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EPISODE 66:

Investment Manager Research

with Vanguard

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, investment consultants, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live content, please check out dakota.com to learn more about their services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today. Well, I am thrilled to introduce our audience today to Matt Piro, global head of oversight and manager search for Vanguard. Matt, welcome to the studios here in Philadelphia.

Matt Piro: Well, thanks for having me today, Rob.

Robert Morier: Yeah, thank you for being here. And always, Dan DiDomenico, how are you?

Dan DiDomenico: I'm doing great. Thanks for having me, Robert.

Robert Morier: Welcome to the show.

Dan DiDomenico: Matt, good to see you. Thanks for being here.

Matt Piro: Likewise, likewise, thank you.

Robert Morier: Well, Dan, we don't usually date these episodes. But today is April 3. It is Dan's birthday. So happy birthday, Mr. DiDomenico. Welcome to the show. It's a special day for us that we get to celebrate your birthday here on the desk. So, thank you for being here.

Dan DiDomenico: Hoping that was going to fly under the radar. But thank you, Robert.

Robert Morier: We don't… you don't look any older. You look wonderful. So, thank you for being here. The lighting does help, just for our audience who are tuning in. Well, Matt, again, welcome to the studios. We have a lot of questions to ask you. But before we do, I want to quickly share your background with our audience. Matt Piro is the global head of oversight and manager search for Vanguard. In his role, Matt oversees Vanguard's subadvisory investments with 24 subadvisors across nearly 80 mandates on over 50 funds globally. The total AUM in these funds sits at approximately $700 billion. The Vanguard Group is an American registered investment advisor based in Malvern, Pennsylvania with approximately $9 trillion in global assets under management as of February 29, 2024. It is the largest provider of mutual funds and the second largest provider of exchange traded funds in the world. Prior to his current role, Matt was responsible for Vanguard's global ESG product strategy and management. Matt and his team partnered closely with clients to deliver ESG product expertise and to ensure Vanguard's ESG products met their clients' needs. Matt is a 22-year veteran of Vanguard with responsibilities including time in Vanguard's London office as head of product, Europe. In that role, Matt was responsible for Vanguard Europe's product strategy and management. He was also a member of the European Leadership Team, which is the executive committee responsible for managing the European business. Prior to that, Matt was a senior investment analyst in Vanguard's manager research group where he focused on fund oversight and manager selection, with an emphasis on actively managed non-US global and emerging market equity strategies. Matt joined Vanguard in 2002 and has been in the portfolio review department since 2008. Matt earned a BS in Business Administration at the University of Vermont. He is a CFA charter holder and is a member of the CFA Society of Philadelphia. Matt calls the Greater Philadelphia area home, where he lives with his family. Matt, thank you again. Congratulations on all your success.

Matt Piro: Thank you, Rob.

Robert Morier: I'm particularly proud. As a University of Vermont alumni myself, it's nice to see a fellow alumni doing much better than me. So, it's wonderful to see your success, particularly at a firm like Vanguard.

Matt Piro: Well, thank you. And it's great to be with a fellow Catamount.

Robert Morier: Well, thank you. Well, you are the second University of Vermont graduate who's been on the show. But you're the first who shared some time with me in the early years of the 2000s when we graduated. So, when you were in school up in Burlington, Vermont, I know I was not thinking about a career. So, I'm very curious, what were you thinking about as it related to what you wanted to do for a living?

Matt Piro: I was always interested in investment management. So, when I was in high school, I used to follow stocks. I'm not so sure I was good at picking those stocks, but I always followed them. So, I had this interest in the markets from, I'd say, consider that to be pretty early days. Was in the Investment Club at school, studied finance, did an international business concentration when I went abroad to Vienna. And it all just continued to spur my interest in the markets and investment management. So, I did have a bit of a target of Wall Street more broadly, not necessarily being on Wall Street in New York necessarily, but that greater system around it. So, I always just had that. And some of our professors helped really to refine my thinking, if you will, on that. And there's a couple of things I remember when I was going through classes in college. One was actually my strategy class with Professor Vandenberg. And we studied, of all companies, Vanguard in that class. And that is when I learned a lot about Vanguard, its ownership structure, its ethos around low cost, high value. Didn't necessarily tell me to go work for Vanguard. That just happened somewhat randomly, I guess I should say. But it really introduced me to asset management even more closely. And I just followed that. As I got to know more people, and I talked to more individuals that had graduated from school, I just followed that interest. And then I happened to meet somebody who helped me make a connection at Vanguard. And that's really what led me into the company that I'm in today, where I started at the company as, really, a phone representative. Very entry level, again, maybe not exactly what I would have thought, given that interest in stocks. But it got me into a company that I felt really good about. And then as I fast forward to where I am today, had a lot of development opportunities and growth, where now I do sit-in a role that is incredibly close to the market's, very investment oriented, which is exactly the kind of work I always wanted to do.

Robert Morier: That's great you were doing that type of project-based case study work, particularly back then. It's become very popular at the university level now, introducing firms into the classroom. So, you can really better understand an industry from the inner workings of a business. So, it's wonderful that you had that exposure. So, what was that? You said it was opportunistic. It was through a connection. What was that like? One of the reasons I ask is we have a lot of students now who tune in to the show, people are really trying to find a career in manager research, and ultimately, in asset management. So how did you connect the dots?

Matt Piro: Yeah, I mean, this was really lucky because this was… I was out one afternoon with my father, and not all connections need to be made this way, but I did meet somebody playing golf. And that individual happened to have a friend who's… his neighbor, I should say, happened to be an employee of Vanguard. And he connected me with that individual because we got to know each other a little bit as we were talking about the interests and what I was looking to do. I had graduated already. I hadn't had a job. It was 2002. It was a tough time. I think we all remember the market at that point. So, finding something wasn't the easiest. But just by that happened connection, and then I have the conversation with the individual who helped me understand a little bit more about Vanguard and referred me, I got my… I got my foot in the door for that initial interview. And then the rest went from there. So, I think whether it's a connection in that way that you make or just networking, I do think that's a really important part of getting your foot in the door. And for me, one of the things I always talk to individuals about is focus a lot on the company as well, what you want to do. But once you find a company that you feel really good about working for, you can then be, I think, patient with your career in the early years to take on different opportunities. And you just never know where that's going to lead. I mean, if I would have told you I started working on the phones answering effectively the 1-800 number for Vanguard's direct personal investor clients and I would have navigated my way over into the manager research role about six years later, I wouldn't have seen that path so clearly. But I was able to go into an organization that then helped me develop and pursue my interests. And then you make your connections within that organization that helped me lead my way into the group. Where once I got there in 2008, by the way, we talk a lot about engagement at our company, engagement in the role, engagement with your team, engagement with the company, I felt it. I felt this extra fire come in on wanting to come in to work and really put my best foot forward. And so that's when I say it was kind of random, but I did follow little seeds that were planted. And I just ended up making my way across into a group that I just love and I'm happy to be leading it now.

Dan DiDomenico: Well, to your point, Vanguard is one of those organizations that, culturally speaking, and I worked at Vanguard for eight years, where they give you that visibility into other areas within Vanguard. The education that they provide, in addition to just having an understanding of what's going on around the various aspects and divisions within Vanguard to give you that opportunity then to move. I think that's a really important and valuable takeaway for people that are listening as well. Is, you find an organization like that, that's going to give you that platform to build yourself personally and then give yourself the latitude then to move where your areas of interest are.

Robert Morier: So, you felt that fire to go into manager research while the world was on fire. So, I'm very interested. You came out of your college years at a difficult time. Then you went into manager research at a relatively difficult time. So, what was that decision like? Transitioning into an area of the markets that was, arguably, under severe distress?

Matt Piro: Yeah, it was a very interesting time, for sure. I mean, we were… we were entering the financial crisis. And a lot happened. And I think as I look back at that time, first going into the role was very clear for me, it was very obvious. I was looking to get myself into an investment role. So, the fact that the world was starting to show some didn't deter me one bit in wanting to go in that direction. If anything, it made me realize how much more interesting it was going to be because these tough times, they're inevitable. And we've had another one since, I mean, the COVID period, right? And when I look at that back at that period of time, and the experiences, and the lessons, there was… there's a couple I'd point to. First is, the lessons I've got to learn about the time leading up to the crisis and then lessons that I learned kind of through and coming out of the crisis. And when I look back at that leading up to the crisis, this was a time when Vanguard was… and it's been very high growth for quite a while now. But it was very… it was accelerating at that point. A lot of our businesses were having success. Our active franchise was growing very quickly. A lot of 401Ks were introducing the funds into their lineup. So, our asset growth from an active standpoint was very high. And when I look back at the lessons that I was able to learn, really from talking to other individuals who had been in the group for some number of years, there were lessons in there around capacity management. There were lessons in there around the importance of proactive sourcing. Because as our assets were growing, we had to make decisions. And there were some decisions we made to close access to our funds to preserve the ability for managers to add alpha. We all know that the larger your asset base gets, it can become harder to deliver that outperformance. So, capacity management, and then as related to that is, well, to the extent certain funds, we wanted to continue to provide our investors access to, we had to source more managers. And you have to be proactive. It's not a great business to make fast decisions with. So, I learned a lot about capacity management and proactive sourcing during that. And then as we entered the crisis, there were definitely a lot of lessons we learned about ensuring the appropriate level of focus on firm level health because that was a tough period of time for asset managers. We all know the benefits of scale on the upside. It's a wonderful business. There're high margins for a reason. A lot of that comes from the markets. A lot of your revenues are based off of assets. It's an obvious thing to say. But until you start feeling that scale on the other side, that diseconomies of scale, if you will, it can create a lot of pressure on asset managers because a lot of those cost base are fixed. So, we learned a lot of lessons in there about how to robustly monitor the health of a firm, understanding decisions that firms had to take to keep the doors open, effectively. And we saw different managers take different approaches. Some were much more prepared for it. They had a much more of a contingency mindset, a risk mindset. They seemed to weather the storm a little bit better. And we had managers that we started to have some concern about that as they were making cuts, because most firms did have to make some cuts, they were risking cutting into the bone of the operation. And what we really wanted to focus on was making sure firms were going to come out of that period stronger because you knew it was going to end. You didn't know when it was going to end. But it was going to end. And we wanted the firms that we stayed with to be coming out of the other side stronger, keeping investing in the talent. Maybe being opportunistic identifying and accessing new talent. So, we learned a lot of lessons around the firm too during that period.

Robert Morier: We're going to talk more about how you diagnose the firm level health of an organization. Before we do, I did want to touch on your time in Europe because it was also an interesting time. You were based in London, heading up product. What was that experience like for you? And what were the primary responsibilities that you were focused on?

Matt Piro: Yeah, when I was asked to go to London, it was to lead our product efforts for our European business. And effectively, what that meant was the product development and the… what we call product management or product specialism type support for our clients, big partnership with our distribution teams there. So, it was really that oversight of the entire product lineup for our European… our European business. And it was a wonderful experience. There was incredible growth for me, both personally and professionally. When you move abroad, you get… your lens gets widened out, if you will. You meet a lot of different people. You understand cultures a lot more. For me in the business, the nature of the business for Vanguard was quite different. It's a very strong and successful business in Europe. But compared to the US, it's much smaller, was much earlier, had a much more of a startup feel to it. And we're fighting a little bit more to be known in the way we're known in the US. So, there was a lot there that I got to experience and learn about leadership of the team through those different kinds of stages of maturity of a company, if you will. The product lineup needed to be expanded. The adoption of ETFs increasing in Europe and how we were going to choose to play in that market. The fact that Europe is a collection of countries, and each market is different, and the strategy we were using to try to access advisors in the UK versus intermediaries in Germany and Italy, all of those things were wonderful experiences for me. And one of the things that was most exciting for me when I went over there was, I got to continue on with a project that I started while in the manager research group just before I went to London. Because it was in 2016 when Vanguard decided to expand its active lineup outside of the US. And the UK market was a target for us. So as I was finishing up some work to launch a new product lineup in the UK, bringing global equities, emerging market equities, and a few others to the market, I was then able to go into Europe and help support that even further, leveraging that experience I had to bring that into the business, supporting the sales team, supporting my team locally as we look to support that growth engine for us in the UK.

Robert Morier: That's an interesting experience. We do have a number of listeners, US-based asset managers, who have started looking at the European markets, who have been in the European markets for many years. What was your approach to that distribution plan? So, when you were thinking about product, you started in the UK. You set up a London office. What was the path? Was it the Nordics, down into the continent? How were you thinking about the distribution model? Maybe some advice for some of the asset managers who are listening in.

Matt Piro: It's one that evolved over time. I mean, Vanguard, when we first launched in Europe in the late '90s, we did so very focused on the institutional market. And it was focused a lot on the Nordics. And we weren't based in London at that time, in fact. We were based in Belgium. And it was in 2008 when Vanguard decided to make a change in its… in its approach to the European market. And a big impetus for that was some of the regulation that came into the UK. So, you had the Retail Distribution Review, RDR, that came through that really started to set the playing field in the UK to be very Vanguard friendly. We don't pay for distribution. The retrocessions are still quite prevalent across Europe. And we saw an opportunity to go big in the UK. So, at that point, we made a pretty big strategic shift. We picked up, we moved our headquarters to London. And we got deeply focused on the UK first. And that started with a fund lineup that we built for UK investors. But we also began to introduce more products on our Irish UCITS platform. Because that cross-border distribution is very powerful. So, we were setting the… setting the seeds, if you will, for broader distribution in more European countries for the times when we decided to expand into those. By the time I got there in 2017, we had committed to the ETF wrapper. The ETF wrapper was something that we think… and continues to be something that we think provides you incredible access. And you can do so… on that UCITS platform, you can do so across multiple countries. It's a low-cost vehicle. The adoption is… it's high. But it's not what it is in the US. So, we still see an incredible growth opportunity. So, we started to focus a lot more on distribution of ETFs, particularly as we expanded into Germany and Italy, and we continued into Switzerland. I think for us, our strategy in Europe perhaps has some differences to others in that we are, I'd say, more focused on countries in which we're seeking to distribute. We're not seeking to distribute across all of the markets. So, we've got very targeted and very clear on the markets we want to invest in, Germany, Italy, Switzerland, and the UK being the four.

Dan DiDomenico: That's good advice, yeah, for sure.

Robert Morier: Thank you for sharing that. Thanks for the context and the historic perspective. It's helpful for the audience. So, we appreciate it. Well, you're also the second Vanguard employee to be… actually, technically the third, there were two before. So, Kevin Kang and Andy Reid joined us. It was a wonderful conversation. We got to hear a lot about how you think about the behavior of investors, both retail and institutional. But they were able to set the stage in terms of who Vanguard is. And obviously, as a very large organization, most of our audience is familiar. But in terms of the manager research side, so where you sit, your team that you now lead, could you give our audience a little bit of context as to where the… where your team sits within the organization and the primary responsibilities?

Matt Piro: We have a few what I'd call distribution business units. So, think about our personal investor group, the group that services advisors and intermediaries through our FAS division. We have an institutional group that's primarily focused on 401K plans. And then we have our international division, where we distribute across Europe as we were just discussing, but also Australia and the Americas. So, we have distribution groups. And then you have a number of shared service groups. Think about your legal department, in terms of for us, it's called the Office of the General Counsel. We have an investment management group. We have a risk group. Then I'm in a group that's called Strategy Product Marketing and Communications. And that is a group that is separate from investment management. It is separate from risk. And I say that because part of what's important about the role my team has is independence within Vanguard. So, we work very closely… and we actually oversee and work with our internal investment management group in the same way we do with our external subadvisors. So, we have an independent reporting line up through Karin Risi, who's the managing director and member of senior staff for that SPMC division. And that independent reporting line from investment management allows us to that oversight of the internal teams in the same way we do the external groups. It's also independent of our risk group. We partner with them, of course. We work closely with them. But it's intended to be a very independent group, where our reporting structure is effectively up through our global investment committee and then our board directly. So, our work, all the recommendations we make, the analysis we conduct on the managers, on the funds, that is all fed up through our global investment committee, and then ultimately, directly to our board. So, we sit in an independent spot within the organization to remain independent and overseeing all funds and advisors, with that reporting line up directly through the board.

Robert Morier: Well, you are named head of this group a year ago, so just over a year ago. So, congratulations on the new role. Could you tell us a little bit about your day to day?

Matt Piro: The day to day in the manager research group, which we call oversight and manager search internally is kind of what that name suggests. We're doing day-to-day oversight. So, we have a team of about 25 individuals. And every day, they're meeting with managers. They're conducting analysis. They are having internal peer reviews, just overseeing those 24 subadvisors, those 80 portfolios. And that every day looks a little bit different in terms of what we're doing exactly. But it's just this day-to-day oversight that's being conducted. There're also daily interactions that are happening on what we call manager search. So, part of our job is making sure we're canvassing the landscape of managers we don't currently work with. And I mentioned proactive sourcing a little bit earlier in the conversation, where we're trying to make sure we have a view on managers we don't currently work with. And that is with the intention of potentially working with them, whether that's to support a new mandate, perhaps it's a replacement search. And that integration of oversight and search we think is a really important part of manager research because in addition to sourcing new ideas, you're almost continually benchmarking your existing roster of subadvisors. So that day looked… every day looks a little bit different for the team. But it's meetings. It's analysis. It's external engagements. It's travel, a lot of the stuff, I think, people typically think about when it comes to manager research.

Dan DiDomenico: So, Matt, when now thinking about your group, your team, how do you organize your team in terms of responsibilities? Is it aligned by asset class or by geography? Because you're talking about that element of… or blending between the oversight and the search and sourcing responsibilities. But how are the responsibilities delineated amongst the team?

Matt Piro: Yeah, it's a bit of a hybrid approach. And what I mean by that is… first, I'll start with the fact that we have six senior investment directors. So, I have six direct reports who have primary oversight and search responsibilities across our… across our book of managers and our book of funds, as well as those external search opportunities. So, they all have direct accountability and responsibility. Their responsibilities themselves, and how they're focused is it's a mix. And the reason I call it that is we like to have a generalist approach that allows each director to have breadth. But we also want to make sure that each director has a level of depth in a certain area. So, I kind of refer to it as a T model. And what the top of the T allows you to do is by a director having responsibility for different types of equities, whether they're US equities, non-US equities, perhaps even some fixed income or multi-asset, it allows them to see a lot more of the playing field. And as we're doing peer reviews, because we operate very much as a team, that allows them to be able to engage, challenge, support, really debate with one another their opinions across a broader set of managers and mandates. And that's what that top of that T allows you to do. But as you go down the middle of the T, it allows us to have a little bit more specialization, a little bit more depth. So, if I have somebody who's more focused on, say, value equities as we do, he can go that much deeper when it comes to value. So, we do lean on him a little bit more when it comes to the value side of the ledger. But we also want the team to be able to engage him on value. So, we kind of approach it that way. Everybody is based in the US. But that's how we approach it from a coverage and responsibility standpoint.

Robert Morier: Just out of curiosity, we talked about the great financial crisis, 2008, we talked about some of the lessons learned. Were there any adjustments that were made to that approach, that infrastructure? You talk about the generalists, but also having the ability to go deeper into areas where there's specialty. Did any of that come from lessons learned in 2008?

Matt Piro: Nothing in terms of the coverage and responsibility came directly from 2008. I would say over the last couple of years, we have gotten a little bit more focused on that middle part of the T. I think we've gotten a bit more explicit on that. So, I'd say we've probably started to tilt ourselves a little bit more specialized than we were back in '08, or even five years ago. And I think that's a direction we'll continue… we'll continue to move in. I think what 2008 and some of the adjustments that have been made during that time, and big credit to Dan Newhall, who led this group for 15 years before me, was one of my… one of my key mentors and somebody who helped me along the way. In many ways, there's a lot of what I learned, I learned from Dan. He just continually, during that period, supported the team and going a level deeper each and every year. So, as I think about the framework we use, which I'm sure we'll get into, the level of depth and the criteria we use have become much more specific. And I'd say we've become much sharper in how we test our views with data and analytics. And that's something we will continue to do… to do more of.

Dan DiDomenico: And this is where I'd love to start peeling it back and start to understand how is that combination of the view, the data, how is that shaping where you're looking? So, thinking about those investment themes or asset classes, where your group is looking for maybe a specific subadvisor to either complement what you currently have or potentially even make that hard decision of replacing a manager.

Matt Piro: The disproportionate amount of our time is spent on the existing mandates that we have. So, when it comes to say new mandates, new asset classes, new themes, we really take direction from our product team. We work very closely with the product team who sets the product strategy. And they'll decide, should we be launching a new fund in a certain space. We just launched an international dividend growth fund. That was something that the product team came up with and said, we have a client need. We think we can capitalize on an opportunity here. And then it was our job to source the manager. So, when it comes to identifying those new themes those new asset classes, we really do take our lead from them. We, of course, inform it. We have input into that because we are out there talking to managers. But the disproportionate amount of time is spent on the existing managers. So, what that means is we will continually revisit the same ideas. We will continually look for new ideas. So that we have that roster of managers that we have really well-informed opinions on. So, in those tough decisions, as you mentioned, which do come up, come up, we are prepared to act.

Dan DiDomenico: So now maybe help us and walk us through what that due diligence process looks like. We know Vanguard's very long term. I mean, you're entering into a relationship believing that this is going to be a very long-term engagement with the manager. So that implies, I'm sure, up front, there's a lot that's going on leading up to that point of decision where you're comfortable with that manager. And then when there's an opportunity, bringing them into a fund as a subadvisor. So just help walk us through what that due diligence process looks like. Our audience, many people are calling on Vanguard. This will help level set what are the right expectations going in from that point of the first email, the first engagement, to ultimately, or looking to pursue would be a deeper engagement in partnership with Vanguard.

Matt Piro: You are right when we hire a subadvisor, we do so with the hope and the intention that it is something where we will have a 10-year record with Vanguard or longer to look back on with them because we want these relationships to be that long, that long term. In order to enter a relationship with that intention, you are right. That requires a lot of work up front to have that comfort in making that decision. So, our process is, I think, known to be long. I think it's known to be thorough as well. And it does take time. So, to your point around level setting, I think that's an important thing for any manager who engages us to understand is that it will take us time to really understand the firm over a period of pretty much, every instance, years to really have that depth of understanding. And quite frankly, that means both sides too. There's a lot of getting to know Vanguard that we think is important because it is a relationship. It is a partnership, ultimately. And there's two sides to that. So, it's really important for any manager working with us to understand who we are and what we stand for as well. So, a lot of this is also Vanguard sharing as we're working with the managers. Just to bring it to life a little bit, I won't disclose too many details. But we have some work that's very active right now. I mean, we're expecting to play some assets in the next several months in a category that we've always covered. We have been working… this has been one of our focus areas for the last several months in terms of a heightened level of focus. There's an evergreen process that all the senior directors take to make sure they understand their universe. But there are periods where you have to heighten that focus a little bit. And this is a space we've heightened our focus. And what that's meant is we've gotten ourselves to a point where we have our very short list of managers that we are preparing to introduce to our investment committee. And that investment committee is the final step before we make a proposal to a board. The firms that are on that shortlist are firms the interactions go back, I believe, six years and eight years. And those were two firms that we think have risen above others. There was a list just prior to the super shortlist that had a few additional firms on there who, similarly, the number of interactions and the length of time were the same. That came from a list of say 50 managers that we started with that we thought had some merit that we just winnowed down over the course of, really, years with that heightened focus over the last several months. As far as expectations go, there are… we do like to meet a lot of people. So, we very rarely will just want to meet the portfolio manager. We want to meet analysts. We will want to meet leadership. It's one of the ways we get to really understand a firm from as many angles as we can. So, there's a lot of meetings that we do. And then there's a fair amount of analysis that we do as well. So, expect the requests for data or specific questions that might help us understand exactly what it is we think that manager does differently and better than others.

Dan DiDomenico: So be patient.

Matt Piro: Be patient.

Dan DiDomenico: Be transparent. Be supportive in what is going to be a deep due diligence cycle. And it's going to be across the entire organization because these allocations that you make, they are transformative for these investment managers. So, understanding what that relationship might look like with Vanguard I'm sure is very important. But one thing that you had mentioned is how specific you've gotten with some of the criteria of what you look for in an asset manager, in an investment potential partner for one of your funds. Can you walk us through what some of those criteria may be?

Matt Piro: Yeah, I mean, I think this has been a really good example of just advancement within our discipline at Vanguard. When you look at the high level, we're going to look at, I think, very similar factors as most others in our business. So, think about the firm, the people, philosophy, process, portfolio, performance. That remains. That's our framework. So, when we are rating managers. Those are the six high level factors that we're rating against. But it's the subfactors and the sub-criteria where I think we've gotten a lot more specific. I won't go through all of them, of course. But just to give you a couple of examples, we talked about the firm a little bit earlier today. And I think within the firm, we have gotten much more granular in trying to understand the health of the firm. So that's all things along the financial side of it. That is incentives. We also do try to get a really good sense for the culture of the firm, the resources of the firm. So, we've gotten a lot deeper on the firm level. But if I move over to what I consider to be a bit more of a deeper investment part of the dashboard as we call it, if I look at the philosophy, we've gotten much more specific on sub-criteria within the philosophy that we want to make sure we have a very clear view on. And within that, we look at the efficacy of a philosophy. So, a manager has a certain belief. We think, well, how efficacious is this belief? Some investment philosophies at the… what we call a base rate, at the general level, that you could probably naively implement do have a higher hit rate than others. So that would be a highly efficacious philosophy. We try to look at the consistency in the way in which that philosophy has been applied. And we also like to find managers that have something distinct about their philosophy. So, as we're digging into the philosophy now, those three subfactors are ones that the directors are spending a lot of time on coming to a very clear view on. How efficacious, how consistent, and how distinct has it been? And then you start to translate into well, how have they affected that philosophy through their process. And we have similar deeper criteria we look at there.

Dan DiDomenico: That's a good lead-in to the next question because it may not just be about benchmarking to… or benchmarking performance to a certain benchmark. It may be exactly that, a reason to reevaluate a relationship or a manager that you're currently working with. It could have something to do with a deviation from that philosophy, a philosophy that you tested, that you believed in, there's efficacy there. There's consistency in how it was applied. But maybe they've deviated or drifted from that philosophy. What other reasons would you look at to reevaluate a current manager that you're working with?

Matt Piro: Yeah, I mean, those ones you just laid out are great examples. And we have had instances of those in the past. The other areas I think do come down to… oftentimes, comes down to people. I mean people is probably the biggest part if I had to look back at decisions we've taken. And every circumstance is different. But some of it's related to succession planning. We do like to work with firms and teams that are strong teams that aren't overly reliant on any one individual. But the reality is you're going to have very key investors. And sometimes, something goes awry there. So, the people side of things has tended to be the most, I think, in terms of the reasons for a partnership ending. And then there have been a few instances where firm level concerns have come into play that I can… that I can recall. But the one you hit on is also one that's come up a number of times over my career.

Dan DiDomenico: Well, especially over periods of disruption, like we went through in 2022. I'm sure you all kept a very close eye on sticking to the discipline.

Matt Piro: And I think to your point on the performance side, this is another area where I think we've gotten much more precise in how we think about performance. And we, of course, look at performance against your standard benchmarks. And the majority of our relationships and our contracts with our managers include performance incentive fees against agreed benchmarks. So those they outperform, they can earn more. If they underperform, they earn a little bit less. It's a one way we think of aligning the interests of our end clients with the manager themselves. So, we, of course, will look at performance against the benchmarks. I would tell you from an analytical perspective, we spend much more time doing custom performance work to understand the manager. So, for each manager, the team really tries to have two or three precise looks on how to evaluate the manager's performance and the context of their stated philosophy and process. So, if you're a manager who part of what you believe and part of what you do is identify companies with improving returns on invested capital, that's one of your fundamental beliefs, the team's analysis is very much focused on assessing performance and the character of the portfolio through that lens. Do we see that profile? Do we see a pattern of that manager identifying companies that have, in fact, improved their returns? How has the market rewarded or not that? Because there could be a situation, and there will be, where the manager is executing exactly what we've hired them to do. But for whatever reason, the market is not rewarding it. That's fine. That's fine. And so that's an area where there's been a lot of focus for us over the past several years.

Dan DiDomenico: And stock selection may have been positive during that period set against other stocks in that universe. But to your point, this may not be in favor currently. And I'm sure you look at role that they're playing set against the other managers within the fund, as long as they're executing against that role, that long-term relationship will continue.

Robert Morier: Can you touch a little bit on communication? You're with these managers for a very long time. Dan started his career at Vanguard as a relationship manager. What makes a good client service person? What makes a good client relationship as it relates to these types of mandates that you're working with? Because you talk a lot about health. And over a 10-year period, 15-year period, people get sick. And you have bouts of underperformance. Or you have issues with capacity. Or you might have someone depart. So how do you think about client service and relationship management as it relates to working with your team?

Matt Piro: It's important. It really is. And I think a couple of things I'd share there is we like frequent communication, but not too frequent. So, we always love getting reached out to by individuals when managers are coming through town, when there's an interesting research piece that really demonstrates the thought leadership of the firm. And I think that's an area where you've seen firms step up their game. But I still think there's some room to go. It's one of the best ways a manager can really demonstrate the way they think. So, when somebody reaches out to us, we want there to be a very clear purpose. And managers being in town, an interesting thought leadership piece are great things for us to see. We also want transparency. I think that was mentioned earlier in the conversation. So, one of the pieces of advice we always give individuals that we're working with, whether it's the client service relationship person or even the portfolio managers, is, be comfortable being transparent with us because the reality is we know everything's not always perfect. And that's OK. So, where we've seen firms take missteps with us, both through the research process but also existing partners, is when they've been apprehensive to share something with us because they were worried that it might be perceived by us to be a problem. And sure, that could be the case. But you won't know that unless you engage us on it. And there was one example I can think back to several years ago, where there was a portfolio manager that I was meeting with and clearly had an issue with an analyst on the team. And typically, I think the view in the industry is turnover is bad. Not necessarily, too much turnover certainly is a red flag that I think most managers researchers would flag. But no turnover also can be a red flag. And this portfolio manager was so clear and transparent about the challenges that they were having with this particular analyst. And that just made such an impact on me because I really appreciated the transparency and the trust. And it also allowed us to prepare for a change on the team that based on the way the individual is engaging with us, we had good understanding as to why. So that turnover wasn't bad in our mind. So, I know I moved off of the relationship side of it. But the transparency principle, I think, is… it holds.

Dan DiDomenico: But something I preach to our team, to the investment managers that we work with, it's something I learned when I was at Vanguard, is being consistent in your outreach as well. Just don't be visible when things are going well. Be equally visible, equally transparent during periods where there's disruption. I know sitting in your seat, I'm sure you appreciate that, and not hiding when things are getting rough and allowing for you to make your own conclusion. I know you have all the data. But you want to be at the forefront of those conversations. You want to be equally visible when things aren't going as well just to share, hey, here's what's happening behind the scenes. So, you have full understanding of what's occurring with the asset manager, with the investment manager. So, you have a very good feel for how they are reacting and responding to that environment.

Matt Piro: Yeah, 100% agree with that. And I think the role of the relationship manager and the client service person in terms of what they can bring back inside the firm, back to the investment team, the messages to help them understand what manager research professionals or others are looking for is a very important part of the role. Because going back to when we love seeing that thought leadership, when I say I love seeing that thought leadership, I don't necessarily love seeing the next market update. What I love seeing is the thought leadership that really helps you see, feel, understand what it is the manager does, how the manager is thinking, unique insights. Something that when you read it and you engage them on it, you say, that felt uniquely this firm. It couldn't have been any other firm talking to me about this.

Robert Morier: How do you ascertain that culture? I know time has a lot to do with it. But what types of questions are you asking those portfolio managers, those analysts? One of the things that we ask all of our guests is… and everyone says it's very people oriented, it's a people-driven process. It's a people-driven business. But understanding people and getting to know people is really hard. It takes a lot of time. So how do you think about that process of getting to know a culture?

Matt Piro: Yeah, it's something you absolutely have to triangulate. And time is a part of it, of course. But part of the reason time is a part of it is because the opportunity it provides you to get to know multiple people during multiple periods of time, different environments. And you can see the way they behave. You can see the way they react. So, there's… that's a big reason why we won't only meet with portfolio managers. We'll meet with analysts. We'll meet with leadership. We obviously get to know the relationship folks. And you really start to get a feel for the type of people that work in the organization by meeting with multiple people. But I think to get more specific in terms of some of what we look for, those tougher periods of performance and even the periods of performance when it's very strong, the way the senior people talk about it is really important. And what I mean by that is we've definitely had our experiences where portfolio managers, or the more senior folks are quicker to take the credit and place the blame then you might like. Ultimately, as a portfolio manager, you're accountable. You're accountable for the results of the portfolio. You are obviously a big voice in terms of who's on the analyst team. So, you're ultimately accountable. But I do think time is a big part of it. But it's because of what you're able to see over time, and that pattern, and that consistency. And we talked about this topic with Rob, and now we talked to his partner a year later, and the message was entirely different. You're like, OK, that's a bad sign.

Robert Morier: Yeah, words matter. Yeah, absolutely. What do you like to hear from managers as it relates to two things? Because these are topics that come up often with asset managers as they think about how to plan for succession, so succession planning and capacity. You mentioned capacity earlier. I think those are two areas I just know in my career, Dan, I'm sure you've been through this as well, where the firm gets together to talk about this because they're curious, they're concerned, or they need to collaborate with the investor as to what they should be doing. So, when you think about succession planning and you think about capacity management, what do you like to hear from managers? What are you expecting?

Matt Piro: Start with succession. And every succession is different. And the circumstances around succession planning, it differs from the firm. So, you can take… you have your large, multi-boutique type firms down to your single boutique firms. And some of those single boutique firms are obviously ones where you're still going to have heavy involvement of founders and the like. And the factors are different. And the way succession planning needs to be thought about is different. So, we… the first thing I'd say is it does depend. It does depend on the firm. It does depend a little bit on the team. But one thing that is consistent across it is the fact that you are thinking about it. And the fact that you're willing to talk about it. And even if it's something that you don't think is imminent as an issue, that's very well the case in many instances, it's never too soon to start thinking about it. So, if I think about different examples we've had over the years, if I start on that side where it's a larger firm that's has an incredibly deep bench of investors, they have development programs for investors. For us, the conversation there is about how do we understand that second, that third, the fourth generation of talent. Who are the upcoming analysts? Who are the… who are the individuals that we should expect to see take on greater responsibility? And that's more just for us to ensure we have an understanding of individuals that could come up as potential successors, gives us a broader understanding of the firm. And that tends to be very team specific. But if you move to the other side, where it can be a single strategy boutique, founder led. The conversation there, you have to talk a lot more not just about succession planning in terms of investment responsibilities. You have to talk about succession planning of ownership of equity. And that is very hard. And we don't dictate it in any which way. We ask questions. We try to understand the philosophy behind it. And you all will know that very different approaches are taken there. But there needs to be a plan. And we need to understand what it… what it is. And we've seen it done very well. We've seen it done very well. We've seen it done poorly. And I think in those instances where you have a senior, particularly a very dominant individual that helped to grow a firm, what we need to hear from them is we need to hear about who they've been grooming and how they've been grooming them. And oftentimes, if you can, to the extent you have enough resources to think about in that multi-generations, that can be very helpful too because we're trying to think about these things over a decade plus. It depends on the circumstance. But I think on the smaller firm side, when the ownership equation comes into play, it's more challenging. And then on the capacity side, first thing is that you actually study it. That you actually look at it. And you actually have a way in which you measure it. So, we do that. We have our own methodology in terms of how we think about identifying capacity. But we want to make sure you understand, you have a plan. And then we'll look for markers because capacity has a way of increasing as you approach your initial capacity limit. You tend to find… and sometimes, it makes sense that it that it did. But what were the factors by which you think that to be the case?

Robert Morier: We found this over here.

Matt Piro: All of a sudden—

Robert Morier: We were cleaning the closet. And we found $1.5 billion in extra capacity.

Matt Piro: There's no silver bullet. And we all there's a lot of different factors that come into play in how much money a firm can run, whether their turnover or their concentration, the types of stocks they own, their trading styles, et cetera. But you need to… you need to… you need to at least let us know that you're thinking about it, and you have a framework in which the way you approach it.

Robert Morier: Well, switching gears a little bit, with Vanguard's increasing interest in private alternatives, and the mention, I think, of an interview you did not too long ago about private equity as a potential focus for 2024, how does Vanguard plan to apply this ethos of low costs and high transparency, which you talked about earlier, to these typically higher cost and less transparent investment vehicles?

Matt Piro: Yeah, I mean, it is… it is an area of interest for us. And it's something that started several years ago so I think it was 2020 when we worked with HarbourVest out of Boston, so an access fund provider, to bring an offer to Vanguard clients, a private equity offers diversified across primaries, secondaries, co-investments. It's gone very well. Client adoption has been strong. Its performance is… we all know it takes a while for performance to show in that asset class. But performance is where we want it to be. And we think private assets is going to be an area of increased interest for individual investors in terms of their allocations. It's historically been an asset class for institutional investors. That's starting to change. And when you talk to a lot of the private equity firms out there, they are all thinking about how to access and retail investors. And we think that's a good thing for end retail investors. We believe in the investment case from a private equity standpoint. There's a couple of things here I'd say, though, around Vanguard. We're new to it. So, we are learning a bit. So, my team is out there meeting with managers to understand the landscape more. So that's something that we're doing in terms of how we're learning. And I think we also know that we don't have the scale in private equity that we have in other asset classes. So, you think about the cost of things, yes, we think costs matter. But I don't think lowest cost is necessarily going to need to be part of the equation for Vanguard and private equity. It's going to be about that access to managers. And I think we're going to be able to… I think we're going to be able to do that. We are still wrestling with the other part of it, which I think you mentioned around transparency, there's a fundamental feature of the private markets it's that they're private. And with that comes less transparency. So, we are working on how to exactly think about assessing a manager's edge the way we do with active equity. And a lot of this is going to come down to… and we're seeing this with managers when we engage with them. How do they evidence their edge? And so, if I think about HarbourVest as an example, we've worked really closely with them to understand their manager selection skill. And there are some data sources that are coming up that have been out there for a while that continue to improve. And we've been able to do some really good work with them. And they're fantastic at their selection. And I think it's going to be a bit of test and learn for us, quite frankly. But it's something we're interested in. We're excited about it. And we'll see where it goes. But you should… you should expect Vanguard to think about private investing more as we look forward.

Robert Morier: Just quickly on private investment, we're talking about private equity. But are there any other areas in alternatives in private markets that you're thinking about? Whether it's private credit, real estate, how is the asset allocation sub advisory kind of honing-in, starting to play out?

Matt Piro: Yeah, we are… we're much more focused on the private equity side. We're, of course, aware of what's happening across the other asset classes. So, we're clearly studying private credit, and what's the… how are the credit markets evolving? And this is an interesting spot for us because we have a very large in-house credit team with our fixed income group and our investment management group. And they see this. They see this trend as well. So, we're going to look at those other areas. There's nothing in the hopper right now in terms of us doing anything. But clients are asking about it more. Capital markets are always changing. It's like, why has private equity become so big? Well, a lot of that is a lot of these public companies aren't coming public. They're certainly coming public at different stages. So, you think about giving the investors access to those returns, private credit market seems to be evolving. The way banks are lending is changing. And it's something we've got to be on top of. But there's nothing imminent there.

Dan DiDomenico: Just help us now summarize, frame everything that we just talked about. An asset manager, as they're approaching Vanguard, they're in conversation, they're in due diligence, how does that decision then work? Are there RFPs that are issued? Are there specific searches by asset class? Maybe just share with us how that then translates to a potential allocation.

Matt Piro: I think we might be somewhat unique in this in that we don't issue RFPs. We don't announce that we have a search going on. And I'd say in most instances, a manager won't exactly know where we are in the stages of the research until we get very close to the finish line. So, once we get to a point where we are getting close to really wanting to think about striking the relationship, we get much more transparent in terms of where the next steps might lead, which is oftentimes an investment committee I mentioned earlier. So, what I would tell the managers that engage with us is you're not going to always know exactly where we are on the stages. But every stage matters. That first call is critical. That fourth call is important. But we're not going to say we have an imminent decision that's coming because part of the reason for that is technically, you make a decision each year to retain a manager, of course. But hiring and terminating decisions are the bigger decisions. We make one, maybe two of those a year. So, they're quite infrequent.

Robert Morier: Thank you for that. Thank you for zooming in. The next couple of questions I'm going to ask you to zoom out again, specifically regarding active and passive. So how do you see the future of active and passive investments over the next 5 to 10 years?

Matt Piro: Yeah, it's an interesting topic, right? I mean, you think about it in the US market, you've now seen index fund and ETF assets exceed those of active. That's not the dynamic outside of the US. So, I do think this is a topic that depends on where you sit. And I don't know what the what the equilibrium level is. But you can certainly look at markets outside of the US. And you can see plenty of opportunity for passive to grow in the way that it has in the US. I think active is going to always remain an important part of the industry. And a lot of folks think about Vanguard, and they think indexing. And that's fine. And certainly, Vanguard has had a lot of success with indexing. But Vanguard has over $1 trillion in active assets. So, we deeply believe in what what's done in active. And there's conditions for active, though. And talent is first. You've got to have… you got to have great people. You do have to access it at a reasonable cost, though. And you do have to be patient in terms of how you deploy your capital towards it because you're going to have the inevitable up and downs. So, I think you're going to see passive continue to penetrate markets outside the US. I think it will continue to grow in the US as well. But maybe this is just the active manager researcher in me. But active is going to… active is going to remain strong. It's going to remain an important part of the asset allocation decisions. And we're going to keep focused on it.

Robert Morier: Well, I asked Kevin and Andy this question. I shared a quote, there are years that ask questions and there years that answer. Obviously, they spend a lot of time thinking about what those future answers might look like. But from what you're hearing from managers, how do you see this year shaping up? Or are we going to have more questions or more answers?

Matt Piro: Yeah, yeah, I mean, I think every year, probably get some answers, you get some new questions, don't you? So, it's an interesting year coming into it because we all know what dominated the headlines and the markets last year. All the talk of the Mag Seven. And as you start to think outside the US, Japan became very much in vogue again. And we all know China continues to be an area of intense debate. And one of the things that I find most interesting about this job is because we work with 24 different firms, 70 odd different teams, you hear it all. And that is just very fun. So, if I think about the Mag Seven as an example, do I think we're going to get some answers there on that one this year? You're starting to in terms of the market's broadening out. Now people are starting to think about renaming the Mag Seven to something else because a couple are being left behind. So, I think we're going to I think we're going to see a little bit more… a little bit more there around the impact of that concentration of the index. But I suspect we're still going to have a lot of questions about that as well. China is going to be a very interesting one to watch. I mean, we have managers on both sides here. Some managers that are… they see a value opportunity because it does look cheap. But you have other managers who are just… they're just staying clear. They can't accept some of the geopolitical risk that's associated with it. So, we're probably going to get some questions introduced. We're probably going to get some answers. But it's the markets. And they're so unpredictable. But I do think those are some of the topics we'll continue to be talking about.

Robert Morier: It makes sense. Things can stay cheap for a long time.

Matt Piro: Yes, they can. I mean, emerging… you think about emerging markets, emerging markets has looked like a place you wanted to go from a valuation standpoint for more than a decade. And that's not been the case. But could that turn? Yeah, I think it… I think it could. But your guess is as good as mine as to when exactly that would happen.

Robert Morier: Thank you for sharing all these insights today. One more question for… you mentioned Dan Newhall in the beginning of the conversation. But just the mentors, the people who have helped you along in your career that you remember that stand out.

Matt Piro: Yeah, I mean, this is one where, coming back to Vanguard, and the company, and some of what we talked about earlier, fantastic culture around this. You can't just come to Vanguard and worry about yourself. You've got to worry about others. That's part of… that's part of the ethos from a leadership standpoint. Dan was instrumental. Hired me into the team as a senior director, coached me, taught me, groomed me, and learned so much from Dan about the discipline of manager research. But a couple of other people I'd highlight, know Sean Haggerty who currently runs our European business, he's the individual that brought me over to Europe to run the product team while over there. He's somebody I've just learned a ton about from a leadership standpoint, how to treat people, how to be an authentic leader, how to be an authentic person at work, be yourself. Learned so much from Sean. And then I'd say Karin, too, Karin Risi who's the managing director. She's somebody who took an interest in my career very early on as a senior person. And one of the things I always found very helpful about Karin was when I would meet with her, she was very willing to give me the clear and candid view and feedback. And sometimes, you've got to hear that. And she always did it in such a caring way. And we have a saying in my team, which I did not create, the team had this in place before I came back into it, was clear is kind. And being clear about where someone stands, about what's going well, about what not going well, that's actually being kind. It's kind of analogous to the feedback is a gift comment that you hear sometimes. So, I've had… those are three individuals I'd put out there. But it's Vanguard, so I could probably give you another 5 to 10 easily that have had some sort of instrumental markings on my career at the professional level. And the last thing I'd say there, Rob, is my mother is somebody I learned the value of hard work from. And that was because she was a small business owner. She started a company in highway construction in Vermont in the '80s. And you want to talk about having to be tenacious and tough, she's all of five feet tall, out there on the highways at a time where you can probably appreciate what that what that environment looked like and felt like there, just how tough and hard she had to work to have the success she had is something that I got to see every day growing up. But I think it definitely deeply imprinted something within me in terms of my work ethic, my focus, and hopefully my tenacity and grit that I try to bring into work as well.

Robert Morier: Thank you for sharing that. That was wonderful. I hope your mom listens to the podcast. I just want to quickly say thank you for being here. We're grateful for your time. Personally, as a University of Vermont alumni, I'm very proud to have interviewed you today. So, thank you for making the time to speak with me after all these years. I know our audience is also grateful just to hear your thoughts. So, we appreciate it. Thank you.

Matt Piro: Well, thank you for having me. I really enjoyed the conversation.

Dan DiDomenico: Yeah, thank you, Matt. That was great.

Robert Morier: If you want to learn more about Matt and Vanguard's active management solutions, please visit their website at www.vanguard.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. Matt, thank you again for being here. Dan, a very happy birthday.

Dan DiDomenico: Thank you, Robert. Thanks, Matt. Great to be with you.

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