Special Edition Dakota Live!

EPISODE 5:

Advising with Integrity

with Mill Creek Capital Advisors

Robert Morier: Sam McFall. Sam serves as managing director of investments at Mill Creek Capital Advisors. Before joining the team at Mill Creek, Sam spent three years at Pitcairn as a senior research analyst with primary research coverage of liquid alternatives and real estate strategies. Sam's previously held various positions with Delaware Investments, Brinker Capital, and the Bryn Mawr Trust Company. Sam earned a BA in international business from Rollins College. He holds the CFA designation and CAIA designation as well. Sam's a member of the CFA Institute, the CFA Society of Philadelphia, and the CAIA Association. Additionally chairs the investment committee of St. Paul's Episcopal Church in Chestnut Hill, Pennsylvania, responsible for the oversight of the church's endowments portfolio.

DLT: Can you give us an overview of Mill Creek and what's going on from when we spoke before?

Sam McFall: Sure. Things have been great at Mill Creek, notwithstanding what's going on in the world around us. But the business is doing well today. Market events have been challenging, obviously, but that's impacting everybody. So today, Mill Creek, we're managing $8.5 billion to $9 billion. Business hasn't really changed. We're still pursuing ultra-high net worth families and the institutional community. I would say they are largely focused on endowments and foundations. And we're serving as an outsourced chief investment officer for those families or those institutions. Where we think we're competitive is in that $10 million to $100 million range where it's probably underserved by some of the private banks or large consultants.

DLT: Do you mind giving us and our listeners just a quick overview of the research team, how it's structured, and then maybe some insight into key contacts that, across asset classes, our listeners could reach out to, potentially to get a meeting?

Sam McFall: Sure. So our research team has had some turnover, I would say, in the last couple of years. Tom Chapin was the longtime CIO at Mill Creek. He has since retired. We brought on Michael Crook. He now leads the team. Michael was previously with UBS in New York. It's been a great transition. Tom's been helpful from the sidelines. And then on top of that, Andrew Murray joined from Morgan Stanley shortly after Michael's arrival. Nora and I have stayed on board through thick and thin. And so we remain kind of small and nimble. But we'll get into it, I'm sure today, but we don't do a lot in terms of managing a big menu of managers. So it is manageable for a team of four.

DLT: Getting into what that menu looks like and how you utilize different managers, what does the win look like for different investment managers for our listeners to better understand where their strategy goes once it does get approved by that research team, whether it's a select list or models or inside of a Mill Creek proprietary fund?

Sam McFall: Yeah. So I would say within the traditional space, we manage, quote, unquote, "model portfolios." Those are guideline portfolios. Obviously, there's a degree of customization going on at the client level. But by and large, our team is managing those models for public equity and traditional fixed income. And then in the alternative space, Mill Creek created a fund-to-fund structure back in 2008, and we utilize that for hedge funds, private equity, and recently, two years ago, we launched a private credit fund. So those are Mill Creek branded fund-to-fund structures that it's just a vehicle of access for our clients to use. And it's cost-competitive. And we think that's a key advantage of ours.

DLT: Sam, just building on that in terms of the internal structures, can you direct clients into the internal structures. Obviously, you said private equity, private credit. But would you also technically do searches that would preclude the internal structures?

Sam McFall: We've tried to shy away from that, to be candid. We've gone down that path, not necessarily in private equity, but in hedge funds we've done that. We do have a couple large institutions that are big enough to go to some of these managers by themselves. Those are more one-off situations. I think what's most relevant to your group today is that on the private equity side, we now work with Wilshire. And so they are doing a lot of the due diligence. But we are using that fund-to-fund structure still for allocations. Now, clients come to us all the time where they're being pitched a manager or co-investment idea. We have the ability to do some due diligence on those. But they're not Mill Creek recommendations, per se.

DLT: Now let's pivot it back to the equity side. Is there a chance to win for a boutique equity manager? Sam, that's your purview at Mill Creek, showing a really unique boutique idea. Or do you tend to really lean on the passive side and consume that fee, allocation via alternatives?

Sam McFall: So there's a couple of ways to answer this question. I would say the vast majority of our public equity exposure is in a passively managed structure, whether it's our ETF portfolio, or we have clients using an overlay manager to do tax loss harvesting for taxable clients. That is essentially an index tracking portfolio as well. But with that said, on the institutional side and for high-net-worth clients with IRAs or something where there's a perhaps some sort of tax blocker, we do use active management. And absolutely, our preference there is for boutique managers. Now, we don't make changes a whole lot. We tend to partner up with managers for the long run. And to go back to the earlier point about what's a win, it's getting into that active equity portfolio. We don't allocate to outside managers beyond that. But absolutely, our preference is for boutique managers, particularly because we're using the big bulge bracket firms on the passive side.

DLT: Can you just give our listeners a little bit more color, kind of the style or any sort of theme within the types of managers to build out those fund-to-funds, do you look at first-time funds? Or if it's multiple vintages, are you re-upping with the same manager?

Sam McFall: Yeah. Well, let's kind of take it one at a time. So I manage the hedge fund. Nora manages the private credit fund, and Andrew is overseeing the private equity funds. So on the hedge fund side, there, I would say, most of the managers today are bigger, well-known $500 million to billion-dollar-plus funds. So we're not doing new managers. We've had mixed results there. I would say also relevant to this call today is that we more or less abandoned long-short equity as an asset class, far too much beta, not enough downside protection in challenging markets. So I would say most of our hedge fund exposure today is in multi strategy managers or some sort of arbitrage relative-value type of mandate. On the private-credit side, Nora's building that vehicle there. It's 10 or 12 funds today. And we're actively allocating to probably a couple more this year, I would think, she's going to identify. There it's evergreen structures, open and evergreen structures. The managers tend to have lower leverage. And we're really targeting a high single digit return in those funds. So we've avoided the big opportunistic funds, or, not the big, but the opportunistic funds that are chasing higher returns. And then in the private equity side, a pivotal way, since Andrew joined, we've really gone back to sort of classic private equity in that we are allocating to venture growth and buyout in that fund. Historically, we've made allocations to debt and real assets inside our private equity structure. We are not doing that in the latest vintage, which Andrew will be very active allocating to managers this year. Our clients have made their commitments to that fund. And now it's our job to get that capital committed to the outside managers. But in terms of funds there, to answer your question, we are using some funds that we are familiar with and have allocated to in the past. Andrew has a long history at Morgan Stanley, so he knows some funds. And then obviously, Wilshire, as I mentioned, they're bringing us ideas. But we can take them ideas. So it's been a good relationship thus far, and we'll see where it goes.

DLT: One thing that's very topical is ESG and DEI. I think for our listeners, it's important for them to understand how firms like yours think about those things, especially given your client base. So can you just talk about how your client base thinks about those things and how your research team in turn thinks about those things?

Sam McFall: Sure. So our research team is really driven by - well, we do have an opinion of what clients should allocate to, but a lot of it can be inbound, coming directly from clients or prospects. So on the high net worth side, defining ESG has always been a challenge for us. Creating that model portfolio has been a challenge for us. We don't have anybody today in a ESG model portfolio. We are using that overlay manager, if clients want to exclude certain sectors or securities. So that's, I guess, more like SRI than ESG per se. But this whole notion of ESG impact was hot a couple of years ago. There were definitely some clients poking around on it. And we were looking at structures and doing things, but never really got legs. On the institutional side, much of the same. But I would say there, obviously, the questions that we get revolve around DEI. Are we vetting our managers and looking at their DEI policies and things like that? So it is topical. It is front of mind. But we're not altering our asset allocation or manager selection process based on ESG or DEI at this point.

DLT: You touched on issues and things that you all are thinking about in this current environment, whether it's the banking issues we saw or continue to see over the past few weeks, inflation rates. Give us insight into your investment committee meetings, what you all are thinking about positioning portfolios, given the current environment.

Sam McFall: Yeah. We just did our quarterly update with clients yesterday. Michael Crook was on a webinar on a similar format here. We're in the camp that we're in a higher-for-longer type of rate environment. Inflation's been sticky here at the 6%-ish range, well above the Fed's target. We do believe that there will be some recession at some point, the depths of that, whether it's mild or hard-landing, we're sort of unwilling to make a call. But I would say, in terms of current positioning, I would describe us, relative to our history, as being quite defensive. We've leaned into value securities here and some defensive securities on the equity side. We're favoring high-quality, balance-sheet-strength type of companies on the public equity side. On the fixed-income side, it's been relatively conservative as well. We have stayed away, not totally away from, spread product but certainly not chasing high yield here. Spreads have come in and are pretty tight, and we don't see that as all that attractive. And we're really just continuing to push our alternative program. We think it's competitive, from both a structure and potential performance. And we think that we're in an environment here for the intermediate term where returns are going to be middling. What people were getting a couple of years ago on a balanced portfolio, cut that number in half or maybe some percentage of that over the next couple of years. And so alternatives will play a role in helping clients meet their needs, their spending needs and whatnot. So hopefully, we'll see our alternatives program grow over the coming years, hedge funds, private credit, and private equity.

DLT: Sam, usually you talk on searches, and you gave a pretty good overview of what you're thinking about. Do you think and your colleagues are taking meetings, looking at managers, identifying really interesting opportunities that may be interesting in a couple of quarters? Does it makes sense for a sales professional with an interesting idea to reach out to you?

Sam McFall: Yeah. So Andrew is definitely actively allocating. I do think Nora will add a manager or two this year. So she's taking lots of meetings. The private credit area is getting sort of frothy, and there's a lot of money flying around in that space. So we're trying to be super careful there. The traditional side, we probably won't be. I wouldn't expect any changes, with manager changes for the rest of this year. But yeah, I would say, to be fair, we're open to meetings all the time. And whether they're in the office or out of the office, at this point, we're always open to taking meetings. But that can be an introductory meeting. They could go quickly into if there's a need that arises, we can be fairly nimble, relative to some of the other groups out there. So I've certainly seen an idea from a meeting go to investment committee within a month's time frame. So we do like to be in the know. We do have our finger on the pulse, we feel like, in terms of managers are out there. But we're always willing to meet with new managers. But know that it's not a slam dunk to get on our platform because we have those models in place, and we look for long-term partnerships.