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EPISODE 48

A Principled Approach to Investing

*with the Utah School & Institutional
Trust Funds Office*



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 a 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. Well, I am thrilled to introduce our audience today to Peter Madsen, Chief Investment Officer for the Utah School and Institutional Trust Funds Office, better known as SITFO. Peter, welcome to Philadelphia.

Peter Madsen: Thank you for having me.

Robert Morier: Thank you for being here. As always, Dan DiDomenico from Dakota, thanks for joining us on the desk.

Dan DiDomenico: Great being with you as always, Robert. Thank you.

Robert Morier: It's a pleasure. Thank you. Well, we're getting close to the holidays, so it's a good time to be in Philadelphia. I'm sorry you had to leave Utah. I know it's starting to snow there, so you have to get away from the skis. But we appreciate you being here. Thank you so much.

Dan DiDomenico: Yeah, of course.

Robert Morier: Before we get started, we are going to read your biography just to let the audience know better about you and SITFO. So, Peter is the Chief Investment

Officer at the Utah School and Institutional Trust Funds Office, SITFO, a seat he has held for the past eight years. The Utah School and Institutional Trust Funds Office was created in 2015 to manage the state of Utah's sovereign wealth fund. For some historical context, when Utah became a state in 1896, the US Congress granted approximately 6 million acres of land to benefit public education and perpetuity. Fast forward 125 years or so. The fund is currently managing approximately \$3.3 billion in assets. To further benefit Utah's children, the Utah School and Institutional Trust Funds Office was created to optimize these funds. The state assembled a team of investment professionals with significant financial experience in both government and the private sector. So, for some financial context, public schools in Utah received a record-breaking \$101 million from the sovereign wealth fund in 2023, a 5.4% increase from 2022 distribution of 95.85 million, and 8.8% more than the previous year's 92.84 million. This funding is separate from other tax-funded sources for K through 12 public schools. Peter was brought on by SITFO at its inception and has been critical in establishing the direction of the organization. Working in the investment management industry since 1999, his most recent experience prior to joining SITFO includes managing director of Cube Capital, an investment group in London. His career covers a wide range of experience in global investing for large institutional clients, such as pension funds and endowments, as well as sovereign fund experience from another state. Prior to joining Cube Capital, Peter was a senior consultant with RVK, a senior analyst with Blue Heron Capital, a spin-out from Russell Investments focused on management consulting for investment organizations, and an associate with Monterrey Venture Partners. Peter began his career in media as a technical operator in broadcast news operations. Peter holds a Bachelor of Arts degree from the University of Utah in International Political Economy and Russian. He also holds an MBA focused on International Finance from the Middlebury Institute of International Studies. Peter calls Utah home, where he lives with his wife and three daughters. And, Peter, thank you for being here in Philadelphia. Congratulations on all your success.

Peter Madsen: Thank you. Appreciate it.

Robert Morier: It took me a second to read through that. It's because you've had a very successful career and obviously very varied, starting with broadcast and then ultimately into finance. So, we're very excited to learn more about that over the coming conversation.

Peter Madsen: Thank you. I appreciate that. Yeah, it's a lot of different jobs, but I'm currently very happy where I am at SITFO.

Robert Morier: Good. I'm happy to hear it. Well, let me start by saying, happy anniversary.

Peter Madsen: Thank you.

Robert Morier: I know today is your anniversary with your wife Kirsten.

Peter Madsen: Yeah.

Robert Morier: And she's here in Philadelphia with you?

Peter Madsen: 26 years today. And thank you for mentioning that at the top. Everything we talk about couldn't have happened if it wasn't for having a strong partner like Kirsten.

Robert Morier: That's wonderful to hear. Thank you for sharing that. So well, tell us, since we're talking about her, where did you meet?

Peter Madsen: We actually met in Russia. I went over to Russia. As you mentioned, I have a bachelor's degree in Russian, so I thought it was appropriate to spend some time there. I also always had a sense of the wanderlust. And so, I was over there initially for a study abroad myself, and then ended up staying and working and met my wife when she was there as a study abroad. And living in Russia at the time, it was a little bit rough and tumble. And we had a lot of good challenges, a lot of great adventures, became friends, and then ultimately fell in love in Russia.

Robert Morier: Well, you have a degree in Russian, but you also had dreams of becoming a cinematographer or maybe a photographic journalist, if you told me that?

Peter Madsen: Yeah, one of the few things I was good at in high school, besides skiing, and rock climbing, and stuff like that, was we had a TV studio in my high school. And it was one of the old-school really huge cameras, separate room with control board. And we learned that skill set there in school, sort of a vocational aspect, as well as we had a good photography teacher, good photography lab. Got interested in black and white film photography and thought it was a good way to combine being outdoors and pursuing some adventures. And right out of high school, actually, I got a job at... I don't know if you guys are probably old enough to remember what a UHF channel is.

Dan DiDomenico: Sure.

Peter Madsen: So, it was a UHF channel. And shortly after I was working there, Rupert Murdaugh made his entry into the US by buying all the UHF channels and converting them to a VHF channel. And he also trimmed the headcount a bit. And being one of the newest people on the team, I was let go. And yeah, so once I was laid off from what became the Fox News Channel... Fox News Network, actually

technically, it's the Fox News Network... I was unsure of what to do. I worked at another video technical background type of job. And a friend of mine approached me and let me know that we could work at the ski resort, get free room and board, work at night, and ski all day. So, I thought that was a good thing to do while I figured out what my next job would be and how I pursued my career and take some pictures and all those good things. And then I met a ski patrol person who suggested I follow him up to Alaska to work in the fisheries in Alaska. And I got onto that pattern of going into Alaska in the summers, ski resort in the winters, and climbing in the spring and fall in between. And I was having a great time, but at some point, you realize you need to settle down, I guess, or end up becoming a professional of one sort or another and decided that what I had learned about Russia and through broadly reading the news being in Alaska, there's a lot of Russian influence. And so, when I went, I decided I needed to go back to school and just picked Russian as my degree.

Robert Morier: So, coming out of that degree, your first role, if I remember correctly, at least in financial services, was with Blue Heron. So how did you end up finding that role?

Peter Madsen: Yeah, actually, that's maybe a little bit of interesting context just leading up to that because having a Russian degree and bachelors in Russian doesn't necessarily lead to finance or any investment capabilities. And so, I went straight to grad school with the intention of pursuing a degree that was called Commercial Diplomacy at the time. And it was basically to be a diplomat of one sort or another working with the World Trade Organization or working in the Foreign Service. And my first few days of classes there, something wasn't quite right. And I met a couple of folks at the happy hour. And one of them turned to me and asked me if... he said, aren't you so glad you're in the MBA program? And I realized I wanted to be in the MBA program actually. So, I took the GMAT that weekend, signed up for the MBA program. And the following Monday, I was in the MBA program. I worked, as you mentioned, at Monterey Venture Partners based in Monterey, California. It was an early-stage startup venture program that, since it started in the heyday of dot com days, it maybe, somewhat predictably ended in the bust. And so, I was out looking for what my career might be and open to really any opportunity. And not having that much of a network, if you will, in finance, we did have one family friend, my in-laws who worked at Russell Investments, and introduced me to someone named Jeff Hanson who had founded Blue Heron. So that's how I ended up at Blue Heron consulting.

Robert Morier: What were those years like with Jeff? I would assume you learned a lot from him. He has been in the industry for quite a few years. He's really a luminary as it relates to consulting and consulting institutional investors. So, what were those years like for you working with Jeff?

Peter Madsen: It was great. It was a small team of folks who were some of the original investment manager research people at Russell, one of them being Duncan Smith, who I think he started in '83. So, this was when... it was Peter Dietz, I think, his name is the guy who created Modified Dietz that we all use for calculating performance. Obviously, George Russell, Duncan Smith, a handful of other folks who unfortunately I don't remember or know their names. And then Russell grew over the next 20 years to be just a powerhouse. And at one point, they were bought out, and a few folks took that as an opportunity to take the next steps in their career. And that handful of people included, as I mentioned, Duncan Smith, someone named Nola Kulig, and a few others. And they set up shop to work with investment management companies, both large multinational corporations, as well as some boutiques. And I was the support person, and I had a lot of tutoring and mentorship from Jeff Hanson. He's a great individual, very thoughtful, independent thinker. And one of the best benefits of that was we were management consultants. So, these money managers would hire us to say, I have a problem. Or I want to accomplish something. Not quite sure how to do it. I need some extra resources or an outside view. And so, I was inside the C-suite, if you will... CIOs, CEOs... talking about how they thought they were underperforming, what they thought their problems were, what kind of changes they thought they could make, building teams, repairing investment processes. So early on, I was really in the back behind the scenes or where the sausage making was in investment management.

Robert Morier: That's a good place to be, especially early on in your career.

Peter Madsen: Yeah, it was great.

Robert Morier: And you leveraged that to go on to RVK up in Portland, Oregon.

Peter Madsen: Yeah, that's right. I ultimately... I ended up one point at RVK. It was a great opportunity. It was a smaller shop when I joined. And Russ Koons was still there. And working at RVK was fantastic as we were... as I mentioned, we were a smaller team, so it was all hands on deck. And at the same time, we were growing the public pension client base. So, as you might imagine, public pensions are fairly demanding. They can have fairly large teams themselves or fairly large portfolios in small teams. And either way, there's a lot of demand on the consultant support side. And being early days at RVK, I was thrust into the mix of some of those important client relationships and how to support them.

Robert Morier: What were some of those foundational aspects of that role that you've taken with you now sitting in the seat as a chief investment officer? So, looking back on your days as a consultant, what were some of the lessons learned?

Peter Madsen: A fair few of the clients. I inherited were... or one as a new consultant, once I made partner and was out trying to win business, we're in a state of flux. So, for example, we worked with Texas Municipal Retirement Systems. They were 100% AAA long bonds at the time. They had a new CIO and a plan to build out staff, build out an asset allocation. And working with them through that whole process was, in a way, somewhat similar to how my experience at SITFO has been. And so, a lot of lessons learned there being able to have that experience of moving from one entirely different style of team and portfolio management to another. And I had a couple of other experiences which were a little less dramatic, but still meaningful change. For example, one really directly relevant experience I had was working with the state of Oklahoma, which was the exact same entity as SITFO is. It's slightly different. There are 22 of us sovereign wealth funds in the Western states, and we're all slightly different in one way or another. But there are a lot of similar aspects. A fair few of us started out when the territory became a state, then your state constitution, it defined the sovereign wealth fund with the idea that you'd be investing in bonds and distributing out the interest or the coupon. And so there are some technical aspects to that, which didn't really allow for diversification or treating it as what you might call a total return type of approach for portfolio management. So, one of the experiences I had with Oklahoma was to try and change the state constitution. So, I had meetings with the lieutenant governor, the state treasurer, and legislators, a lot of stakeholders... so doing a lot of lobbying, and helping design a pamphlet, and really working with that, which ultimately didn't happen. But it was a good lesson learned and—

Robert Morier: In true government fashion.

Peter Madsen: Yeah... set me up for some experience at SITFO, which is fairly similar. And also, this is actually just useful for my career, broadly speaking. But while at RVK, Russ was a fantastic salesman. He started out at Merrill Lynch, like a lot of the other consultants at that time. And Becky Grotzinger, Jim Voytko, Marcia Beard were these senior experienced consultants who had been doing this for a long time. I show up as the person who was running some numbers and writing memos in the background. And one of my first meetings, Russ took me to... it was a couple hour's drive. It was a Taft-Hartley plan, so everyone on the board has a day job. And they were meeting at... I think the meeting started at 7:00 PM. So, they were just finishing their Subway sandwiches or whatever it that was being catered. And of course, we're in Oregon, so it's dark, cold, rainy outside, windowless conference room. And the task was replacing or adding a fixed-income manager. And so, I do all this analysis, make sure I'm on the right page. And I show up with probably 1,000 pages of hard-copy material, hand it around. And I'm going through each page painstakingly talking about five different fixed-income mutual funds for this small client. And at one point, someone asked me what duration was. And I thought, oh, great. This is my time to

shine. I'm going to start... and before I could get past the first sentence, Russ puts his hand on my materials, and he says, it's a measure of risk. Why don't we tell them which manager we're recommending for investment? So, I learned pretty early on how to read the room. Maybe I didn't fully learn it, but I got a lot of experience working with large clients, small clients, working with board members in a public meeting session or behind the scenes. And that experience is really useful as CIO. Now I have to make sure and coordinate with my trustees and stakeholders make sure that they understand what our path is and make sure that we have some buy-in or that we're able to answer questions. And then, of course, a significant portion of our meetings are public and open... and so really learning how to give presentation in that setting.

Robert Morier: That's wonderful. Thank you for sharing all that. Just as a side... my first business development pitch was with RVK and Marcia Beard.

Peter Madsen: Oh, OK.

Robert Morier: And it was out in San Francisco. I was 26 years old. I was covering for someone much more senior than me. And I was going in very green, very young with a very large stack as well. And she came up to me before the meeting and said, just read the script. And I did. And we won the business, but it was very sage advice from a very experienced consultant.

Peter Madsen: Yeah, Marcia knows what she's doing.

Robert Morier: She does. Thank you for sharing all of that though. But you did something different.

You went to the other side of the table. You went and joined an asset manager in London, which is very interesting, really want to hear about that. But what took you to the asset management side of the business and with a hedge fund manager, Cube Capital?

Peter Madsen: Yeah, so I was really happy in Portland, really happy at RVK. We had three young daughters. They were very young, and things were great. Of course, Portland's a great place to live. And RVK was a great group of people. But always, also, as I mentioned, I had a bit of the wanderlust and always thought that I'd end up back overseas after getting an MBA. That was part of my intention of going to the school I went to. I was working on a project for looking for satellite hedge fund managers for client portfolios. We had large fund-to-fund exposure and were looking to do something just a little bit different, bring something new to client portfolios. Met Cube Capital... so I met Francois Buclez in a meeting where he was really impressive, high energy, obviously very intelligent, great performance. And when we talk about houses, we say it has

great bones. But just the presentation itself and some of the claims and then some of the exposures... there's exposure to Iraq and Zimbabwe. And after the meeting, I said, this is really super interesting. You seem really great, but RVK would never invest, and I'm pretty sure no other pension fund that I'm aware of or client of ours would invest. And that's a pretty good sample for as you're out talking to US institutional investors. And I guess he liked that feedback, had a think, and then sent me an email about what I suggest they do differently or what other feedback I had. And my Blue Heron hat came on, and I started thinking about... I think I started drafting a long letter, which was turning into a memo. And then I decided I should probably get paid for that. And next thing you know, I had a job interview and ultimately accepted the offer to move to London.

Robert Morier: How were those years in London?

Peter Madsen: It was great. It was really tough at first. Being at RVK, I was really comfortable, like I said, in where I was and how things were going within our lives. And as you're the consultant representing a lot of AUM, you have a lot of access in the industry sitting across from Titans of industry and smaller rooms, and more intimate settings of and asking them hard questions, or just asking them their thoughts. And so that was a great experience. And I was feeling maybe a little bit overconfident. I moved to London and working with Cube. And their more brass-tacks kind of folks, really wanting to make sure that we were accomplishing the best risk or return for unit of risk. And everything was really about that. It wasn't about who you were, or what your ego was, or what... it was about best ideas. And while RVK is obviously trying to do the best they could for clients, it's more US West Coast consulting environment, which everyone's trying to do the best, but they go about it a little differently. And so, it was a little tough easing into that. And I was away from my family for most of the first six months. And I have another fun anecdote where I had met Mohamed El-Erian a fair-few times. And I was coming back from London, and it was a red-eye flight. And I can't remember what... we must have been headed to the LA airport. I don't remember. Maybe it was JFK. And couldn't sleep, and I go to the snack section. And there's Mohamed El-Erian. And I said, oh, hey, do you remember me? And he's very gracious. I think he may have remembered me. I may have given him a clue or two, and he just nodded. But he asked me what I was up to, and I told him. I was maybe feeling a little lonely and oversharing. But I told him it was tough, and I was finding it really hard. And he said, it's not hard. It's just different. You'll get used to it, and you'll be good at it. And I was really impressed by his capability of not just saying, leave me alone, I just want some crackers and some sparkling water, and leave me alone. So anyway, that was a great... but it was reflective of it was a tough time for me. It was a change, but our family ultimately... it was tough at first, but they grew to love it. They actually were really bummed out and maybe still hold it against me that we moved away from London.

Robert Morier: Well, I'm sure you've made it up to them over the years since. But thank you for sharing all that. I always find it interesting. I also spent time in my career in London. I did something very similar. I started with a new shop and having to build something new away from your family. It takes a lot of time. And the cultural differences are there. And it can take time to navigate into it. So, I appreciate you sharing that. So, what was it about the mission of SITFO that ultimately brought you back to Utah, brought you back home and to this brand-new... even though obviously we talked about the dates of when the state was incorporated and the history of Utah, but as it relates to the investment portfolio, it's very new. So, what was that like?

Peter Madsen: It was actually... yeah, so the mission obviously was really important to me. I always liked when being at RVK all of my clients that we shuffled and covered. But for the most part, if you're an investment consultant, your clients are non-profit entities. And so, you feel like you're helping. You're doing some good. We're serving ultimately at the end of the day, pensioners or non-profits, foundations who are making grants. And I really... I thought, if you're an investment manager, you're doing a version of the same thing, depending on who the clients are, right? But this just felt a little more direct. And then I think of Salt Lake City as home, even though I've lived there about half my life at this point. I've always thought of it as home. And then what really drew me to it was I always wanted to be in that single portfolio person. Obviously, you're always going to be on a team. You're always going to need to rely on a lot of other people, but to be the person who, at the end of the day, is responsible for what's going on in the portfolio. That was a long-term goal I developed while at RVK. And having an institution that was ready to start over, if you will, was about as attractive as it could be. And actually, another fun memory is when we were winding down at Cube Capital, I had a nice runway on what to do next and was trying to be open-minded about staying in London or Europe or going to Asia, what was available in the US. And at one point, I talked to a headhunter in the US, a recruiter. And I said, yeah, if there's a CIO role in the Western US, I'd like to have that job. And she laughed, I'm pretty sure. If she didn't laugh, she should have. And then she called me back two or three weeks later and said, you're not going to believe this, but there's this job in Utah that we've been hired for. It's a little bit under the radar. It's early days. Maybe you can make something of it. But at present, they're just hiring a CIO, and there's no organization. So, I really was excited by that and made it through the interview process. And I like to joke and say that no one else must have applied because I ended up getting the job. But yeah, SITFO was obviously a great opportunity as being somewhat of a blank slate.

Robert Morier: Yeah. What was that blank slate like? I mean, we were kidding around before this, saying it was an empty suitcase. So, you had to fill it. So, when

you thought about... it was very entrepreneurial. I teach entrepreneurship at Drexel. So, I think about having to build something, even though there's a history, and you are reworking it in a way, what was that blank piece of paper like?

Peter Madsen: My first meeting was with the state treasurer. And he gave me a hard copy of the statutes and described... went through some of the more important ones to help me get my day started and gave me a laptop in a box. And they had a spare office... Betsy Ross, who had just retired, literally. So, I sat in her office till I got an office and figured out where the spreadsheets that were previously being used. It was a 70 2010... so 7020 being equities, fixed income, all at Vanguard, and then some real estate exposure.

Robert Morier: So, Dan may have been your relationship manager.

Dan DiDomenico: Yeah, that's right,

Peter Madsen: Yeah. And so that was important news, I guess, for the Vanguard folks when they found out they were building out an investment office. Really took the time to, over the last eight years, to build the team, change some things about the portfolio.

Dan DiDomenico: Peter, this is where now you're thinking about the actual investment program and setting those investment objectives, thinking about the time horizon for the plan. How did you go about even starting down that path and endeavor of creating the construct of what you're following today?

Peter Madsen: Well, like I said, being at RVK, and I had a lot of good role models, if you will, or models to follow, and a lot of reps perhaps you could call it working with these different clients and then working with other peers at RVK and what their clients were working on. And but I do have to say that after being at the hedge fund at Cube Capital, I was pretty eager, and markets were correcting and 2015, late 2015, 2016. And my first meeting with the trustees, I showed up with some suggested new investment ideas. And one of the trustees was David Nixon, who was a really thoughtful individual. He's our longest serving trustee still. And he said, you know what, I think we should probably start with agreeing on what our beliefs are and laying some foundational aspects, policies, and other things. And that was really wise counsel. And I was trying to do a lot of different things at once and ultimately still am. But the... started out with thinking about beliefs and then investment policy, and we really took almost nine months of wordsmithing that document together in public meetings. You can go listen to that if you have trouble sleeping. But at the same time, we were also hiring a couple of people, had a small budget, hiring an investment consultant and building out the next steps for things like the office, the

furniture, and getting a custodian, and looking at ultimately asset allocation. And so there were a lot of irons in the fire, but we ultimately spent at least a year working on the foundational aspects before then more actively changing the investments in the portfolio.

Dan DiDomenico: Yeah, I noticed that when looking at some of the documents that you have on your website, you do remind everyone of those core beliefs, who it is that you're serving. And that serves as the guiding light, if you will, for the rest of the portfolio. But when you think about risk, though, how did you identify with those levels of risk would be? What's appropriate for the funds?

Peter Madsen: We're somewhat unique in that we have what we call a corpus, which, as I mentioned before, that arcane construct of you put the bonds, you invest the contributions in a bond, and then the bonds are always inviolate, or those aren't sold down. So that's something that was a feature. And then we also had the feature of we're only able to distribute interest and dividends. And so right away, one of the other things we worked on, which isn't necessarily about investment process, but important to our governance and our structure was changing the constitution to allow us to amend and modernize how we manage the portfolio. We were successful. My first time wasn't very successful. This time, a lot of support—

Robert Morier: Well, this is where your diplomacy degree comes into play.

Peter Madsen: Yeah, there you go... and a lot of support. It wasn't necessarily that it was something that I did. It was... there were a lot of people. You think about PTA, and school board, and all these folks who really like the idea of giving more money to schools. And when you think about intergenerational equity and balancing out managing the trust across generations, all of those are pretty logical arguments that are pretty easy to agree with. And then, once we had that fingers crossed that was going to pass... it is on the ballot in 2016, so it was almost exactly a year after I joined. And we were still working on building out the plan, the governance structure. Ultimately, we sat down with the trustees and said, at what point would you panic if these were our losses? And we surveyed, and went back and forth, and tried to visualize, what is it like to be down 40%? And then looking at this construct of the corpus, and the distributions, and coming back to that a bit later. And then ultimately decided that we do have a risk tolerance, and a return objective. And while those two might be sometimes hard to reconcile, we try and navigate between those.

Robert Morier: How have those objectives evolved over the last eight years? So, you had this clean slate. You knew the beliefs that you had to adhere to, setting expectations in terms of risk management going through those exercises with the trustees. So, the evolution over the last eight years... how have those goals and objectives changed or enhanced?

Peter Madsen: As you might recall, most of us in the industry have said, we have low expectations for equity and fixed-income returns. We've probably been saying that for at least 10 years, maybe 13 years now. And we initially set an objective of inflation plus 5% CPI plus 5. And fortunately, we have great trustees. They can handle some nuance. They're investment professionals. And we said, that's somewhat aspirational, but our distribution policy is roughly 4%. And if we go for CPI plus 5 and, perhaps we fall a little short, that might be OK. We have a risk tolerance of roughly equivalent to the 70/30 portfolio. And so, we had those two objectives initially. And then over time, we revisited our intergenerational equity and our ability to take risk or achieve CPI plus 5. And as we've built out private markets and added some other asset classes, we've not modified our return objectives. We're much better at measuring, breaking out sources of return, risk management. But we still have that same CPI plus 5 and 70/30 risk budget. But we're now working to amend the constitution again to increase the distribution to 5%, which, arguably, it should have been initially.

Robert Morier: So, you're a glutton for punishment.

Peter Madsen: That's right.

Robert Morier: Well, good luck with that. It makes a lot of sense. I appreciate that. I'm curious. You've touched on governance. You've touched on the board. What's your relationship like as it relates to your ability to make decisions, the investment staff relative to the trustees?

Peter Madsen: We're very fortunate in that those statutes I described that govern SITFO were created with a task force that was set up early on to reflect on how those monies should be managed. And should an independent office be created? And then they advise the legislature, the folks who sponsored the bill on how to govern SITFO. And some of the great and important statutes that I reflect on somewhat regularly are the delegation of investment authority to staff. So, the trustees are responsible for governance, which includes asset allocation risk and risk tolerance, return objectives. But then they defer or delegate implementing that to staff. So, we were very careful to communicate to the trustees how we're implementing, but we'll set the asset allocation. For example, we'll set the ranges with the trustees, and then we review. We have four categories in the portfolio. And each quarter, we'll review them in detail. And in that detailed review, we call it an asset class structure review. And we'll communicate, for example, if you pick on public equity. Within public equity, there's emerging markets. And within emerging markets, we're going to have dedicated China, dedicated India, maybe frontier, maybe diversified core, exposure, what we think the tracking error would look like, relative beta, et cetera. And we're communicating that to the trustees so that we're... as my colleague Scott Day likes to

say, so that there aren't any surprises. Sometimes there are surprises, but we try and manage such that we explain the potential outcomes, what they might be on either the left or right tail of the distribution.

Robert Morier: We're going to talk a little bit more about manager research and selection. But before we do, you've mentioned the staff. One thing I've noticed about your LinkedIn profile that you do quite often is that you share job postings, job opportunities in the asset management industry. And I thought that was wonderful... people looking for jobs, people wanting to better understand what salary ranges look like, what the expectations are. So, when you were thinking about your staff, the build out, and you think about your team today, how did you construct the team? And then how are responsibilities allocated today?

Peter Madsen: Originally, like I said, the budget was for me and an administrative assistant. And I converted that into me and an analyst and an administrative assistant. And then we worked with the trustees over time on what other resources we should be afforded. And ultimately, through a couple of different iterations, we're now targeting 12 people on the team across ops, and risk, and investments. As we've gradually grown, and we have a target of 12 starting in late 2020, I've been hiring for eight years. And as I mentioned, there's been just the head count increasing, but also trying to do that, methodically bring new people on as we bring them, integrate them into the team, bringing new people on, not too many at a time. But also, a couple of people have left, and we've reconfigured the org chart. And so, I've met a lot of really great people. And ultimately, at first, they would say, you're splitting hairs. You get down to two or three candidates. For whatever reason, they withdraw. Or you choose someone that... there's a couple of great people. And at the end of that, those conversations always end with, if you hear of something else, let me know. And so, at first, I was like, well, actually I'm hearing of this, and I'm hearing of that. And I would send those emails. And then it got to be too much so. And I also spend a lot of time talking with other CIOs. And it's my management consulting background, I think, but I love understanding how other people are doing what we're trying to do. And so looking at job opportunities, looking at compensation ranges, looking at how teams are designed, I ended up... I guess, the algorithm in the universe that you started getting a lot of job openings coming my way and people now asking me to share the job openings that they have, and happy to do so because, yeah, there are a lot of great people out there, and you really want to find the right person for your team. And I'm happy to help our comrades out there in industry partner up with other people who really want to be in that region or in that role and really trying to help, I guess, make more efficient allocation of people and talent.

Robert Morier: One of the questions that were asked often on the sales side or at least on the asset management side... and you'll remember this from Cube Capital...

is, what's the culture of the firm? So, when you think about building out this office, was there a specific culture that you were looking to instill? And if so, how did you go about doing that?

Peter Madsen: Yeah, like I mentioned that RVK and Cube, while they were different cultures, people were close. And people shared their best ideas. Best ideas typically won the day. And I really wanted to work with people that I could be myself with, that... at one point in my schooling years, I worked in construction, and I had to be at the job site at 7:00 AM and move a stack of 2 by 4s from one side of the job site to another, things like that, dig a ditch. And I learned the term Sunday scaries because I hated Sunday nights because I knew I had to get up early and do a hard day's work. It ended up being great in its own way, but I want our team to be a place where no one has the Sunday scaries, where people like what do. When we're interviewing someone, we like to learn about their personal interests. And investing doesn't have to be 100% of our personality, but it's nice when people are... their hobbies or their personal interests include investing, listening to podcasts like this, learning from other people. And when you get a group of like-minded people together all rowing in the same direction, that's really the most important thing. So that's really what we're trying to build at SITFO. We're pretty close to being fully staffed. We've got a couple of positions open still. And that's the team we have today, and that's the team that I'd like to continue to have at SITFO.

Dan DiDomenico: So, it sounds like you have a lot of great resources. You're still building that team. You're going to get to that level of having a lot of great capabilities that you can do in house. Maybe you can talk to us though just a little bit about your relationship with consultants how would you describe that relationship that you have with outside consultants and supporting your internal capabilities.

Peter Madsen: Yeah, the resources are all important. And being at a public agency, we're somewhat resource constrained. Everyone's resource constrained. Sometimes public agencies can be more resource constrained. And I think perhaps that's why consultants are more regularly deployed within the public side of institutional investing. But having been a consultant and worked my tail off, no matter what the request was, and you being able to show up for clients with a large pool of talent and resources, much larger than SITFO has, to be able to partner up with groups like that who, for example, we work with consultants on back office, middle office, manager selection, asset allocation. And having someone to partner with that's required to service you on those fronts and collaborate... it's really powerful. It's powerful to use your own network. Sometimes people are a little shy about sharing what they think is their secret sauce. But with consultants, they're compelled to do that with you. So, for example, investing in Asia... having people on the ground in Asia dedicated to, say, private equity or private credit in Asia, be really hard for SITFO to compete with that.

Dan DiDomenico: You talked about the investment objective, CPI plus 5. You talked about that risk budget of a 70/30. Let's get into asset allocation now. How are you bringing that program together within those mandates? How are you thinking about allocating to each of those different asset classes?

Peter Madsen: We have four categories. We call it the grid, growth, real assets, income defensive. And we have return hurdles for each of those. And we have factor exposures that are desired for each of those. And we have public and private in each of those, except defensive. And so, you can find equity beta and growth real assets and income. It's a somewhat desired feature. But in growth, we really want that equity beta. We want alpha too, but we can't have equity beta in our highest return, highest risk asset class, if you will, or category. In real assets, obviously trying to have exposure to natural resources or things that do well in an inflationary environment. We don't want exposure, for example, to duration. But equity beta is a feature of how we get that inflation or commodity-linked exposure. And then in the defensive bucket, it's meant to be zero correlation but a... or I should say, a negative bare beta. So, we're okay with the variable beta, but that would be something that includes, say, macro-CTA. And we have a long duration and short tips and cash in there... short-term tips.

Dan DiDomenico: So, based off of that, I would assume, then, an essential tool that you're using in that defensive bucket for your investment portfolio would be hedge funds.

Peter Madsen: That's right.

Robert Morier: Okay. All of the investing that you're doing right now, is that partnering with external managers? Are you thinking about in the future having some of that brought in-house and having those capabilities to manage some of the assets in-house? How are you thinking about that blend between in-house and external managers?

Peter Madsen: Yeah, we partner with... we invest in external managers, and we have hedge funds throughout the portfolio. And the income category, public income specifically, trying to get high returns and do low to no duration and high return. It's going to be somewhat hedge fund oriented. You think about emerging market debt, or insurance-linked securities, or structured credit strategies like that. And the areas where we might be able to do something internally in the future would be probably something passive. And it's probably for us in our team size. The dollar amount we would end up doing in passive equities or, say, in passive treasuries and the defensive bucket... I'm not sure the resource is deployed versus cost saved would be enough for the headache of the arguments of getting more resources there.

But we are looking. We have a five-year plan we're working towards. So, we'll see how long it takes us to get there and if we actually do. But we currently do co-investing, so that's not necessarily internally managed, especially the way we approach it, which is systematic. And then we currently have an overlay, which is just to equitize or securitize the cash. And that's meant to match our target asset allocation, but we're also looking to be able to have the discretion to have a total portfolio overlay, which is used as a risk management tool and rebalancing tool, somewhat similar to the way that Andy Spellman, who was here from Fairfax, was describing how they use the overlay.

Dan DiDomenico: So, you've identified a need in the portfolio, some expression that you're trying to get to, the role that it's going to play, that strategy. Maybe walk us now through the typical manager underwriting process and if you can tie into that just sharing with us the best way to approach your team. Is it starting... going direct to you and your team or is it preferred that you work through one of your consultants?

Peter Madsen: Depends on what time of day it is and if I've had lunch or not. But we like to have a wide funnel at the top. And we want to make sure we're not missing any good ideas. And so, we have a feature on the website where you can contact us directly... very, very simple, pretty straightforward. And the team sorts through that. But we obviously have networks and prior experience where we think we have some good ideas for various mandates. And then since we're working with consultants, I mentioned collaborating with them. It's really important for that wide funnel aspect. They do a lot of the work for us on that front. And if I was in the Cube Capital, if we ever got a chance to get a partnership with a consultant, that was a huge win. So, I prioritize that all day long if I was trying to reach a SITFO or others. But then when we think about our process, we're trying to have that wide funnel. But we start with our asset allocation obviously. And then when we look at our asset class structure... so, as I mentioned back maybe looking at emerging markets again as an example, we'll say, well, do we want 100% active, or 100%... go through does long short work in China? Does activist investing work in India? Does frontier markets make sense? And from a somewhat top-down perspective, we'll define what the mandates are. But then also, sometimes, it's that we're out looking at emerging markets managers and then a manager dedicated to XYZ country makes its way through the process. And maybe that's tactical, or thematic, or something that's interesting just from a bottoms-up perspective. And it can fit into that bucket, but it's pretty rare that that makes it through as we're doing trying to do a lot of modeling and risk management. And then we have a process that probably rhymes with the process that a lot of other folks have. But we have three dedicated investment analysts, with senior analysts, or investment analyst... kind of the same role, just different levels of responsibilities and leadership on the team. And they have some specific coverage, so they're somewhat specializing in their coverage, their primary responsibility. But

given we're such a small team, we ultimately, at each step of the process, sit together and bring our ideas, ask questions, and challenge the process or challenge the findings.

Robert Morier: Well as a small but growing plan, you do have the advantage of investing directly in more capacity-constrained strategies. So how are you taking advantage of that opportunity, particularly relative to some of the larger sovereign wealth funds and public pension plans in the States?

Peter Madsen: Yeah, that's a great question. And being somewhat new to private markets, we were slow to get there. But we've been investing in private markets for off and on, so to speak, for five or six years, depending on resources and how we might be able to prioritize different mandates, especially when we were a smaller team of one or two on the investment team. But now we're more fully staffed. We're looking at private markets more consistently. And in 2019, 2020, 2021, we were getting a lot of nos. People were telling us about their capacity constraints. We were late to the game. It was tough, and fortunately we were pretty patient. We deployed capital pretty consistently, kept those relationships going. And then lo and behold, in 2022, the inbound calls from those same people who told us no started coming.

Dan DiDomenico: Funny how that works.

Peter Madsen: Yeah, exactly. Yeah, and it was a great learning opportunity for us to just make sure that we're patient, building relationships, and really holding ourselves to the standards that we want to hold ourselves to. And lately, as you might maybe stating the obvious, but early-stage venture capital, a lower middle market buyout... those are areas where we really struggled before in terms of getting capacity and building relationships. And then, also, esoteric real assets is... we're looking at areas there where there just isn't a lot of capacity. And while I don't think it's the hottest new thing, some of the strategies we're looking at have, say, \$80 million or \$150 million in capacity. So, us writing a \$5 million check, for example, is pretty easy to fit into their broader framework, even if a lot of other people are interested.

Robert Morier: That makes sense. How do you go about sizing? So, you think about the sizing of managers in the portfolio specifically in private markets since it's relatively new. How do you think about that allocation ticket? So, you're right. 5 million, it's not a lot in the broader scope of things. But for your plan, how do you think about the sizing of managers?

Peter Madsen: That's an important lesson learned over the last seven or eight years. When I was at RVK, for example, there were clients who had... remember the nine style boxes and public equities?

Dan DiDomenico: Sure.

Peter Madsen: And there were people who had two or three in each of those boxes in public equity. And so learned from that that maybe that wasn't the best, most efficient way to spend fees and get public equity exposure. And then working at Cube Capital is sizing up different positions, whether it's on the short book, or we also had a fund of funds program and just looking at the more funds you had obviously the more muted your vol, was but probably the more muted your return was and how to make those decisions. And then when I joined SITFO, one of the things I did was talk to anyone who would take my call to ask them how they were doing certain things. How are you hiring people? What are you paying them? Which consultant do you use? Or which private equity managers do you like? Anything that they let me ask them. And one of the refrains was that I heard from I think 99% of other CIOs or people at other endowments and foundations and such was that they were overly diversified, and they wanted to be concentrated. And I thought to myself, well, I know that lesson. And so, I'm just going to start at SITFO right out of the gate, high conviction, somewhat concentrated, and but with the small team with not a lot of resources. There were a lot of good ideas. We had some good company and some of these funds that we sized up. Then I learned that when most people said that they were concentrating that they already had something like 100-line items in private equity. And so when they wanted to get down to, say, 12 or 20 relationships in private equity, they were coming from a place where they had two or three times as many as that, and where I was just charging right out of the gate with the target of something like 10 or 12. And so now we think of basically sizing in terms of that... somewhat stating the obvious, but in terms of risk. So, the higher the risk, the lower the size. Or the higher the conviction, the higher the size. And then we think about, is this a manager that we want to partner with long-term? And one of the rubrics for that is obviously early on, you think that's going to be a good manager over multiple vintages over a long-time horizon. But we're monitoring where are they in their life cycle? How likely are the key people to retire? Or what's the capacity look like? And we want to make sure that we're there for funds. If it's a fund one, then it would be two, three, four, five. And so, you don't want to size up too big early on, so we size it down, but then build that relationship over time.

Robert Morier: I'm going to ask you about co-invest. Before I do, you mentioned early-stage venture. Are there any sectors or industries that you're specifically focused on?

Peter Madsen: No, we're really just looking at the GPs and working with both our consultants, and we have some strong sourcing capabilities that, through a fund-to-fund we invest with as well as some other peers and others in the industry, and once you're with a good GPA or two they introduce you to some of their friends if they

think you're a good LP. So, we've got some good momentum there and really just trying to find the best people to partner with. It's less about sector exposure.

Robert Morier: That makes sense. Thanks for sharing. Do you demand a higher-than-expected return for a co-invest than you do for the main fund since you have that single-asset risk?

Peter Madsen: Yeah, that's a great question. I've not heard it framed that way. And my first thought is to answer that, no, we don't have a higher expected return. But I guess another way of saying it is, it needs to be on basically a no-fee type of co-investment opportunity. And as such, it would be expected to have a higher return. So, we don't necessarily think of it as higher risk. We want that lower fee, so we're expecting to increase the exposure in the private equity portfolio that way. And our job, we think, is to underwrite the GP, to underwrite the strategy. And then we ask for them to either have discretion on co-invest, or we just set the budget out ourselves in advance either way. And we do either every co-investment according to some kind of plan, or we give them discretion according to a budget.

Dan DiDomenico: So, one of the questions that we love to ask those that sit in an important seat like yourself as a CIO... those areas of opportunity that you're pursuing today by asset class?

Peter Madsen: We don't have any new mandates or new asset classes that we're adding that aren't by mandate. I should describe it as strategy types or sub asset class types that we don't already have defined. But I mentioned early-stage venture, lower middle market buyout, and esoteric real assets... those are places where we've been active in the last couple of years. And I'm just trying to maintain or maintain our pacing discipline, if you will. But other areas, recent areas of opportunity that we've been pretty interested in... Insurance-Linked Securities, ILS. And that's had a great 2023, horrible five years-plus ahead of that, which is around the time we started investing. But we re-underwrote the asset class. We're finding it really attractive. 2024 is looking to be another really attractive year. I don't think we'll add another manager there because we've got a couple that we like, and it's not a huge part of the portfolio. Other than that, there are still some areas of active risk that we're building out in public equity and public real assets. We don't have high priority for those newer mandates. It's more we just want to be open-minded about what might be coming across that we're not aware of.

Robert Morier: Do you have or foresee having an emerging manager program?

Peter Madsen: Yeah, thank you for asking that question. We don't have a dedicated emerging manager program. But one of the things I learned from being at Blue Heron and Cube Capital and then being at RVK while working with large institutions, a lot of

public entities, public agencies, public pension plans, and as I mentioned, when I was at Blue Heron, we were working with some pretty large asset managers who were asking questions about, is my portfolio manager any good? Do I have the right team structure? I'm not sure that they work together very well. Or should I launch this product? Or should I shut this product down? And so, I just thought that, well, that's just obvious, right? That's how you run a business. And then you go to RVK, and you've got very well established, very well polished investment managers, portfolio managers, investment relations folks, and very well scripted. And I was always amazed at how well some folks deliver the pitch and work with institutional investors. But that presentation is there's never been a problem. There's never been a challenge. There currently aren't any challenges, or questions, or concerns. And that always bothered me because, certainly, there must be. I had seen that. And so, I feel like I'm able to understand and compare the trade-offs between somebody who maybe is really experienced but left, say, GIC or whatever private equity firm, and they're starting a new strategy. And they say, well, there are some pretty candid conversations you can ask them about how they're managing their personal risk, how you're aligned, and how that might actually be a better opportunity than the more-longer established track records.

Robert Morier: Well, I've been reading David Brooks's new book, How to Know a Person. And one of his chapters is titled, "How do your ancestors show up in your life?" He writes that when he's looking at a person and trying to know them, you need to know where their ancestors show up. And he cites a quote that says, what you are is an expression of your history. So where does your history show up in your life today?

Peter Madsen: Thank you for that question. Yeah, I haven't read that book. I've heard him interviewed on a couple of podcasts discussing that book, and you're reminding me I should read it. I'm named after my great, great grandfather who was a pioneer, was a fisherman in Denmark. Took his family, did the pioneer story. Made his way to Utah, set up a fishing camp, if you will, in a rural part of Utah, even still is somewhat rural. And back then, I guess you could say by definition, was rural. And then being a religious person, went on his proselytizing journey to Hawaii. So, this is in the mid to late 1800s. So those are pretty big journeys, a lot of adventure, a lot of hard work. And I'd like to think that those are characteristics that somewhat describe how I am. And ending up back in Salt Lake, moved there as a young person with my family, moved away as soon as I could, and then ultimately was drawn back and find at home now a great place to live. And so that that's the first thing that comes to mind when you ask that question.

Robert Morier: Thank you for letting us get to know you today. We greatly appreciate it. One last question we always ask our guests before we close up are the

mentors, the people in your life who have been influential, specifically in your career, but more broadly is welcomed as well.

Peter Madsen: The folks who believed in me and gave me opportunities for growth really stand out. In high school, as I mentioned... or I think I mentioned, I was thinking about it anyway... we had a TV studio in my high school, and I was really drawn to that. And the person who ran that program really encouraged me, gave me a lot of flexibility, a lot of leeway on different projects to pursue, and helped me get my first job in that industry. And he was a mentor in other ways. He took me backpacking, and came to my wedding, and just a good example of somebody who could believe in a high school kid who was maybe a little bit adrift and helped set them on a path of having some discipline and some vision for their future. And Jeff Hanson at Blue Heron, I mentioned... he's a very generous and kind person who taught me how to... hopefully I learned this. I definitely learned it but not sure I practice it. But he could express his difference of opinion or his criticism while really also holding that space in a manner of kindness... very direct, standing up for what he thought was the right approach or what he thinks is what is right based on his beliefs and having a disagreement, but being very kind and generous about it. And I named the fair few folks at RVK who turned me loose, gave me a lot of great opportunity, trusted in me, gave me a lot of good criticism and candid feedback, course correction a fair-few times. And lastly, Francois Buclez, who was one of the founding partners of Cube Capital... great person who was fearless, high energy, very demanding, very straightforward, and pushed me to a place where I wasn't quite sure I could go, frankly. and I ended up residing in that space with him and the other people at Cube Capital. And so, I really enjoyed working with Francois. And yeah.

Robert Morier: Thank you for sharing that. Thank you for being here today in Philadelphia. We greatly appreciate it. Congratulations on all your success, and happy anniversary.

Peter Madsen: Thank you. I appreciate it.

Robert Morier: If you want to learn more about Peter and the Utah School and Institutional Trust Funds Office, please visit their website at www.sitfo.utah.gov. 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. 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. Peter, thank you again for joining us. Dan, as always, thank you for being here.

Dan DiDomenico: It's a lot of fun. Thanks for having me.

Robert Morier: Thank you.

Dan DiDomenico: Thanks, Peter.

Peter Madsen: Thank you. Appreciate it.

Robert Morier: And to our audience, thank you for investing your time with Dakota.