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EPISODE 88:

Rewriting Wealth Management

with Windrose Advisors

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 our Dakota Live content, please check out our website at dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes only and should not be relied upon as recommendations or advice about investing in securities and does not constitute an offer to sell or a solicitation of an offer to buy any securities by Dakota, Windrose Advisors, or their respective affiliates. 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 and whose views do not necessarily reflect those of Windrose Advisors either. 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. Windrose Advisors is a boutique advisory firm setting the new standard in modern wealth management. The firm delivers unbiased, highly qualified financial advice to families, foundations, and endowments. The result is a close, trusted relationship and endowment quality investment platform that preserves and grows wealth. Their client-centric approach emphasizes accountability and a seamless client experience, ensuring that every individual receives dedicated and customized financial guidance. With over 15 years of operations and with a combined experience of investing over $100 billion for families, endowments, and foundations, the Windrose team focuses on establishing trust and mutual respect with each client to ensure a shared vision for preserving and growing wealth. As of December 31, 2023, total assets under advisement are approximately $4.5 billion.
Celicia Chaung is the Deputy Chief Investment Officer at Windrose Advisors. She collaborates closely with the investment team on asset allocation, manager selection, and investment due diligence. Celicia has significant experience in hedge fund research and management, having served as director of research at Baltar Capital Management, focused on hedge fund manager research and selection. She has also worked at SCS Financial and Capital Management Advisors in various research and due diligence roles. She graduated from Brandeis University with a BA in economics and an MA in

international economics and finance. We hope you enjoy this conversation with Celicia, hosted today by Andrew O'Shea of Dakota.

Andrew O'Shea: Celicia, it's wonderful to have you here at the Dakota studio. We had a wonderful conversation with your colleague, Gildas. Excited to hear from you, as well. And we'd love to kick things off by just hearing about what led you to Windrose Advisors. What were some of the pivotal experiences you had as an investor and allocator that's led to your wonderful career and experience at Windrose?

Celicia Chaung: Well, absolutely. I mean, it's been actually an interesting journey. I can't believe I've been doing this for about 20 years now. Actually, over 20 years. I started out not thinking that this was going to be a career path for me. I thought I was going to be a doctor. I went to Brandeis, did my BAMA there. One of the pivotal moments was a study abroad program that I was supposed to take, and I was initially going to go to National University of Singapore. This was in 2003. And at that point in time, SARS had hit, and Brandeis had said, Celicia, you can't go, because in the event that you do, we can't guarantee that you can come home. And so, I ended up choosing to go to Esade in Barcelona, Spain. And that was incredible because I was able to leverage my language capabilities. I speak Spanish fluently. And I think, at that point in time, made me realize that having an international lens, having an international perspective on things was so incredibly important. In addition to that, post grad school, my first job out of university was with a Swiss-based fund of funds. That was an incredible experience because I was a young junior analyst cutting my teeth at the heyday of the hedge fund industry. Liquidity was top of mind because the underlying fund of funds were highly liquid. And so, we were looking for highly liquid strategies underneath, but with superior managers as well. Investment due diligence was always top of mind. But I also learned how to really go through and understand the importance of operational due diligence. And from there, I had great mentorship with the person who led it. The director of research there was someone who took me under his wing. I learned so much from him to a point where I thought that, at some point, this was likely going to be the career for me. In those following years, I had the opportunity to work with several different thought leaders in this space who, I think, taught me so many different things that helped me formulate the way I think about investing. But at the end of the day, I always knew that I was an analyst, first and foremost. I love getting my hands dirty. I enjoy the thrill of searching for the next manager. I like looking for managers that are differentiated under the radar screen. Aren't all things to all people capacity constrained? And when I eventually found myself at Windrose, I really felt that I could really expand upon the experiences that I had throughout my career. We have such an amazing investment team, led by just a fantastic leader and from so many different perspectives. He knows how to leverage the team. He knows how to incorporate and weave macroeconomic issues into what it is that we're thinking. He's proactive. He's just a fantastic leader that we have. We also have a really amazing investment team. Interestingly, we had a family who came to us and said, oh, we didn't realize there were women at Windrose. When we were having a conversation, I was like, are you kidding? More than 50% of the team is female. And in actuality, we're incredibly diverse, too. We all speak many different languages. We come from many different firms. It's not just myself with a fund of funds background, but it's folks who also come from endowment backgrounds, from pensions, et cetera. And I think having those different thought processes really allow us to have different perspectives with respect to problem solving. So, all of those experiences, I feel, have helped me really formulate how I think about investing and manager research as a whole.

Andrew O'Shea: It's interesting to see certain investment managers are structured either generalists or sector specific. And allocators, as well. Very large organizations might have very specific coverage by asset class. At Windrose, are you all… speaking about the team, are you all employing more of a generalist model, or do you tend to focus more on private assets versus long only? Or how does that work across the team at Windrose?

Celicia Chaung: That's a really great question. So as a whole, in terms of our team, we are all generalists. We all try to touch different parts of the asset classes, because I think, at the end of the day, what has been so incredibly valuable is when… prior to me joining Windrose, I felt I was always a mile deep in the hedge fund research space. That's great, and that's fantastic. But joining Windrose has allowed us to also be able to have the opportunity to look across and be a mile wide as well. So, a mile deep, a mile wide, but really understanding how all the different asset classes work together. And I thought, that's been one of the most valuable aspects of being at Windrose and understanding how they all work together. And as a result, each of the team members, we may have an affinity towards a certain area. For example, I tend to gravitate towards the hedge fund space because that's what I've been doing for two decades. I have another colleague who focuses really on the ins and outs of privates. And really, it's because both industries, even though they're broad-based alternatives, they're different ecosystems, different liquidity frameworks, different DNA. And so, as a result, it's sort of a combination of the two. I mean, we all touch different parts of the asset classes, but at the same time, we also have the opportunity to specialize. In some way. Within our hedge fund portfolios, the different flavors that we have, there is some exposure to distressed and stressed credit. That's also somewhat transferable to what we see, also, on the private credit side, sort of similar world. So, there's, I guess, a lot of Venn diagram overlaps in terms of how we're able to operate. So, it ends up being a team where it's incredibly collaborative in terms of how we're looking at things. It's not at all sorts of siloed.

Andrew O'Shea: In terms of your internal discussions as a team… obviously, we're a little over halfway through 2024. There's a lot of crosscurrents out there in terms of market volatility news. What are you all focused on in terms of market trends? What's being discussed at the moment? Any particular focus areas? You all put out an outstanding annual letter that has a great content, so would love to hear the current thinking on where you all are spending time.

Celicia Chaung: No, of course. We are not a group of folks who's always looking for the latest trend du jour and to concentrate all of our eggs in one basket. That's certainly not the case. The way we approach things at Windrose in terms of investing is diversification. And the reason being is that we're always looking for different return drivers at the end of the day. In terms of everything that's been going on in terms of the broader market, certainly we've been surprised by a number of things that have been happening this year… the AI-driven tech rally. Inflation has been persistent. So, the opportunities for rate cuts seemed like they were off the table earlier this year. And so, we saw some pretty robust markets. From our perspective, we tend to be more proactive as opposed to reactive. And as a result, what we have been doing over the last year was actually starting to really build in some more defensive positioning sort across the board in preparation for any potential adverse market reactions or market events. There's quite a bit coming. There's talks now of recession, or are we in a recession yet? Arguably, Europe is already in one. They just recently had a rate cut. We have an election coming up that seems sort of binary in nature. There's just a lot of bubbles, it feels like, everywhere. And so, as a result, sort of across the sleeves, we're building that defensive positioning on, whether it's in our global long-only portfolios, adding extension strategies in the form of 130/30, 100% net long, but adding some sort of defensive positioning in a global long-only equity portfolio, that's one item that we're doing. An absolute return, which is our portfolio of diversifiers, completely uncorrelated with assets. It's supposed to zig when everything else is zagging. We've been looking at tail risk strategies to really bolster the portfolio and add convexity in the event of adverse market events. In market directional, for example, our other hedge fund flavor, that's made up of long-short equity, distressed, stressed credit, activist managers at the end of the day, adding managers that have historically shown positive attribution on the short side and, in addition to that, adding credit managers that have been adept at opportunistically playing offense in the event markets are capitulating. So, there's different ways that we're trying to not only bolster and buttress the portfolios defensively, but also to be able to play offense after there are opportunities that arise.

Andrew O'Shea: Going back to your role specifically, you've stepped into the deputy CIO role. Congratulations.

Celicia Chaung: Thank you.

Andrew O'Shea: How have your responsibilities at Windrose specifically evolved over time, and what challenges and opportunities have emerged?

Celicia Chaung: Yeah, that's a great question. I mean, I feel so thankful to be in the position that I am in. When I first joined Windrose, I mean, I was really an analyst, first and foremost. I mean, that's what I love doing. I love rolling up my sleeves and turning over every rock to find that next emerging manager and whatever portfolio sort of requires either an exposure that we're looking for or a manager that's just so incredibly differentiated as a different element of performance and complements the existing portfolio accordingly. That sort of began to evolve in the coming years, whereby I really love this space so much. I mean, I talked a little bit about my first mentor in this space, and he had made me really enjoy and embrace and love this space so much that I literally roll out of bed every morning not thinking I'm going to work. Like, I enjoy this. And I feel everyone else should be able to have that same opportunity, so much so that I try to also inspire and instill others with that same type of thought process. And so there was a lot of teaching that ensued. Whether it was broad-based conversations about managers and DNA or understanding different strategies or understanding the ecosystem, it eventually evolved into something that I quite honestly do every six months at Windrose. And that's I put together sort of a Hedge Fund 101 discussion for whoever would love to join and learn more. And the reason why I honestly put it together was because it was great to not only inspire others, but you also realize, historically at university, during university studies, it's not necessarily something that you can take a class and learn about hedge funds in. I mean, now it's changed a little bit. But at that point in time, it was multidisciplinary in nature. I mean, hedge funds are so complex. They utilize different asset classes, different strategies, and you also realize it's global. And there's also an entrepreneurial spirit associated with it, too, because these are… I mean, there's the brilliance from an investment perspective. But from an operational perspective, they are entrepreneurial businesses that need to also be run by someone who can just run the business so that the portfolio manager or CIO can focus on creating these superior returns. And so, because it's so complex and so interesting, I thought it was very important for folks to really understand how we think about investing and how to navigate this space. And so that was something that ensued. So, a lot of teaching, a lot mentoring, giving back to my team in some ways. As that also evolved, I also took on the role of expanding our operational due diligence process. You can't diversify away operations, unfortunately, and so that requires an additional element. So stepping now into the deputy CIO role, what I found particularly challenging, in some ways, was to balance the want and need to be an analyst in the nitty gritty, in the weeds, but also to be able to develop and work with a team and leverage the strengths of each of the individual team members, and sort of block and tackle and figure out, also, how to allow them to grow and build resiliency and redundancy so that everyone also has the ability to touch other areas of asset classes. So that you're not just pigeonholed in one type of asset class, and you have the opportunity to really explore the entire ecosystem of what it has to offer. I mean, honestly, the dynamism of the hedge fund industry I think is so incredibly fascinating and interesting, and I just feel so lucky to be able to be a part of it and to allow others to see how interesting it really is.

Andrew O'Shea: There's clearly a lot of passion and energy that goes into manager selection at Windrose and not just owning the biggest household names out there, but really getting out there and finding really unique strategies and even finding strategies that might be earlier in their life cycle. So could you elaborate on your typical manager selection process, or what are some of the key factors that, maybe outside of the obvious things of performance and—

Celicia Chaung: Absolutely.

Andrew O'Shea: -- role in a portfolio that you all sort of seek to really hone in on?

Celicia Chaung: I think earlier in our conversation I talked a little bit about how important it is to find different return drivers, because, at any given point in time, we don't know what's necessarily going to work exceptionally well, but we want to be able to have exposures to all those different portfolios. From that perspective, one of the items that we're always doing are our chief executive officer, Bill Heitin, he's always telling our… because he spent quite a bit of time, on the investment team over at Matimco. And so, he has an incredible wealth of experience from an endowment perspective investing. And his sort of big… biggest piece of advice to us on the investment team all the time is to always be calibrating. Always go out there and take those meetings. Go on site and kick the tires and see what the managers are thinking. Take every meeting that you possibly can really to understand and make sure that we have the best managers in place. Collect intel to see where the opportunity set is, see where everybody else is looking at. Maybe we should be looking there. Maybe we shouldn't be looking there either. And so, we are always constantly talking with different groups of people within the ecosystem and outside of the ecosystem. We are always listening to what's happening in the private markets and how that might impact public and vice versa. We'll look anywhere, really, to find differentiated managers. And sometimes we may not necessarily be looking for one. But just based on our iterative and constant research process where we're constantly talking to people and turning over every rock to find any kind of manager, it's just a very iterative, in-the-weeds process. The other aspect of it is, as well, in the event that it's a specific research mandate, for example, we've been trying to add defensiveness into our portfolios. We'll go out there and really do an exhaustive search for a manager that fits the criteria that we're looking for to really get into the portfolio. For all intents and purposes, in terms of specific factors, we've always preferred managers that tend to be capacity constrained. I don't believe that there's managers that can be all things to all people. One manager… I mean, there's a life cycle associated with managers, too, at some point. The person's name who's on the door, eventually they'll want to focus on philanthropic endeavors. When a manager gets too big and it's more of an asset gathering management fee exercise, that's also sort of not our cup of tea. And so, we tend to prefer managers that are specialized, exceptional at what they do, have some type of capacity constraint, are not interested in asset gathering and degrading their alpha potential. I mean, quite honestly, most managers, if not all, we want them to be materially aligned with eating their own cooking, I mean, their material, also investors and what it is that they do. We tend to like managers earlier in their life cycle. There are many managers, actually, on our platform where we've actually found before they would hang their own shingle. And having sort of seen how managers evolve from not even point A, like before point A, to point B, to launching the fund and actually grow and having been involved in that early on has been hugely satisfying. And so many a time, we'll work closely with managers earlier in their life cycle. Maybe they're not as institutional at this point in time, but let's help you guys get there. And then, eventually, we see them grow. I mean, it's just incredible to be able to be a part of a manager's growth in that way, where they eventually close to outside investors. But you were there sort of on day one or day two to be involved. Nothing is more satisfying, I think, to have those kinds of close interactions and close relationships with managers, quite honestly. But it's an iterative blocking and constant blocking and tackling process, and I think that passion actually exists, quite honestly, across the team. I mean, if you talk to Gildas, he and I could have conversations for hours, if you allowed us to, just talking about the manager universe or different types of managers or managers that we won't do, for example. But manager selection is, for us, incredibly important.

Andrew O'Shea: One of the areas that's been coming up more than it has in recent years is obviously fixed income, with inflation and rates. You mentioned, earlier, being proactive versus reactive. Is that an area you all have been spending more time on in addition to adding more defensive strategies in the portfolio?

Celicia Chaung: Yes, that's definitely the case, Andrew. So, clearly, the persistent inflation has been keeping a lid on fixed-income assets as a whole. But from our perspective, we did feel that it would be important to be proactive in anticipating some of the Fed rate cuts and how it'd really positively influence fixed-income assets. And so, what we actually did earlier this year was put together a fixed-income sleeve similar to the other portfolios in our platform, multi-manager portfolios in our platform, in the same vein, to allow us to be able to manage and actively manage a portfolio throughout a market economic cycle. And so that's the same case here. What we started doing was… in this sleeve, it's multi-manager in nature… we really started to extend duration in order to lock in some of these rates, because, at the end of the day, this is not going to last forever. And at some point, we've been having many of our families start to really transition, moving some of that high-yielding cash towards this portfolio to really lock in some of those rates.

Andrew O'Shea: So, we'll transition here. AI… obviously, a huge tech-driven rally up into August. That's influenced market dynamics. It's influenced conversations. How are you all, one, thinking about the AI landscape as a potential investment opportunity where maybe you're not? And then are you all using AI in any way incorporated into your investment research?

Celicia Chaung: Given the fervor associated with AI… I mean, 2024, if we were to coin it anything, it's the year of AI. We most certainly have exposure to it, not in the same vein in terms of the market. But one of the items that we had been consciously doing over the last two years, actually prior to all of this… and maybe, if anything, this highlights our manager selection investment process… we had consciously been looking to gravitate towards away more of the long-short growth managers, interestingly, but really try to look for picks and shovels focused manager, focused on semiconductors. And that led us to actually uncovering a really interesting manager that's capacity constrained, not trying to be all things to all people, but is exceptionally good constructing a long-short portfolio focused on semis. Most LPs will tend to look for technology managers that have a lot of the different underlying tech sectors. But we specifically chose a manager that is a bit more specialized in nature, and it's not one that you're going to see in a lot of other portfolios from our perspective. So, it was an opportunity to get involved with a manager that has exposure here, but also one that is more capacity constrained in nature and really fits our wheelhouse in terms of just really being early with the manager of this regard. In terms of AI-driven tools, I think there's a push and pull associated with it. I think, in terms of how we're trying to embrace it, we use it in our own underlying research process, whether it's… when we're having a conversation with a manager, maybe we're utilizing AI in order to help us summarize those notes, for example, just to really leverage our team's time a bit better. But whether we utilize AI for our clients, I think we're much more sensitive, because it just feels like today there's not as many boundaries really set in stone with respect to AI and with… we're very sensitive with respect to our client's information. And with those kinds of products, you don't know where it could potentially be an issue. And so, as a result, we've generally shied away from utilizing AI for anything client related. But with respect to our research process, we've really started to utilize it in selective ways.

Andrew O'Shea: Shifting to private assets, one of the things that I would say is more of a theme, not necessarily always the case, is distributions have been a little bit slower. It's been a more difficult fundraising environment. Have you all seen that or where are you focused? If you're putting dollars now that are going completely illiquid for some period of time, where might those opportunities be?

Celicia Chaung: Unfortunately, we're similar to everyone else with respect to this crunch. We've seen a number of private equity managers put out their extensions accordingly. Distributions have dried up. We've had a few bright spots this year and a couple of wins. And so that's felt extraordinarily great. It has been a bit frustrating because cap calls still need to be made. At the same time, you have a number of private equity venture managers that are still calling. And quite honestly, where we're seeing, also, a lot of opportunities actually in the private credit space, as well. That has actually been another area where we've spent quite a bit of time, again, preparing, being proactive, really trying to find some interesting spots where there are managers that can be incredibly opportunistic as things capitulate. And that's part of the reason why we spend so much time and thought and focus in terms of putting together these diversified portfolios, because it allows us to curtail the downside materially so that eventually that allows us the potential ability and liquidity to be able to pivot and play offense and get into some of these opportunities. It's been really interesting, too, because, quite honestly, from a private equity perspective, there probably isn't a better time to be able to allocate to privates from an entry point perspective. When there's a dearth of liquidity, ultimately, that's where the opportunity is. Liquidity is king at the end of the day. And so that's actually something that's been top of mind for us, as well, across the public portfolio is to make sure we have enough liquidity in place in order to be able to meet some of these cap calls on the other side. The fixed income sleeve has also been an incredible tool for that, as well, so that you're not disrupting the programs that are being put in place elsewhere in the more semi-illiquid portfolios.

Andrew O'Shea: One thing I think would be helpful to elaborate on is you all have set up a very efficient way to access these strategies through, I believe, co-mingled vehicles. Could you just elaborate on that? Because I think, with a lot of different multifamily offices, investors don't always know it's difficult to get a lot of different underlying clients in a programmatic way into strategies. And as we know, to have success in these asset classes, to take out market timing or vintage year risk, you have to do it in a programmatic way. How have you all solved that working with a lot of different families?

Celicia Chaung: It's the brainchild, actually, of Gildas when he came to Windrose over a decade ago. The idea was bringing the sleeve concept. This open architecture concept creates all these different asset allocation blocks, whereby our families… every family has a different need for liquidity, different appetite with respect to volatility. And they may also have a number of legacy investments, as well. But what we've been able to hopefully create… and you alluded to it… is this program that allows all of our families to have the same experience. But it's really toggling the exposures that they would like to the spaces. And so, the way it has really been done across the board is both the public and the private sides. On the public side, we have five different commingled vehicles, and there's a different flavor associated with each of them. And then, within the private vehicles, there's four different flavors. But there's vintage year sleeves associated with it. And so, every year we're coming back to market with a new vintage year sleeve, our clients can decide, well, how much do I want to put in privates this year? So, they retain the asset allocation decision. We'll assist them with it. But we retain the manager selection decision, populating the best possible managers for each of these commingled vehicles, these sleeves that have a specific objective in each of our client books. And so, it just results in a much more efficient approach to really managing the book, because then, in the event that we wanted to make want to make some tactical moves accordingly, it can be sort of done across the board. And each client will experience that same thought process.

Andrew O'Shea: What advice would you give to families or individuals considering the services of a firm like Windrose?

Celicia Chaung: Yeah, that's a great question. I mean, quite honestly, first and foremost, find a team and a group that you can trust. Trust is something that is earned, but having that implicit trust allows for a much better experience on both sides. Second, don't find a group that would try to force a square peg into a round hole. Really finding a group that understands the family's needs, desires, return, expectations, I think, is huge, because every family is unique. Also, find a group that has and can provide access to a completely diverse set of tools. You ultimately want many different tools to be able to navigate different types of market environments. And having an investment team with an immense amount of experience across all these different asset classes is key. And the reason why I say it is this. Stocks and bonds are stocks and bonds, but when you have the ability to enhance your performance of a portfolio through alternatives or mitigate downside by using absolute return strategies, it results in just a much steadier cadence with respect to growing a family's wealth, ultimately. Ultimately, it really boils down to those specific points.

Andrew O'Shea: You talked throughout this discussion about the importance of having mentors throughout your career. Are there any specific mentors or experiences you would like to share with the audience? Because we have a very diverse set of listeners here. Some are younger in their career or deciding what career field to go into. So, what specific examples or mentors would you want to touch on?

Celicia Chaung: I would highlight the first mentor that I had, because, ultimately, when I joined the Swiss based fund of funds, I had no idea what I was doing. I mean, what 22-year-old coming out of grad school knows exactly what they want to do for their career? And having someone be there to answer every question, take me to every meeting, force me to go to every event that there was in New York City and in Geneva, or even sort of travel abroad and see managers on site, having those opportunities was incredible. And the willingness to roll up those sleeves and get your hands dirty, I think, was huge. Just sort of allowing someone the ability to form their own craft and practice their own craft was huge. That was really pivotal, I feel, in my career in that, again… it's sort of as I said to you earlier… I love doing this day in and day out. I mean, there's definitely a passion for it where I'm so glad that this is something that I do that doesn't feel like work. I eat, sleep, and breathe this stuff. It's an incredibly satisfying feeling to be able to do this all the time. But having that cheerleader for you, I think, is huge early in your career to really set the tone. Everybody, also, in their career, also, needs to have a bad boss or a terrible leader to really help you understand, also, what you don't want or what asset class that you don't like being in or what kind of work environment you don't want to be in. And that eventually, I feel, helps you set the tone.

Andrew O'Shea: It's been a pleasure having you here. We missed our dear friend Robert, who is under the weather. But… my voice isn't quite as good as his. But we loved having you.

Robert Morier: If you want to learn more about Celicia and Windrose Advisors, please visit their website at www.windroseadvisor.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. And if you'd like to catch up on past episodes, check out our website at dakota.com. Finally, if you like what you're seeing and hearing, please be sure to like, follow, and share these episodes. We welcome your feedback, as well. Vince, thank you, again, for joining us here today. And to our audience, thank you for investing your time with Dakota.