EPISODE 63:

Navigating Wealth Management

with Fiduciary Trust

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 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 our website at dakota.com. 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. The opinions expressed in this discussion are as of February 22, 2024, and subject to change at any time. None of the information provided is intended to constitute investment, legal, tax, or accounting advice, and you should discuss any proposed arrangement or transaction with your investment legal or tax advisors. 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 Harrison Sidhu, Head of Manager Selection and Due Diligence at Fiduciary Trust Company headquartered in Boston. Harrison, welcome to Philadelphia.

Harison Sidhu: Thanks for having me, Robert.

Robert Morier: Thank you for being here. We greatly appreciate it. As always, my partner on the desk, Andrew O'Shea from Dakota, thanks for being here.

Andrew O'Shea: Yeah, excited to be here and hear from Harrison. Obviously, a great town in Boston for investment allocators, RIAs, institutions, but also very large trust company as well and excited to hear from Harrison.

Robert Morier: We have a lot of questions to ask you, Harrison. But before we get started, I'm going to read your biography. Harrison Sidhu is a seasoned investment professional with nearly 13 years of experience in investment leadership. As head of manager selection and due diligence, Harrison is responsible for the selection and ongoing review of all investment vehicles recommended by the firm, including domestic and international equities, fixed income, credit, and private investments. Having redesigned the manager research process, including setting manager research agendas, conducting initial and ongoing manager interviews, as well as writing research abstracts and white papers detailing investment thesis and process, Harrison has become a leading voice in the industry. Fiduciary Trust Company was founded as a family office in 1885 and incorporated as a trust bank in 1928. Throughout their history, fiduciary has maintained a proud tradition of providing clients with objective and comprehensive investment management, trust, estate settlement, and other services. With an average annual client retention rate of 98% for more than a decade and over $20 billion in assets under supervision, Fiduciary takes a personal approach to wealth management, which has contributed to its success. Prior to joining Fiduciary Trust, Harrison was with BlackRock and Choate Investment Advisors, respectively. He spent nearly eight years with Choate as a portfolio manager, where he was a member of the firm's investment committee and head of the group's quantitative research efforts. Harrison is a CFA charter-holder and BS AS member. He also serves on the advisory board of the Cutler Center for Investments in Finance at Babson College. Finally, Harrison earned his MBA from Babson's Olin Graduate School of Business and his BA in economics from Rutgers University. Harrison, thank you again for being here. Congratulations on all your success.

Harison Sidhu: Thank you, Robert. Thanks for having me.

Robert Morier: Yeah, we really… we really appreciate you coming all this way to be here with us in Philadelphia. As Andrew had said, it's really a pleasure for us to have the opportunity to sit down with manager research professionals who have been doing it as long as you have to get a better sense of how you think about managers, research, and asset allocation. One of the things I try to pride myself on is a little bit of research before I get these conversations going, and I couldn't help but uncover a social media influencer in your family. Specifically, I'm referring to Finlay, your dog. I think it's a mini-Aussie doodle.

Harison Sidhu: That's right.

Robert Morier: So, what's it like having someone in the family garner that kind of online attention?

Harison Sidhu: It's great. Finlay is a big personality despite his small size. As you said, he's a mini-Aussie doodle, so half poodle, half Australian shepherd. So wound a little tight, a lot of energy, but a lot of fun still. Big addition to the family. And for a long time, he was the only child in the house. But recently, my wife and I had our first baby girl, Teagan. We brought in about six months ago. So, he doesn't get our undivided attention the way he used to before.

Robert Morier: I'm sure it's causing some consternation with the dog, but I don't think that's hurting his follower base.

Harison Sidhu: No. No, I don't think so.

Robert Morier: Thank you for sharing that. Congratulations on the new addition. That's wonderful.

Harison Sidhu: Thank you, Robert.

Robert Morier: Andrew has a young one at home, too, just about 3 and 1/2.

Andrew O'Shea: Yes.

Harison Sidhu: That's great.

Robert Morier: We all know it well.

Andrew O'Shea: We're in it.

Harison Sidhu: Right, exactly. We are, yeah.

Robert Morier: Well, we usually start with the beginning of our guests' career. And one of the reasons I like to start there is because, as a professor at Drexel University, I have a lot of students in the classroom who ask about the folks that I interview on the desk and the people I interview with how they get into this career. How do you find a role in manager research asset allocation asset management in general? So, it would be great for us and our students that I have in the classroom how you found your way into this profession.

Harison Sidhu: It was serendipitous, really. All the work. I did pre-MBA and even during MBA, was sort of leading me towards a path of equity sell-side research. And potentially, I was going to try to grow my career into moving on to the buy side ultimately and hopefully move to portfolio management-type roles. But graduated in 2010 from Babson, and while we were past the worst of the crisis, the reverberations from the GFC were still… could still be felt and just seemed like wealth management was much more stable. Clients had a much longer time horizon. A lot of their assets were managed for future generations or held in trust that have indefinite lives. And I was very fortunate that Choate Investment Advisors had a role that was open at the time. Met their then managing director, Todd Molloy, who was my boss for about eight years while I was there. And was just really excited about the growth plans that he had in mind. I was very impressed by him and the things that he wanted to do, and it was a great learning period for me over that time frame. And I didn't really have any asset allocation or manager research experience prior to that, but I really learned the nuts and bolts during my time there.

Robert Morier: What were some of the approaches that team took as it related to manager research and asset allocation? Anything specific that you remember that you've taken forward with you?

Harison Sidhu: Yeah, sure. So, Choate Investment Advisors was very much a model manager. So, we built very diversified long-term oriented models across the spectrum for clients. I would say in terms of both asset allocation and manager research, we used a very quantitative approach. I headed up a lot of our quantitative research efforts. That's sort of a theme that runs through a lot of the work that I do, even today. I just loved applying those systematic type strategies and felt like they had a lot of application in the manager research side in particular. And then overall, it was we used active managers kind across the board. I mostly focused on equity-oriented active managers but dabbled a bit in fixed income as well. But like I said, I learned the ropes of what questions to ask what to look for, in particular, managers. And like I said, given the client base that we had, we were able to implement a lot of really long-term strategies that tended to work out over time but may not work in a short-term period but did so over the long term.

Robert Morier: So now, Fiduciary Trust, I know you've made some changes since you've been there, but when you first walked in, for really the benefit of our audience, could you tell us a little bit about Fiduciary Trust, your role with the organization, and where you sit within the company.

Harison Sidhu: Yeah, sure. So, Fiduciary Trust is a 100-plus-year-old investment firm based in Boston. We also have offices in New Hampshire. We provide services to primarily high net worth individuals, but also some endowments and foundations and some other registered investment advisors as well. Those services tend to include things like financial planning, tax preparation, custody for those wealth registered investment advisors, and obviously trust services being Fiduciary Trust, and we have a real expertise, I think in New Hampshire trusts, in particular. And then, of course, investment management and research which is the part of the group that I sit in. Similar to Choate, the current CIO and my current manager, Hans Olsen, joined the firm in 2018. I met him in 2019. And was really impressed with what he was doing and the plan and the program he was putting into place. I felt like Fiduciary could offer a really great platform for us to grow from, and really, he gave me a lot of autonomy and a lot of leeway to create a manager research platform the way that I felt made sense, so that definitely appealed to me as well. So, as my role of head of manager research and due diligence, I'm seeking to find managers that can outperform a well-chosen benchmark on a risk-adjusted basis over a three to five-year time horizon. What I would say, we are open architecture. There's no arrangements with any of the managers that we utilize. And I'm also a member of the investment… the committee, so I have some asset allocation responsibility as well. And we are also agnostic between active and passive management, so we will use passive managers where we feel it makes sense just to get efficient beta exposure for our clients. But really, the bulk of my time is spent on managing due diligence.

Andrew O'Shea: How is the change going from Choate, which was a very centralized model-based program, to a large trust company where you have all different types of clients and manager research? Could you just talk about how managers selection applied to now maybe a new organization?

Harison Sidhu: Yeah, that's a great question and that's a big part of my role as well is not just kind of developing model portfolios or anything like that but also the implementation piece of that. Our clients tend to be taxable investors, who live in either Massachusetts, New York, or California. So, very high tax kind of all in states.

Robert Morier: So, how did you go about building the team? So, when you thought about this relatively blank piece of paper that you had working with Hans to develop how you'd be kind of slicing up the pie. What did that exercise look like?

Harison Sidhu: Yeah, sure. So, we are a nine-person team as it stands today. I have one dedicated research analyst who works with me. We cover the full suite of asset classes with the research that we do. We also were fortunate that we're large enough we have a fairly significant research budget as well. So, we have access to a lot of great sell side research, macroeconomic research, a lot of data feeds, and investment technology and services that just help us refine the process overall. On the private investment side, I work very closely with Hans and another senior member of the team, Pat Donlon, to help build out our private investment allocations. And we primarily focus on private equity, private debt, and private real estate for our clients overall. So yeah, that's essentially how the organization set up today.

Robert Morier: We're going to ask you more about your private market exposure. I'm looking forward to that. But when you think about asset allocation, so you're setting the table for each of your clients, what does that process look like? Are you incorporating factor-based strategies into that asset allocation model? Is it risk-based? It'd be interesting for us to understand how you think about that top-down approach.

Harison Sidhu: Yeah, sure. So, it's kind of a multifaceted approach. First, we start with… we create capital market assumptions for all of the major asset classes. They're all a little bit different from one another because every asset class has some idiosyncrasies to it. But in general, they're the build method where you start with starting yields, project out some amount of growth that you expect over time, and any valuation changes that you expect to see amongst that asset class. And those nicely sum up to an overall 10 year expected return that we generate. Those expected returns, we use an optimization process to come up with kind of an idealized portfolio at set risk levels. Those represent our strategic allocations. Those are sort of the weights that we want to average towards over a long-time horizon for clients. We think that would provide them kind of optimal trade-offs between risk and return. Obviously, we have tactical asset allocation ideas that come up in the interim over those long-term time horizons. And that can come about from some of that research I mentioned before or internal analysis that we're doing, too. And we can overweight and underweight asset classes as we see fit. And a little bit more of a tactical basis. It's funny you mentioned factor strategies. That's one of my favorite topics, actually. And we do definitely incorporate factor strategies into what we do. We think that there's really compelling both empirical research and investment intuition behind why certain styles or investment strategies should earn excess returns or return premiums over time. And within fixed income, we specifically think credit and duration have premiums attached to them and explain a lot of differences in returns between managers. And then, in equities, we tend to focus in on value, quality, momentum, and volatility. And the nice thing about that is when we go to clients where we are managing kind of equity portfolios on their behalf, if we tell them, hey, we want to build you high-quality portfolios that are significantly cheaper than the market as well and are less risky, that resonates nicely with them and is very much in line with the ethos of our firm. So, all around, we think it makes a lot of sense to incorporate those types of strategies into our process.

Robert Morier: That makes sense. I was going to ask you about that education process. It sounds like it's embedded in those conversations.

Harison Sidhu: Yeah, absolutely. We have a group of excellent advisors. A lot of them have very heavy investment backgrounds. Others have kind of more planning backgrounds, and they often team up together to work with large clients as well. And a big part of their job is meeting with them frequently and educating clients on our process. Sometimes, we have clients who get really into detailed nitty gritty and want to really understand exactly every piece of how we do things, and then some combination of Hans or I will often join those meetings as well to speak to clients, too.

Andrew O'Shea: Can you take us through an overview of your typical manager research process? Maybe you've identified a certain asset class or a gap you're looking to fill, how does that start and then where does it go from there?

Harison Sidhu: Yeah, sure. So, it's a combination of things in terms of sourcing new ideas new managers to target. You know, I've been in the business for a long time now, so developed a large network of peers that I like… that I like to work with and respect and also speak to multi-manager firms and other asset managers that have manager research teams embedded within them and see what ideas they have, where, what management teams and strategies might be interesting that are on their radar as well. Additionally, we do some screening, too, but we're very intentional about how we do it and very careful, too. We really don't want to rely too much on past returns as those tend to mean revert over time, but we do look for certain characteristics that are important to us. In terms of the actual due diligence process, once we identify a manager that we think looks interesting, we'll typically set up a call. We want to be… we want to speak to decision-makers typically, so portfolio managers or senior investment people on the team. Ahead of those calls, we do a lot of work on our end, a lot of quantitative analysis, both on historical returns, historical allocations, the current portfolio. Try to see and understand what a manager has tried to accomplish over time. And once we… and we want to really go into those meetings with a lot of good questions and come out of that with a really strong understanding of their strategy. If we feel like the call went well and things are progressing nicely, we'll ask them to fill out an RFP, a more formal due diligence document, that really goes through not just questions about the strategy but also about the overall firm organization operational questions and ESG questions as well. Once we've kind of gotten that document back, we go into a watch period. I kind of have that Quant background. I like to look at out-of-sample returns. So that's how we duplicate that. That typically lasts a few years. For less tenured managers, it will last a little bit longer. For more tenured managers, that could be a very short window where we have them on the watch list. And then, ultimately, if everything makes sense in the live performance reflects what we saw in our initial due diligence, we add them to our approved list of managers. And then, from that approved list of managers, we have a subset of recommended managers that ultimately make their way into models, and hopefully, portfolios.

Andrew O'Shea: As part of that screening process, obviously, you're a large organization. Is there a size threshold you need to see before even starting the underwriting process?

Harison Sidhu: Absolutely. It's a blessing and a curse in some ways. We have a lot of resources available to us, given our size. But there's a minimum threshold that we need to see within a manager. But we also want to be large, important investors for managers that we invest with, so we tend to shy away from mega funds. And so there is a real sweet spot in terms of AUM that we like to identify. We're also very focused on capacity. We want to see how managers think about capacity. We love seeing managers who've managed capacity in the past either by closing down funds or not proliferating strategies, things of that nature. So, all of that sort of coalesces together in terms of looking at the capacity that is meaningful for us and meaningful from a return perspective for the manager.

Robert Morier: Harrison, you've written about the time-intensive nature of qualitative investment due diligence and the necessity to filter those large number of active strategies down to a more manageable number. Can you elaborate on the specific criteria or tools that you use to efficiently narrow down that field of options to a more manageable subset?

Harison Sidhu: I'd even back up a step and say that we think about it in terms of either categories or style boxes. However, you want to categorize it. We want to understand how much opportunity there is in those various segments of the market. Typically, you could think of risk-adjusted excess returns as some measure of skill times opportunity. And skill is very difficult to measure. There's a lot more art than science there. Opportunities a little bit more tangible, and so we look at a lot of different metrics, things like dispersion within a market. So, what's the difference between the highest returning stocks and lowest returning stocks or bonds, in particular index, the number of securities available to choose from, how concentrated that index is? Those all kind of come together to help us understand, is there opportunity within a segment or not. And those variables not only do they vary cross-sectionally so across categories. They vary dramatically over time, too. So that's always something that we're paying attention to. And oftentimes, large swaths of the market just are not fruitful places to invest with an active manager with an active mandate and we'll just use passive mandates there. Once we kind of get past that kind of opportunity analysis portion of it, we look very closely at activeness of a manager. If we hire a manager for an active mandate, we want to make sure that they're not just a closet indexer. And there's a number of ways to triangulate that, and that's one piece that we pay attention to. Fees are also important. We are a little bit more willing to pay higher fees for managers that we think have real edge within their process. But that combination of closet indexing and high fees, we think is just deadly, so we absolutely kind of screen those types of managers out. Those are a couple of the quantitative aspects I would highlight. There's some that are a little bit quantitative in nature, but a little not quite as much there. We talked about capacity and assets under management. That's when we pay close attention to. Tenure is another one. We want to work with managers who've seen all kinds of different market environments and have been able to navigate through those somewhat successfully. So those are a couple more. And once you've winnowed it down through those couple of filters, that it does become a much more manageable universe to pick through.

Andrew O'Shea: You obviously have a quantitative background, which I think could apply to both evaluating quantitative strategies but also evaluating fundamental strategies through the lens of how it fits in an overall portfolio allocation. When you pick managers, do you try to… how do you think about picking complementary managers in the portfolio?

Harison Sidhu: Yeah. It's a great point, and it's a big part of what we do. I feel like not only is part of my job. Identifying managers, it's identifying complementary managers, and doing the portfolio construction piece, and grouping them together. So, we will start out with just the standard kind of historical returns-based analysis and current holdings-based analysis to see where there's overlap. We definitely don't want managers that amplify each other's positions, nor do we want managers that kind of offset each other. So, we will do a lot of work, kind of quantitatively, to pair those ideal managers together. On top of that, there's that qualitative aspect, too, where you might say had sort of identified… we work with a number of more concentrated fundamental bottom-up managers, but we like to pair those types of managers, say, with much more diversified, more quantitative or factor-based manager. Their portfolios probably don't look similar. The returns probably diversified each other in the past. And given just the way they construct portfolios we can feel relatively confident that they'll continue to diversify each other nicely over time. And there's analogs for that for all categories, but we try to make sure that we apply both that qualitative overlay on top of the quantitative piece, too.

Robert Morier: You wrote a very insightful paper called Identifying Managers with a Potential to Outperform. We appreciate you sharing that balance and how it gets struck between qualitative and quantitative. But just going back to fees again, just curious because you touched on it in the paper, just how you approach those situations with a manager with higher fees? They appear to offer a more unique advantage or strategy but they're still higher fees. So how do you how do you work with that manager as it relates to what the client expectations are based on costs?

Harison Sidhu: A couple of things. One is, for sure, fees matter everywhere. A lot of empirical data kind of shows that. But they're much more important and more efficient markets than less efficient markets. There are some areas where it does make sense potentially to pay up a little bit and hire the manager that you really feel confident in. The other thing, too that I'd say is that there's a lot of good academic research out there showing that the highest quality managers tend and also, once you adjust for certain aspects of their business and their portfolios, they tend to outperform or be more skilled than lower fee managers. And that makes perfect sense, right? In a kind of a free capitalistic type of setup, more skilled managers would likely expect higher fees over time. So, given that we can still look closely at managers, and we have been in positions given our size and the long-term nature of our partnerships that we tend to have with our managers. We do have opportunities sometimes to negotiate lower fees on behalf of our clients or find other kind of creative ways to help our clients partake in some of the economics of that business. So, for example, we had seed economics made available to us from a recent private debt deal that we did. So those are some ways to help kind of counteract that. And we don't just immediately screen managers out because they're high fees. We try to understand what's behind those high fees.

Robert Morier: Nonetheless, every now and again, a closet indexer finds their way into a meeting with you. So, for the allocators that tune into this show, what are some of the indicators that you look for to help screen out those folks? I joke around, we talk about greenwashing with ESG and sustainability. It's active washing. How do you avoid active washers?

Harison Sidhu: It's a great term. I might poach that from you and use that. Yes, so we use some pretty standard metrics. You know, active share is one that's very popular amongst allocators. I think there's a lot of good virtues to that measure. Simple measures of tracking error and benchmark correlation, all of those, kind of taken together, can help you sort of identify who looks too much like their underlying benchmark index and are not likely to be able to deliver excess returns over time after fees and after other costs. Additionally, I'd say is… so that's at the portfolio level. There's this other aspect of turnover, portfolio turnover. We want to see managers in times of dislocation kind of finding those opportunities and refreshing their portfolio, and kicking out stale ideas, and adding new interesting ideas as well. If we see low turnover is fine, and I totally understand the merits of that. But if we just have low turnover, even in very volatile dislocated times when you would expect an active manager to be doing things, we have to question what exactly we're getting when we buy into that mandate or allocate to that mandate. And so, we've developed some metrics internally to try to help determine how active our managers in those periods were. We ourselves are kind of active as an investment committee.

Robert Morier: Can you discuss the role of portfolio construction? So now we've done all of that… you've done all of this work quantitatively and qualitatively thinking about where you want to be striking that balance, but you know, without fail volatility gets introduced into the equation. So, how does that harmony come into the portfolio construction process?

Harison Sidhu: We spend a lot of time thinking about risks. So, for example, we use two separate commercial vendor risk models. Both of them are kind of fundamental bottom-up types of models. One's kind of created by an active manager that we have allocated to, so there's a little bit more of this active management lens that we're able to look at our portfolio through it. Approaches it more from the return side as opposed to the risk side, which is always helpful. Just like diversifying managers or assets or factors, we like to diversify kind of technology and systems that we use. On top of that, though, we have developed our own internal risk model. We call it the macro risk model. As opposed to bottom-up factors like sector exposures, country exposures, style tilts, this looks at top-down exposures. So, how sensitive is your portfolio to changes in commodities, interest rates, currencies, things of that nature? And it's interesting. It's been super helpful because, for example, in periods like 2021, we started to notice, in our US large cap allocations, we were getting some duration exposure creeping into that portfolio, and we were able to see that through this macro risk model framework. And it wasn't immediately clear then why that was happening. But because we had these multiple risk lenses to look at our portfolio through, we were able to identify that and sort of tilt the portfolios to address that. And now we sort of clearly understand it was because growth had become such a large part of the index and growth names tend to have cash flows that are far out into the future. They look a lot like of coupon payments for fixed income. So, what you ended up with in some ways was a US equity allocation that was essentially one part equity risk plus kind of a long Treasury bond short T-bill type of exposure, which, of course, was not something that we intended to have or wanted to have.

Andrew O'Shea: You mentioned private assets. We'd love to learn what the balance is typically between public markets and private markets in terms of asset allocation. I'm sure it might vary by client, but high level.

Harison Sidhu: Yeah, sure. So, our clients, like I mentioned, are taxable. They also tend to utilize their money. They have spending needs, and which are often variable in time. So, we don't have kind fixed spending amounts that we need to immunize the portfolio against. And so, we feel like it's important to allocate to private investments and we think about it as a percent of the equity allocation. So, we currently recommend for clients who are above kind of accredited investor and thresholds to allocate about 25% of their equity portfolios to a mix of private investments. And the nice thing about that is that it scales up and down from the risk spectrum, so conservative clients can benefit from private investments similarly in the way that aggressive clients do. More equity-oriented portfolios do. And it's nice that, for example, in a 60/40 kind of typical canonical portfolio, that means there's about a 15% allocation to private investment. We still think that 15% amount is a nice healthy amount for people to have exposure to.

Andrew O'Shea: Structurally, are your clients typically going direct to these funds or have you created internal commingled vehicles that they can access these strategies through?

Harison Sidhu: We have historically gone direct. And we typically favor traditional asset classes like private equity, private debt, and private real estate. Those are the areas that we feel like we can understand the investment process and the portfolios on a go-forward basis.

Andrew O'Shea: I've always enjoyed reading your quarterly newsletters that you and Hans put together. And it always catches my eye it says private markets interest in niche areas where less capital is deployed. I'd be curious if you could elaborate on that.

Harison Sidhu: Yeah, that's in reaction to just the amount of dry powder we've seen and the starting valuations that private equity managers have to overcome today. We're probably a little bit more wary of just kind of standard buyout funds per se, so I think that's what Hans is referring to there. We have looked at some interesting deals in the past, so secondaries funds is another aspect. Middle-market private debt is something we find pretty interesting, and just private debt, in general, we think is interesting. But we will still always have a core kind of exposure to buyout, too.

Andrew O'Shea: Make sense. It's wonderful, Harrison. Thank you for sharing all of that. So, maybe one way to ask the question is, where are the active risks then in the portfolio today, and how are you and your team measuring success in that area of the pool?

Harison Sidhu: At the broad asset allocation level, we don't have any major kind of over-weights or underweights going on there, so we're largely in line from a benchmark perspective there. But within those buckets, there's quite a… there's a good amount of active bets that we've implemented today. So, for example, in the US, we are still overweight us relative to international. Less so, though, just given the valuation difference that we perceive today. We think it does make sense, though, to still kind of favor that market over international. Within the US, though, we've become… I don't think this is a unique idea, but it is something concerning for kind of risk control long-term investors how top heavy the US large cap market has gotten. I think something like the top 10 names today in the Russell 1,000 make up close to 30% of the total allocation of that index. So, we are using kind of factor strategies, primarily have tilted away a bit from those largest portfolios or, excuse me, largest companies. It's very modest in nature, but it makes us feel better to have that added diversification in the US portfolio. Within fixed income, we're doing some interesting things. We still think that there's potential for long-term interest rates to rise from here for a number of reasons. So, we're a little short duration within fixed income. We do have a little bit of a credit tilt within the portfolio as well. We are overweight carry type strategies. In particular, we like investments that provide access to consumer-oriented credit as opposed to corporate credit today. And in particular, we like non-residential mortgage-backed securities. We've had a thesis for a long time now that there was a housing shortage developing in this country back in 2019. We started developing this thesis. We're seeing that in sharp relief today. That is the ultimate collateral for these non-agency mortgages, and they pay significant cash flow. And the nice thing about mortgages relative to corporate credit is it's not a bullet maturity type security. Mortgage is paid down over time the credit increases as you go. And so, we think that we're going to start to see upgrades in our mortgage portfolio throughout the year and still continue to like that position today.

Andrew O'Shea: Can you talk about in active areas of interest you have right now or where you might be spending time on the manager research side going into 2024?

Harison Sidhu: Yeah, sure. So, I started my career actually as a bank analyst. And just looking out kind of over the landscape, we continue to think that banks are going to retrench lending. Both this year and given all the capital rule changes and everything that we saw in 2023, that should continue for many years to come. We think that private debt is going to have a lot of opportunities private debt managers to fill the gap left by retrenching banks. The asset class has grown dramatically over time. There's no doubt about that. So, we're being cautious, but we are really spending a lot of time getting up to speed on who we think the best managers are in that area and who we feel like we can partner with on a go-forward basis. I will say, though, that despite the growth, we've looked at a number of deals that some of these managers put together, and the credit standards are really, really strong for pretty big household companies. And it's because they're able to provide that kind of bespoke capital solution that the local banker isn't able to do anymore. And so that, in a nutshell, that's one area that we think makes a lot of sense for further exploration.

Robert Morier: I'm just curious about Emerging Markets. There's been a lot of volatility in EM, a lot of news coming out of China. Obviously, what's been going on in central and Eastern Europe. I'm just curious from your perspective thinking about this year. I won't ask you the outlook on emerging markets. I think that's a loaded question, but just in general, as you think about your manager lineup today, what are some of the areas of opportunity that they're seeing that excite you?

Harison Sidhu: Within emerging markets, that does become reflected in that US allocation I was mentioning before. We are overweight domestic equities versus international, primarily because we do see risks related to China. So, our managers' allocations are very much underweight China and Taiwan, for that matter. That's not to say that there aren't great companies there. There isn't a lot of dispersion, a lot of securities to pick through, a lot of opportunities for managers to find. But we are just concerned, particularly in China, we don't really know what we own per se. The structures of those equities for US investors are a little scary to us, frankly, and so we're very comfortable having an underweight there currently. That could change in the future. But at this point in time, that's our position today.

Robert Morier: I promised my students I would ask you about technology and artificial intelligence. Where does it show up in the portfolio if you think about frontier technology? Where do you see it being reflected, at least from the conversations you're having with your managers?

Harison Sidhu: Yeah, so we have… we use a number of quantitative managers who we think are phenomenal, and they are heavy users of artificial intelligence to try to both gather data, scrub data, and find new unique data sets to comb through quickly and develop investment signals from. So that's the more explicit way that artificial intelligence works its way into our portfolios. And on top of that like, just as a practitioner, I spent a lot of time thinking how can we use artificial intelligence to make us work more productively? Frankly, there's a lot of documents that we manage and keep. I could imagine at some point, some of these LLM models being able to search those more efficiently and deliver real-time kind of information and feedback to us as we query those documents. So, there's a lot of things like that we're thinking hard about. Still early innings, but I've been a long-time artificial intelligence enthusiast and it's really, really amazing but also very cool to see how that area has developed over time.

Robert Morier: Yeah, I've seen it firsthand in the classroom. It's developing quickly especially with how students are actually doing their homework. They've become much more efficient.

Harison Sidhu: Right. Don't quite have that problem that you do, but I can imagine the difficulties there.

Robert Morier: But we're also still talking about sustainability in ESG at least in a university setting. Obviously, we're still talking about it in our industry as well, but the dialogue has changed particularly over the last 12 to 18 months. But in that paper, you said that ESG is still an important criteria for your evaluation process. So, we would welcome the opportunity to hear how it's still important for you and what you're looking for specifically.

Harison Sidhu: We're very focused on ESG particularly the governance piece of things. At the end of the day, we end up owning kind of portions of businesses, be they public or private or fixed income securities as well. And making sure that management teams of those companies are aligned with shareholders is very important. There's lots of academic research kind of detailing that. Additionally, we manage ESG portfolios for clients as well. So, we take our current best thinking and models and translate that into investable ESG portfolios where we really… we don't want clients to give up any return, but we do want to have this impact aspect to their portfolio developed there. And so, we utilize a number of data providers for ESG. And there's been a lot of discussion how there's disagreement among data providers about scoring at what the manager level and individual security level. Actually, I like when I see that. There's a diversification of opportunities to me. That looks a lot like an alpha signal of some kind. And so, when there's agreement between those two data sets that a certain security or a manager is running a really high-quality portfolio from an ESG perspective, we get very excited and comfortable that we're delivering the kind of portfolio that are more ESG-oriented clients are looking for.

Robert Morier: All three of us have very young children. And I know at least when my first daughter was born, I couldn't stop thinking about my family, my family's history. Looking at her eyes, her smile, whose smile did she have. Was it mom's smile? My smile? And I read this book last year that had a quote in it which says what you are is an expression of history. So, something I've been asking our guests the last two or three months is where does your history show up in your life today?

Harison Sidhu: I would say that my parents are a great expression of that. My father is an immigrant. My mother, you know, came from very humble beginnings. And that sort of work ethic was instilled in me and that humility, too. And they were very influential in that part of my life. I've never seen them try to… thinking back, I don't think I've ever seen them try to draw attention to themselves or talk about any accomplishments that they've had or anything of that nature. They're just really good salt of the earth people, and that mindset and mentality has been instilled in me, and I hope to pass that on to some extent to my daughter as the years go on.

Robert Morier: And how about some of the people outside of the family, some of those mentors who have influenced your career and helped you really think about the way that you approach your job, or you approach your management of your teammates?

Harison Sidhu: I would have to point to our CEO, Hans Olson. Just the level of professionalism and integrity that he brings to the role is amazing. I just learned from that piece. You know, obviously, he has a huge amount of experience on the investment side. I have enormous respect for his investment acumen, but really, it's that management side and the professionalism that he brings to it that I'll always take with me going forward. My prior manager, Todd Muller at Choate Investment Advisors as well was a big influence on me for similar reasons. And yeah, so I can't thank them enough for all the influence that they've had on me.

Robert Morier: That's great. It's always so important, so thank you for sharing that. Harrison, thank you so much for making your way to Philadelphia to be with us on the desk to speak with our audience, to Andrew, and, of course, me. And our opportunity to be able to ask you these questions is really valuable for everyone, so thank you.

Harison Sidhu: Great. Thank you so much, Robert. Thank you, Andrew.

Andrew O'Shea: Awesome. Enjoyed the conversation.

Robert Morier: If you want to learn more about Harrison and Fiduciary Trust, please visit their website at www.fiduciary-trust.com. 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, 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. Harrison, again, thank you for joining us. Andrew, thank you as always. And to our audience, thank you for investing your time with Dakota.