didn't mention Ashley Ruling who is kind of a utility infielder for us, kind of keeping to the sports motif. She does a little bit of everything. And you mentioned at the top some of my involvement, ESG. A lot of that I did early on has now transferred to Ashley and she's intimately involved in that deliverable.

Robert Morier: I think evolution is going to be a theme of this podcast. So, it sounds like the team is involved. You now have direct coverage over private markets. We're going to talk more about private markets in the next few minutes. But just thinking about the overall manager research process, this is something that we talk about and ask our guests often in terms of the underwriting process that's involved when you are looking to fund a manager either the first time or potentially an additional allocation.

RJ Smolenski: This is an area where I would say when we look at private markets, it's perhaps a little bit different than traditional markets or public markets. In the private markets, obviously, you can only access what's available at any given time. I think as an organization, where we're actively looking at and thinking about and we'll start building structures, that will make it easier to avail our clients to the widest swath and most current offerings. But it is an area where that you have to stay on top of it. You have to know what's out there, whether that's through your own sourcing or through consulting resources which I would say, in private markets, we're open and quite receptive to that type of involvement from the outside. In traditional markets, it's a lot of the quant work and screening on the front end combined with relationships that have been built and processes that we've come to understand and appreciate over years. But ultimately, it's finding a fit with some void at this stage of our evolution, avoid that's present on a platform. I think we go into every day thinking that we have, at least on the traditional side, a full array, a wide and full array of managers to outfit that asset allocation. Though, we're oftentimes challenging that… is there a niche market, is there a style, is there some sort of delivery method that's more efficient or more effective to carry out that asset class? So those are the types of things that we're challenging on a more regular basis.

Robert Morier: How did those conversations take place? Are they done on a regular basis monthly, quarterly, or is it more through the natural process of working together?

RJ Smolenski: I would say all of the above. I think we have a weekly discipline where we're getting together and we're meeting and we're talking. And we have quarterly reviews with our relationship managers, quarterly presentation that we put on where we describe the quarter that was, and we elicit feedback. When you have ideas or observations or things along those lines, they don't keep or stick to a calendar. And you're getting back to your comment about highly functioning teams. I think it's incumbent upon all of us to have open door policies and be able to just bounce ideas off of each other and thoughts and things that we've observed in a very no judgment zone. I think that's where oftentimes, a lot of the best new ideas come, just unencumbered and unfiltered and without any sorts of preconceived notions about what was, what is, or what will be.

Andrew O'Shea: That's sounds very open minded and healthy way to do it. You mentioned delivery methods which, to me, might tie into product structure in terms of how you're building portfolios. Typically, what's the most attractive product structure for you on the public equity side? Would it be a mutual fund, separate account, model delivery, ETF?

RJ Smolenski: Yeah, I would say in the US, it's absolutely a model driven separate account across all capitalizations. One of the things that we're excited about internally on the international equity side is we're building out a UMA there as well. We're going to keep emerging markets in small caps and mutual funds. But the top end of the allocation, the most significant allocation to international will be in a model driven SMA or a UMA. But you look to two areas of alternatives, because I do focus on equity, and I think long-short equity in particular, I mean, do you need do you need an LP that provides quarterly liquidity anymore? Do you need to pay 2 and 20 or even 1 and 10 anymore? It's still early stages. But there are a number of effective and interesting ETFs that are out there that are being run for long-short equity. I think we have to talk about thinking about structures and challenging what is or what was. That's one example. And that's not to say we want to jump into those things whole hog and say, the changes occurred, we need to move all these allocations to ETFs. But just keeping our eyes on it, making sure that we're appraised of what's in the market, how things are performing, talking to people, getting to know some of these organizations. And important, I think, in ETFs is understanding what sort of operational infrastructure they have behind them to deliver this because I'm sure we've seen a number of times in our careers. It could be a fantastic idea that either doesn't get off the ground or blows up famously because some important pertinent detail was missed. And then that's it.

Robert Morier: How is that operational due diligence conducted? Is it done throughout the manager research process? We know we've seen some allocators who can even bolt it on at the end. I suspect it may be more integrated from your perspective. But I'd be very interested to hear of it.

RJ Smolenski: It's more integrated for us. Again, going to the private side first and hedge funds, again, probably an area where we would elicit some outside assistance. There are things that you need to look at and contemplate there that are extraordinarily critical. And to be frank, we draw a line in the sand between operational and due diligence and investment due diligence. It's kind of oftentimes two different sides of the brain. Might be incrementally easier on the traditional side and with SEC registration and some of the things that you have as a backstop. That's not to say we don't do, can't do it, or anything along those lines. But we know, and it's part of our due diligence process, is having an understanding about what sort of involvement the SEC may have had over the recent history and what their findings were in addition to getting in and talking to traders and portfolio managers and anyone and everyone who's involved in that process from the top of the process all the way down through.

Andrew O'Shea: You mentioned quantitative being part of the process. As you know, that tells part of the story because past performance is not always indicative of future results. So, your underwriting really a manager that's going to be making future investment decisions. So, what about your process gets you really comfortable and conviction that this is the manager we're going to go with more on the qualitative side?

RJ Smolenski: Yeah, no, I'm glad you asked the question that way and phrased it that way because I think that's spot on. And we talk about this all the time that the quant only gets you so far. That gets us to a focus list, it gets us to some grouping of managers that we know based upon the gauntlet of quantitative measures that we like to look at. They're in the game. And then and that's when it gets interesting from there. So, some of the things that we were talking about at the top about team dynamics and how people work together, how organizations are built, succession planning, leadership, all of those types of things. Sometimes it's as simple as who we're provided access to. I can think of a couple of times in my history where we're looking to do either a deeper dive on a call or an on-site visit, and we ask to see certain people or ask to interact with certain people together in the same room and were always kind of avoided. It was like a little slippery. I mean, that's a red flag for me. So, it's important that when you're in those situations and in those scenarios, you're looking for some things on the qualitative side, and you're eliciting a certain type of feedback or conversation that it's allowed to play out. And I always enjoy, much like we have here today, a conversation instead of a packaged presentation. I'm always leery of packaged presentations, particularly when you're in that environment where you're there to ask questions and get to know people and how they function together as a team. And look, there are investment processes that don't require that same team involvement. If you have a highly quantitative process and there's one or two or three people who run that Quant model and one individual who sits on top of it makes the decisions, then that can work. I've seen it work before more than once. So then perhaps some of the collaboration, the integration isn't as critical. But in a process where people are designed to work together and make decisions together, I want to see them work together and conversate and talk about what's in their portfolio together when we're doing that due diligence.

Robert Morier: Well, we've been through some pretty unprecedented times as you know while through COVID. So, through COVID, when you lost that in-person engagement, that ability to be able to sit in front of someone and not do it via Zoom or just receive the package, how did the firm and your team adapt during that time?

RJ Smolenski: At the end of the day, it's not the same as meeting with or talking to people in person. And I can recall sitting on a virtual panel or two where these topics came up and they're like, oh, well, now that we have Zoom and we have all this technology, then maybe on-site visit isn't necessary anymore. I'm thinking to myself, hogwash, not the way I do it or I like to do it, or I believe our team likes to do it. It's important to look into the whites of somebody's eyes and really get a feel for who they are and how they do what they do. Back to my comment about being presented to… you can't avoid that sometimes on Zoom. It's just you're in front of this camera and sometimes it just feels like a sales pitch. When you sit down across from somebody, it's a conversation, and that's what we're looking for.

Robert Morier: Andrew, same on the distribution side, do you find that… have you been migrating now away from the video and back on the road in front of people or is it still a balance?

Andrew O'Shea: I'd say it's a balance. But being on the road is irreplaceable. And you have to get a little more creative about where you're willing to meet people because they're not always in their centralized office. But at the same time, they're more open to grabbing lunch or coffee. So, I think to RJ's point, I think from the distribution side, you want to be efficient with the allocator's time. And if they want to do a Zoom, that's certainly helpful. But at the same time, being on the road is preferred for sure.

Robert Morier: How about risk management? How does risk management play into your manager research process? We talked about asset allocation, and we hear a lot of allocators who also think about risk buckets. So, as you think about risk management, risk tolerance, obviously, what you're doing can be quite bespoke for your underlying families. But could you talk to us a little bit how you think about risk management, particularly as an asset manager is reaching out to you?

RJ Smolenski: I think particularly when you start dabbling in private assets and alternative assets and use of leverage, some of the risk becomes real and the risk management becomes real. So, I would say we gravitate towards managers generally that employ leverage but maybe less so to the extent that we do have a manager or managers that do happen to use a little bit more leverage, which we do. We're very careful about sizing. And they are in, I would say, more bespoke situations and bespoke portfolios. It's incumbent upon us, even though we like to talk about and think about the packaging, all the assets working together in an asset class when we're using one of those resources. Part of this is client risk management, not just portfolio risk management. It's important for the client to know what's in there and how it may behave. And something that has an outsized return is up 25% one quarter, there's just as much potential for that to be down 25% the next. That's just kind of the way risk works, and the way leverage can work. So yeah, I would say thinking about it from a portfolio standpoint, from an asset standpoint, but also part of that risk management, again, is client management and having client conversations and making sure they know ultimately what's in their portfolios.

Robert Morier: How about time horizons just for asset managers who are calling you, setting and managing expectations… probably one of the more challenging aspects of Andrew's job is just thinking about when you make that first call to when there may be an opportunity down the road, if everything fits based on the criteria that you had described. How long is the courtship?

RJ Smolenski: There's really no one answer to that question, I think. And a lot of it has to do with, we've touched on this to varying degrees, the incumbents that are on the platform. If there's no reason for us to make a change, and we like the managers that we're working with, they are known commodities. We're going to stick with the incumbents. If there's something there that's a little slippery, we get a little squeamish about, that's oftentimes when we get a little bit more proactive with respect to what might a replacement look like, what's out there. Now that's on our side. Obviously, there's a flood of inbound that we're getting on a regular basis and that can be a lot to manage. And I think we have to be selective about the meetings that we take and the conversations that we have. We want to make sure that we're talking with as many people as we can. But just because we're speaking with somebody, doesn't mean that there's a present opportunity. And I think, again, it's important for us as analysts on our team to set those expectations on the front end. This is interesting, there could be a fit down the line, but we don't have a slot or even I don't see there being a fit for the foreseeable future, and we'll let you know if that changes, so, I think it's really important for us to be open and honest and to address those things. And there's plenty of calls and plenty of inbound that slip through the cracks because can't address everything.

Robert Morier: How about some of the areas that you're working on today? So, what are some of the areas that are taking more of your time as you think about particularly on the public market side, some of the asset classes where you're digging maybe a little bit deeper?

RJ Smolenski: Yeah. On the public market side, I would say we have been looking… a good bit at areas of the market where it could make sense to be more passive. I think that always comes up when there's a streak of manager underperformance. You look at the long only large growth segment within the US and that's been a difficult spot now for quite some time. The absolute returns are attractive, the relative returns less so. So, we've done some research recently and some interesting findings there. I touched on active ETFs and how they might be woven into a process, whether that's long only or more on the alternative side. I think they could conceivably fit in either way and there could be some intersection point there between the ETF and something that's like it's active smart beta, but growth tilted and the comments I was making about the large growth segment. On the international side, I mentioned implementing tax overlay. And we're in the process of bringing that live. That'll occur in the next couple of months. That's a positive evolution for us. We took a fairly aggressive stance on emerging markets and the growth that we saw in emerging markets, or we thought we might see in emerging markets in maybe the 10-year period leading up here to 2023. And looking back at that, certainly, it would have behooved us to put more assets in the US and of the international allocation have more of that be developed. But we had a pretty robust emerging market allocation. We've cut that allocation and we're still constructive about emerging markets. But we're really, from this point forward, looking at some data and some research that's out there. We're focused on managers that employ some sort of a top-down orientation. If you look at the country effect in emerging markets, the impact of getting the country right, the region right is much greater than getting the individual security right. At least it has been for the last 15 or 20 years. So, we've tweaked our allocation, brought the EN allocation down, and we're squarely focused in those areas.

Robert Morier: Is China still part of that equation?

RJ Smolenski: China can be part of the equation if the manager so chooses. But generally speaking, it's an underweight relative to the emerging markets and into the broad international allocation. We don't do too much to tweak those countries in-house, at least right now. But I think that we have a good partner, a good manager in that particular space who's really very open about their viewpoints and why they are the way they are. And I think a great deal of philosophical alignment, so they happen to be happy underway to China. And that means our clients are too.

Robert Morier: Interesting. Thanks for sharing that.

Andrew O'Shea: You mentioned the quantitative and qualitative process. But are there specific criteria you have to underwrite a manager? Would you look at smaller emerging managers or tend to be you need to see that track record in AUM based before starting due diligence?

RJ Smolenski: Ideally, there's a track record there. And then depending on the space, we might be willing to dip down and to invest with somebody who's got less in the way of AUM. But generally speaking, five years is great, three years is fine. If we're going inside of that, there needs to either be something about the structure or the manager or the fact that it's a lift out or somebody that we knew came out of an organization that we knew and trusted, they're employing roughly the same process. In terms of the AUM number, again, it varies. So, in small cap, we don't want the AUM to be massive. We don't want to have to replace those managers every year or two if they happen to be successful. So, we're much more willing to take somebody who's a bit smaller. Up cap, you don't need to take those risks. So, somebody who's out there, who's been out there for a while, who's had a demonstrated success. We tend to look for the longer track record there in greater higher AUM.

Robert Morier: Another area that's involved is ESG. You mentioned it at the top of the show. So just curious, it's obviously caught a lot of attention of a variety of different investors. So, any evolution as it relates to ESG and how you're thinking about ESG in regard to what your clients' expectations are relative to your managers?

RJ Smolenski: Yeah, I would say, first and foremost, it's critical we have a solution. And it was critical for us to build a solution. Beyond that, we felt very strongly that the investment merits needed to be at the lead. Mission and other ESG oriented factors, they have to be there. But the investment merits have to be there first. So, I think we look at everything, whether it's in a public market or a private market, through that lens. Beyond that, there's a number of different groups out there now managing ESG money. You have your old school folks who were SRI managers, who have kind of now adopted this more kind of, as opposed to a screening approach, just kind of the more positive kind of trend based mentality, and then you have folks on the other pole who are greenwashing their portfolios and really aren't ESG at all, and then you've got folks that are in between where they have a process that might have been focused on better corporate management and better governance and things along those lines, and it's just a tweak or two, and they're ESG ready. I would say we want to avoid the greenwashing folks, especially for this cohort. But to me, either of those two other groups, whether they're more traditional, they roll up their shirt sleeves, maybe they've got activists that work with these companies on staff… that's great. But if they don't, that could be OK, too. And much in the spirit of diversification, making sure that we have coverage and something for everyone. It's incumbent upon us probably get both of those types of managers and weave them through our program.

Robert Morier: How about digital assets? It's been something Andrew and I ask a lot of our guests if digital assets have made their way into your client portfolios. And if they haven't, how are you approaching an emerging sector, a sector that's developing quite quickly? So, kind of getting yourself up to speed, educating yourself as to what constitutes that type of investment potentially for one of your clients in the future.

RJ Smolenski: Yeah, we really haven't dabbled in that area broadly for our clients. I mean, there's no doubt in my mind that the traditional currency systems are going to become more and more digitized. But I think oftentimes, that's not necessarily what people who are looking at crypto and digital assets are looking for. It's not the digitization of existing currency or world currencies. It has more to do with regulation or deregulation and things along those lines, which can be a little hairy. But what I would say is, we're stewards of our family's wealth. We have to be careful about the risks that are taken are being taken. That having been said, if there's a little bit of money that a client might want to take and make some decisions on their own, that's not going to disturb the greater portfolio or put the next generations at risk. We're open to having the conversations with our clients, but it's not likely that we're going to be pushing any of those things at large for the foreseeable future.

Andrew O'Shea: I would just be interested more high level. You all have been so consistent in your identity as a firm over time. There's been so much M&A and you've really stood by Pitcairn in terms of your consistency in philosophy. Thinking about evolution, which we talked about, thinking about that related to private markets, has private markets always been a component of portfolios or is that become an area that you've added to over time more recently?

RJ Smolenski: Yeah, I mean, they've always been a component of portfolios. I would say a lot of our client families, they've attained wealth through ultimately private equity. I mean, it's owning a business or businesses. So oftentimes, those less liquid or illiquid allocations are being handled by what's made the liquid fortune. So, we want to make sure we take a measured approach in those areas. Where our platform continues to evolve, I mentioned alternatives. Private equity is absolutely part of that. I think we're doing a lot right now to avail our clients to more and more ideas on the private side and, again, I would say ultimately assure as best as we possibly can that the allocation to less-liquid assets is an appropriate allocation. And it goes both ways. I'll oftentimes, in the context of asset allocation, talk about liquidity and illiquidity as a super asset class. And we have clients that have too much in the way of private assets, and we have clients that have too little in the way of private assets. The ones that have too much, you need to figure out a way to liquefy their portfolios as soon as practicable so that they can take care of some of these objectives that they have that may be non-investment objectives we talked about at the start. But for those that are highly liquid and can endure a little bit less liquidity, less liquidity does equate to greater returns if you're doing it the right way. We believe in illiquidity premium. So, we want to make sure that we have the fullest and most robust solution set for all of those clients, but in particular, the ones that the ones that need it. And as a team, we're working hard on that right now.

Robert Morier: So, what are some of the main challenges then that you see in opportunities as it relates to the investment management industry? We've talked about Pitcairn's place in it. It's been one hundred years, it's a steady business. And I think we talked a little bit about this before, evolution instead of change. We talked about James Madison University's slogan, be the change. But sometimes, change isn't the best approach. It's better to evolve. So, as you think about the near future into the midterm, what are some of the opportunities and challenges that you're foreseeing?

RJ Smolenski: We talked about track record. New product means no track record, which can be a little bit scary. So, it's ultimately like identifying the things that we think will be around for a while. And the other thing that technology and some of these advances have brought is the ability for somebody to come to market much quicker and much cheaper, which also makes it a lot easier to cut the cord when things aren't going right. And that's what we try to avoid as a team. We're generally not bringing anything on to our platform that we think is going to be gone within five years. If there's a manager that we hire and one that we're firing in 18 months or 24 months or 36 months, chances are we miss something, we got something wrong. And I think with this new generation of products and technology, I think that still holds. It's incredibly difficult to have a conversation with one of our relationship managers about something that we just brought on brought on board a couple of years ago that we have to remove or is going away. I know how I would react. They're reacting in a very similar way. It's even more difficult to have that conversation with the end client. I have both. I don't want to have both, but I do. And they're difficult conversations. We also have to balance that idea or notion with just putting a manager onto our platform and they just kind sit there for 10, 15, 20 years, and then there's this kind of perception that, well, maybe there's something better out there. So, there is a middle ground. But I think getting back to your question, technology and some of the benefits, but also the ramifications of how easy technology is making things, liquification of markets as well, it can be a very good thing, but it could also bring forth considerable risks. Understanding what you're buying, understanding what it represents, whether a given market really can be as liquid as the underlying instrument is… is really important.

Robert Morier: Wonderful insights. Thank you very much. Well, we're getting close to the top of the hour. And we always like to end the conversation by asking our guests the people who have really helped them through, this successful career that you've seen over the last 20 years, thinking about your college years, all the way through to today. So, who are some of those people, some of those mentors that have really been influential to you.

RJ Smolenski: Yeah, I mean, absolutely. I mean, I think, obviously, growing up is my parents. Kind of highly influential in how I approach every day. But also, as it kind of gets into my professional career, how important loyalty is and setting forth to do something and then sticking it through. I mean, every job, every organization goes through peaks and valleys. You enjoy the peaks, but I think you have to sometimes weather the storm and understand that if you happen to be in a valley, the best thing to do is work through that because it makes getting up to that next peak feel that much more fulfilling and enriching. So, I think a lot of that came from my parents. Mentors I've had in the organization, I think our first CIO, Jack Yates, when I was getting a started in the organization, Jack left the firm and Rick Pitcairn took over. So, I think with Rick, it was always kind of a combination of understanding the investments, but also understanding family dynamics and how we serve ultimately that end client and what that's like. And we're not just an investment management shop. We're an investment management shop inside, first, a family office, and then a multi-family office. And again, as I mentioned, you have to embrace all of that within our organization. And working for Rick all that time absolutely helped me to do that. I would also give credit to our entire suite of relationship managers. Any and every time I'm invited into one of those conversations where I'm able to sit with them and the end client is an enriching experience for me. It's an opportunity for me to think of things different ways because our clients oftentimes are thinking of things different ways or hearing things different ways. And there is no doubt in my mind the more involvement that I got with the end client, the better it made me as an investment thinker, an investment professional, a teammate, a colleague, all of those things. So, I credit a number of our relationship managers, really all of them, because they all invite me into those conversations and invite me into their client's living rooms. And I'm deeply appreciative of that.

Robert Morier: That's wonderful. Thank you for sharing all that. Well, congratulations again on all your success. Congratulations to Pitcairn for 100 years.

RJ Smolenski: Thank you very much.

Robert Morier: We hope for another 100 years for them. I don't know about 100 years for you, but definitely another 20.

RJ Smolenski: Definitely not 100 years for me. But yeah, 20 sounds good.

Robert Morier: Good.

RJ Smolenski: 20 sounds great.

Robert Morier: Andrew, thank you, as always, for being here. We appreciate it. Thank you for your questions. Well, if you want to learn more about RJ and Pitcairn, please visit their website at www.pitcairn.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'd 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. RJ, again, thank you for being here in the Philadelphia Studios. We'll see you in a couple of weeks at the conference. And Andrew, thank you. And thank you to our audience for tuning in.