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EPISODE 61:

Legacy and Leadership

with the CIO of Girard

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, and industry leaders 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. We are excited to re-release this past episode with Tim Chubb, Chief Investment Officer of Girard. Gerard is the wealth and investment management division of Univest Financial Corporation, with $4.5 billion in assets under management and $7.8 billion in assets, respectively. Girard and Univest Trust Company advises clients that include private wealth, investment management, and consulting relationships for municipal pension, retirement, non-profit, and foundation assets. Tim is the Chief Investment Officer of Girard, where he is responsible for managing the Investment Research and Portfolio Management teams supporting manager due diligence, asset allocation decisions, and investment communications. Tim also serves as a portfolio manager and healthcare analyst for the U.S. multi-cap equity strategies at the firm. He is a frequent commentator in the financial media and an invited speaker. Tim joined Girard Partners in King of Prussia, PA, as a research analyst in 2012, prior to the registered investment advisor being acquired by Univest in 2014. Tim graduated with a B.S. in Finance from West Chester University, where he remains involved as an alumnus serving on a board dedicated to various community service efforts in the greater Philadelphia area. He is a CFA Society of Philadelphia member and was selected by the Philadelphia Business Journal in 2018 as a 40 under 40 honoree. Tim and his wife proudly call West Chester, PA, their home. Tim, thanks for joining us.

Tim Chubb: Thanks for having me.

Dan DiDomenico: So why don't we just start… give us an overview of Girard.

Tim Chubb: Yeah, sure. So, as you mentioned in the bio, I joined the firm when we were an independent registered investment advisor in 2012. We were really managing about $350 million in assets, really catering towards mass-affluent, high-net-worth clients. And I came on to really help out with managing due diligence as an analyst, as well as support our equity research efforts. And so, we had succession planning, things to consider with an aging partner. And ultimately, we decided to partner with Univest Financial, which is a bank up in Souderton, Pennsylvania, and continue to grow our business. So, Girard's name comes from the old Girard Bank and Trust, and deep Philadelphia investment management roots. Actually, one of our founders, Rich Seidel, was a mentor of mine. He decided to, as the BNY Mellon acquisition was going on… to grab the names. And after starting a cash management business and selling it to Legg Mason, they opened up our doors as the RIA back in 1999. But Univest has been a bank since 1876, so coming up on 150 years or so now. And it's been really a wonderful partner for us, to continue to really just focus on our business, our clients, provide them the resources and thought leadership that they're ultimately seeking without a lot of distractions. And so ultimately, our business, our trust side of the business, started managing money in 1928. So, we've had a long history working with clients, both in predecessor Girard bank to draw partners and, of course, across the entire Univest platform.

Dan DiDomenico: So, starting in 2012 with $350 million, now close to what, $4.5 billion in assets?

Tim Chubb: Yeah, we're approaching $5 billion. And like a lot of other bank-owned wealth and investment management teams, built through acquisition. So, we had a pension business that really catered to municipal pension plans. We have private wealth clients that… everywhere from mass-affluent, ultra-high-net-worth, multi-generational assets, and then a lot of nonprofits, foundations. And so, bringing all those people together, when I took over as our chief investment officer in 2017, was obviously goal number one. We still had individuals doing research, really, in silos. And so, we had all these wonderful investment ideas, these professionals that had been working rather independently. But philosophically, we were very much on the same page. And so, as our team has grown, we brought in some new, wonderful talent. But the core of the team has worked together for a really long time now, since we were acquired in almost 10 years ago. But also, even preceding us, being acquired, quite a bit of tenure there.

Dan DiDomenico: Got it.

Ryan Creighton: Great. No, that's fantastic background and history. And you just touched on this with the team. And it sounds like you've put in a lot of procedures and processes almost to centralize what you guys are doing and how you guys are thinking about it. So, can you just spend a little bit of time on the investment team? Who's on that team? How are you guys working together? And then how are you ultimately sourcing investment ideas and building portfolios?

Tim Chubb: Sure. Yeah, absolutely. So, we have an investment committee that I chair of seven voting members. There's a lot to be said about committees and being nimble. and we've thought a lot about that and how we can continually be active in expressing our views and ideas within our client portfolios without getting, really, caught up in some of the bureaucracy and being able to get things done. So ultimately, our investment committee, we meet twice a month, if not more regularly only than that. The team itself? We get together, huddle up multiple times a week. Thursday mornings is a big one, as well as a lot of our specific pods. And so, with our business managing individual equities in-house, we have a group that really focuses on just the equity research process. So, I co-PM those strategies with my colleague, Bruce Freeston. Bruce has been with Univest and the trust side of things for about 15 years now. Worked at Vanguard prior to that. And we really are complementary. He's more of a value person. I'm more of a growth-oriented manager. And so, we really work well together. And then have some analysts that support us, in addition to our own analyst responsibilities. From a manager due diligence standpoint, that team is run by Nate Rosenberg. Nate joined our team probably coming up on 10 years now. He's been in the role for five or six. And like our equity research process, where we have sector coverage… although everyone does have some generalist type of characteristics to their role, each person who's on our manager due diligence team really focuses on an asset class. And so, for example, I cover our international suite. So, EM developed XUS, thinking about how that's going to fit into the portfolio, and really doing the ongoing manager due diligence with our list of approved managers and preferred managers there. So, from a sourcing standpoint, we take inbound calls and emails. I find it's really helpful to, just given the volume of them… to get a deck and digest that. And Nate and I are constantly working and sourcing and talking to people and sharing our ideas, making a really great partnership to, really, I guess, spread the scope of what we're looking for. He talks to firms that I don't speak to. We come together. We share. Ideas and then ultimately, if those ideas are something we would like to present to the team, I'll go through the process within the investment committee to get the approval, sizing the allocation, things along those lines. But I generally run most of the asset allocation work within the firm. And we have a pretty rigorous process of how we think about active decisions within the portfolio to express those views and try to limit those as much as we possibly can and really focus on the ones that we think we have an edge in providing value for. But on an ongoing basis, that's the team that takes care of the manager work. And that's everything from ETF selection, mutual fund selection, SMA managers and alternatives.

Dan DiDomenico: Well, let's dig into the alternatives, since you brought it up there right at the end. Just allocating to alternatives, how do you think about it, investing in alternatives? Is it across the board for your client base, whether it's longer lock-up private alternatives or even liquid alternatives?

Tim Chubb: Sure. We've thought a lot about alternatives over the years. And we think of ourselves as these long-term investors. And when we're getting an enormous amount of really exciting opportunities in our inbox, as ultimately more democratized, we've really taken a step back and say, what are we solving for here? Thinking about it from the perspective of, do no harm. Our clients are thrilled with our portfolios of public and equities and fixed income. And since we manage a good portion of our clients' assets in-house, the fees are very low. So, they're really getting active and passive in the areas that we think are ideal for providing additional compensation over, above the benchmark. With alts, we have such a diverse client base… we're talking families with $50,000 investable assets to hundreds of million dollars investable assets, pension clients. I mentioned a lot of our institutional nonprofit and foundation clients. And ultimately, finding one solution for all of them is really impossible. So, for the better part of the last, I'd say, two, maybe even longer, years now, we've had it on the back burner, passively, over time, trying to think thoughtfully of, how do we want to access these asset classes? Which are the ones that we need to be in? Who are the managers that we really think philosophically fit with what we're trying to accomplish for our clients? And what's a differentiated way in offering it, trying to ultimately streamline all of the operations and back-end heavy lifting that goes into accessing alternatives for our clients. Trying to outsource that has been something we've talked quite a bit about, launching funds ourselves in-house, versus just going direct. And so, it's been exciting to see the growth in the new product, and also opportunities that we would consider over the years. But at the tail end of an economic cycle, every inbox is coming from a private credit manager. We've kind of taken a step back and said, OK, we aren't market timers. But we want to be thoughtful about when we start making these long-term allocations, trusting the managers to put capital to work in an appropriate way, but also for clients who have access to these assets before having that long-term view… education is such a big part of what we do. And all my team, I have a client portfolio manager, Mark Balcer, who runs, really, investment communications and strategy for the firm. And so, his job is educating our clients on what they own and what we are considering recommending to them, as well as our advisory team, which is all over the place. We've got an office in Florida and all over Pennsylvania, Maryland, and so on and so forth. So that's a really big part in thinking thoughtfully about the governance as well.

Dan DiDomenico: So, you touched on potentially creating your own fund structure or outsourcing it. Do you all work with any outsourced partners on the outside, whether it's a glass or an iCapital? We hear that name quite a bit in the RIA space.

Tim Chubb: Yeah. Nothing yet. Nate and I… again, even though we may not be always the most responsive at times, I'm constantly reading and working through my inbox to see what's out there, who can be a great partner for us to work with long-term. And that's really how we think about it with our active managers on our public side of things as well. It's a short list. We're really selective. We don't have a whole lot of turn-over and we really want to be patient and let the value proposition play out over the market cycle. So very similar situation with the alts. And again, just taking our time and not expecting that little bottom tick, this… but looking forward to allocating when there may be an absent liquidity.

Ryan Creighton: Great. That's awesome. Thanks for all that insight. And similar to alternatives, especially in the RIA space… a topic that's been present, I think, for the last three to five years of how to solve for it. Another topic that's been top of mind in the last three to five years has been DEI and ESG. Can you just talk about how you guys are approaching that? Obviously, you have a very diverse underlying client base. But how do you guys think about ESG and DEI?

Tim Chubb: Yeah. I mean, it's really subjective in a lot of ways. Governance is really the easiest one. We spend an enormous amount of time understanding the governance of our managers themselves and the operations, the compensation structure, and making sure that is all aligned up and down, from CIO to PM to analyst, with our clients and the results that we're seeking. And so, looking at client preferences related to environmental or social restrictions… they tend to be really easy to implement within our client portfolios. Most of our managers are going to be higher quality. They're not going to own the business that's questionably interlinked with the Communist Party in charge of the country and having some of those potential conflicts. And so, as a result, we look at the data we. Talk to our clients who care about it, and show them that, hey, we do have really favored a lot of the… again, subjective ESG characteristics that they might be looking for. But most of the work is just exclusionary. Certain areas of the market they just want to completely avoid. And for us to be able to do the large piece of the domestic equity portion of our clients' assets in-house, we're only owning 30 to 40 really high-quality companies at the time. And so, it's pretty easy for us to customize a portfolio and really personalize it to meet the values of the clients and implement that.

Dan DiDomenico: Got it. All right. So, you gave us a good overview of the team, sourcing investment ideas. So ultimately, we're calling on you and Nate as an example. And then what does that process look like in terms of what is a win at Girard? Is there an approved list or select list? Or do you have discretionary models where you're plugging in a manager and there's a mapping of assets immediately? Or is it an advisor-by-advisor allocating basis?

Tim Chubb: Yeah. What we've spent a lot of time on since the last six, seven years now, since I had taken over is really trying to streamline that into making sure our best ideas, our best managers are in our clients' portfolios, and really being selective around that. And so, we've gone through a lot of consolidation of the models that exist within each of the lines of business, and really just have one centralized view. We run a taxable and tax-efficient fixed-income sleeve for our clients. And there is some customization around vehicle, whether it's SMA or if we're going to run a ladder in house, or do they want to have some of the satellite managers that we really like to allocate in credit or securitized multisector exposure. But from a duration standpoint, from a credit standpoint, there's a lot of consistency. There's a lot of consistency across both of those two strategies. And that's something that we think about as an investment committee constantly. It's what are the active decisions that we're making related to duration? And what are the active decisions by selecting these managers, making that, ultimately, impact our portfolio as we roll it up and understand how it's going to work with one another? Same thing with international. We have our core sleeve. We have our core managers. And then obviously, the same on the domestic equity side of things for clients who aren't purchasing or recommend one of our three core multi-cap equity strategies. So as far as a win? I mentioned our list is small. We do have a bench in certain areas that's bigger than others. Being that we have retirement plan assets, we've got multiple custodians. Sometimes getting access to some of our favorite strategies that… either soft or hard close… can be difficult. And so, it starts with a screen, and we really try hard to figure out what the investable universe for us would look like. We don't want to bring in managers we would never, ever consider. And really compare apples to apples as best as we can, which can be challenging depending upon ultimately what we're looking for. And then from there, we go through… really, as we bring it down to three to five managers, we have our questionnaire, due diligence questionnaire. We have our Q&A that we really want to focus on during the call with the team, with the decision makers, which is really always valuable for us to really hear directly and trying to understand just, how engaged is the portfolio manager, how do they work with the analysts. And being that we do a lot of… we manage those equities in-house, I think we have maybe a little bit of a different perspective and being able to disintermediate that within the interview process. So, I guess, long story short, we replace a manager. It's typically a one-for-one swap. And as we continue to grow out or bench over time, obviously, we'll have some managers we have a lot of familiarity with at the ready if we do have an event where we need to move on from somebody.

Ryan Creighton: Awesome. That's great. Appreciate that color. You just mentioned access to managers. Do you all invest in boutiques? And then I guess the follow-up question there that everybody would ask is, how do you define a boutique? Are you looking at newer strategies, lower track record, maybe lower asset base? Just how do you guys think about that?

Tim Chubb: Yeah, it's a great question because I think, as you implied, you ask different firms, they're going to have different opinions. I mean, for us, boutique is different from emerging. We love boutique managers. We really enjoy working with firms that maybe have some small teams where we get tremendous access to them. And as an equity manager also doing the asset allocation work, it really helps me think about what they're seeing in those markets, how, really, they can inform our views and ideas and maybe see something that we missed or help us think about positioning in that environment a little bit different if we want to change our allocation to that manager as far as the percentage within each of the individual sleeves. So overall, I mean, it's, I guess, really important for us to have some of the decision maker at least involved in the early conversation. It's not something that we need to have every single time we're doing a manager meeting. We tend to do two to three check-ins a year. And obviously, if there's something that comes up between check-ins, we'll reach out. But really trying to understand when they're going to underperform, and it's a when, not an if. And we want to be great partners long-term. And if we're not properly diversifying the portfolio in that risk with other managers and other allocations within the portfolio, we're not doing our job. And so, I hate when I hear, from your side, a little bit, just the… coming in, when everyone's running to the one side of the boat at the worst possible time and then quickly firing when it's the absolute perfect time, usually to actually make a larger allocation and then stick with the manager you've done so much due diligence on.

Dan DiDomenico: Yeah. We'll just build on that a little bit on emerging managers. You talked about a screen on the up front. are there certain thresholds that you guys have in place? Or I mean, have you ever seen a manager spin out, you have familiarity with them from a prior firm? Would you be an early adopter?

Tim Chubb: We would be for a manager. And that's a perfect example. For an emerging manager with no track record, we're going to be pretty reluctant to make an allocation. We need to see some size in the strategy for us to make an allocation to it. I mean, it's kind of a double-edged sword. We're really selective. But if you're on our list and in our models and we're actively allocating, then we want to make sure that we're not going to encompass too much of the strategy. And that's something that varies from asset class to asset class. There's certainly those on, let's say, SMID EM that… $2 to $3 billion tops, pretty much, and you're going to start seeing hard and soft close. And we realize those wonderful managers are going to ultimately close out, maybe even hitting… before they hit their five-year track record. Same thing on the credit side of things. We have a relatively boutique manager there, who plans on soft closing relatively soon, which we're thrilled to hear. But yeah, that's really how we distribute boutique versus emerging. No track record now. But in the case of a manager who's going to open up his own firm, they're ultimately doing another one and building out the similar process. Then we're a lot more comfortable, and we've done that.

Dan DiDomenico: Got it. That makes sense. So, you touched on the seven voting member investment committee. Give our listeners a little insight. What's topical… bring us inside the doors, if you will, thematically where you guys are seeing opportunities. And then kind of the golden question we all want to know, any current searches or needs over the next nine to 12 months?

Tim Chubb: Sure. Well, on the current work, it's a lot of asset allocation work, figuring out where we want to be, where our managers have moved, that constant refresh and view into, how are we positioned relative to our best ideas. And so, for example, we bumped up our allocation to below investment-grade bonds at the end of last year, early this year, and had just felt like compensation was really attractive. And although spreads weren't at levels where you would typically see… weren't at levels… I guess were at levels that were more consistent with the default rates in history, we had felt like 50% of the assets within the high-yield index, in particular… triple C or lower… move to private credit. And that's an enormous part of the default composition, historically, for high yield bonds. And so, we felt like the risk had been quite a bit mitigated, and we were getting compensated for that. And so, moving forward, it's just a continuation of waiting for this economic downturn and seeing how much spreads are going to widen, and hopefully make an even larger allocation when that time comes. Same thing on securitized. And same thing with duration. We're a bit early but fairly contrarian, starting to buy some longer belly… and longer type treasuries. For a lot of those, more tactical asset allocation decisions. Rather than going out and seeking a manager that's on the active site of things, we'll utilize ETFs to express those views. So really, having a barbell approach, credit and securitized spread products on the short end, long-term, having that treasury exposure, that ballast, which also, if we get the rate cuts and Convexity does its job, should be a nice insurance policy there within our fixed income portfolio. On the international front, I mean, EM has been front and center. We've done a lot of work there. I think many investors underappreciate just how diverse emerging market economies are, very different from China. And we certainly have spent a lot of time thinking and learning about what's going on. And we've even talked about, should we select a manager who's going to allocate to EM ex China. But then we have to make a call on China, and it's not a decision that we think that we would have success with, repeatedly, over the long-term. Not a ton on domestic equity side of things, outside of our internal strategies. But as we get into next year, I think the rubber is going to be hitting the road when it comes to our alternative game plan. And like I said, we've been really patient, thinking through all of our options and building a list of managers that we really felt were a great fit for what we were trying to do. And so, I think in the first, second quarter, we'll continue to build that out, firm that up, figure out allocation. We're doing a lot of census work internally to understand what the appetite is from our client base. And last thing I want is to look back three to five years from now and say, we should have done this differently, even though it's something that we haven't done before. And measuring a million times before making that first cut.

Dan DiDomenico: Awesome. Well, Tim, this is a phenomenal overview. Thank you so much for being here live in the studio with us. This was a lot of fun. So obviously, a great $5-billion pool of capital here just outside of Philadelphia. So can't thank you enough.

Tim Chubb: Yeah. Thanks for having me.

Robert Morier: If you want to learn more about Tim Chubb and Girard, please visit their website at https://www.meetgirard.com/s/. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We are also available on YouTube if you prefer to watch while you listen. If you would like to catch up on past episodes, please 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. Tim, again, thank you for being here. And to our audience, thank you for investing your time with Dakota.