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EPISODE 74:

Transforming Healthcare

with AdventHealth

Robert Morier: Welcome to the Dakota Live! Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better understand the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live! content, please check out 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 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 Rob Roy. Rob is the Senior Vice President, Chief Investment Officer and Co-head of Environmental Sustainability for AdventHealth. In his role, Rob oversees investments for one of the nation's largest faith-based health systems, which include operating capital and employee retirement portfolios totaling approximately $18 billion. In addition, he co-leads the company's environmental profile transformation, including all emissions waste and water streams. He also cooperates on the company wide ESG reporting. Rob, welcome to the show. We did it.

Rob Roy: We did. Thank you so much for having me. It's a pleasure.

Robert Morier: Thank you for being here. It's really a pleasure for us as well. We're excited about this conversation today. I'm always excited to introduce Andrew O'Shea from Dakota. It's good to see you.

Andrew O'Shea: Good to be here. Excited to hear from Rob. And it's been a little while since we had a health care system on the show. I think it was a little over a year ago we had Children's Healthcare of Atlanta. So, very excited to hear from Rob today.

Robert Morier: I agree. Thanks, Andrew. Well, I'm going to read your biography very quickly for the audience. And then, we're going to get into our questions. Rob, thanks again. Dr. Rob Roy has spent nearly 20 years with AdventHealth. He previously served as its Vice President of Investments and prior to that as Director of Cash and Investments. His experience also includes serving as Chief Investment Officer for Cane Brothers Asset Management, bond trader for Putnam Investments, fixed income specialist on the floors of the Chicago Board of Trade and the Chicago Mercantile Exchange, and portfolio risk manager for Feral Capital. Rob chairs the AdventHealth Employee Plan Investment Committee and serves on the Finance and Investment Committee of the Adventist Healthcare Retirement Plan. In addition, he chairs the Ardmore Institute of Health's Finance and Investment Committee and is Vice Chair of the Sustainability Advisory Board for the city of Maitland. He is also a member of the Investment Committee for the Central Florida Foundation. Rob earned a master's degree in financial markets and trading from the Illinois Institute of Technology and a second master's degree in sustainability from Harvard University. He received a bachelor's degree in business administration with an emphasis in finance from Suffolk University and applied mathematics from Southern New Hampshire University. Finally, he received his PhD in finance from the University of London's Cass Business School. He and his wife, dawn, have two daughters. And in his free time, he enjoys spending time with his family, going to the beach, and sailing. And thankfully for us, he also takes time to be on podcasts. So, thank you so much, Rob, for being here. Congratulations on all your success.

Rob Roy: Thank you very much.

Robert Morier: Well, I wasn't kidding. I think if I count the number of colds, flus, and allergic attacks that at least I've had since we've tried to schedule this podcast, it's been a little while. But we have done it and it's really exciting for us to hear everything that you've accomplished at Advent. And specifically, the goals that AdventHealth has set forward in terms of not just its investments, but what it's doing sustainability wise. So, thank you for being here. I was going to start with your career. But before we do, you mentioned something as we were preparing for this conversation, I thought it was an interesting way to kick start the conversation. But what does whole person care mean to you and the AdventHealth mission?

Rob Roy: We have a vision 2030 pyramid that talks about all of the things that we want to get done over a 10-year period. And at the base of it, it starts with our legacy of Christian healthcare, and it builds up through being a learning organization, the promises that we make to our team members, it encompasses excellence in clinical care, sorting through the transformation in how health care will be reimbursed in the future. And at the very top of all of that is this promise of whole person care, which, to be honest, is a very aspirational statement. And it's something that we continue to work on to define how that will come to life. But what it is attempting to focus on is the fact that you are a whole person. You are not the sum of your diagnoses. You have aspirations. You have things that drive you. You have limitations in your community, in your genetics. And there are different things that are important to you at different points in your life. We want to be the system that's there to deliver that whole person care to you throughout your journey. We don't want to be the sick care provider that you show up at only when you need us. It's a universal concept that, I think, everybody can agree they want. But it is difficult. And we're working really hard at the top of that pyramid to define that and to actualize that for our company and for our communities.

Robert Morier: That's interesting, that proactive approach. Thanks for sharing that, Rob. Well, this is where we do start with the beginning. We have a number of students who listen to our podcast as well as asset allocators and asset owners. So, when you think about your early days prior to starting your career, what were you thinking in terms of how you wanted it to progress and what were some of the avenues that you initially explored?

Rob Roy: So, I really wanted something exciting. I had no idea what it was actually going to look like. And I thought I was going to be a doctor. I wanted to be a surgeon an ER trauma doctor or something like that. And my father is a dentist. And he said, yeah, you could do that. It's something. Health care is changing a lot. Make sure you're doing it for the right reasons. You should really look into it. And as I was thinking about that, he had… at the same time, had a financial planner for a number of years. Spoiler alert, I'm a giant nerd. I read everything. I was a kid that read the entire encyclopedia set because it was so fascinating to me. And so, this is back in the early '80s. I don't remember exactly what year it was. But Discover Card was a brand-new credit card that came out and it was offered by Sears. And they sent one to my dad. And so, he was like, OK. So, you know, that little tissue paper thing that they send, it's tiny and it gives you all the disclosures? He gave that to me because, of course, I was going to read it. And I read it and I came back to my dad I go, does this say that you could basically take a cash advance on this card, and it gets treated like a purchase, so you don't have to really pay it back. If you did it at the beginning of the cycle, you have 30 days and you've basically got another 25 days to pay your bill. You get 55 days of interest free use of their money. And he said, it does seem to say that. And this is at a time in the middle '80s, if you remember, interest rates were exceptionally high. So literally invest in a Ginnie Mae money market fund at double digit annual returns from money markets. So, I've got 55 days interest free on the discover card that I can put into a Ginnie Mae money market fund. And my dad's like, I don't know if that's going to work, but we can try it. And we tried it and it worked. And we kept doing it. And as my friends were out doing paper routes and mowing yards, I thought, this finance thing, I feel like I could get good at this. And so, I'm like… 1984, I'm 13 years old. I'm literally making thousands and thousands of dollars running an ARM off of this thing. And then I was like, whoa, I bet this could be a really interesting career. I bet there's more of this out there. And it turned into learning how to trade commodities and then options and things like this, even when I was in high school. That was the hook that got me in there thinking there's a lot of detail here. And if you care to get into the details, you could probably find some interesting outcomes.

Robert Morier: Absolutely. That's a great story. Thank you for sharing that. It's interesting, but you did find junk bonds. So, of all the things, in 1989, you pointed out that bond calculator behind you on your desk. So how did you end up finding the bond desk? I mean, it sounds like it may have been through those Ginnie Mae's. But how did that flow through? How did that opportunity come up; I should say?

Rob Roy: Yeah, I mean, that got me understanding that there was trading, which was a very exciting thing and helped to take the place of maybe working in the emergency room or a surgical suite. A lot of these things feel very coincidental. So, if you think about the mid '80s, I got my first job at Putnam in 1989, right? The internet existed, but there wasn't really stuff going on it. There was no online portal if you don't apply for jobs. So, I had my one bad suit. I walked around downtown Boston with a resume that basically said nothing on it looking at tall buildings going, that looks like… I wonder if there's finance things. You go into the building. You look at the board of the companies that are listed and you try to find the HR department. You take the elevator up, you ask for the clipboard, you fill it out, you leave your resume, you hope somebody calls you back. I got one call back from… and I got a job there. And for the first few months, I was working in sort of like the order room where brokers would call and place their orders for mutual fund shares. And then, after a couple of months, I got a job in fund accounting. Well, it turned out that my supervisor moved on after a couple of months and moved to the trading desk. And so, the next position that he had to hire for I got hired as a junior trader, and it was in high yield credit. And so that was the first place I got to, again, which I felt was very fortunate, dig into the details. Because half of my day was on the desk talking to brokers and trying to understand where bonds are trading. And you're writing all this stuff down in notebooks because there's no systems that are keeping track of prices. And the other half of the day I'm spending with analysts who are going through these credits in detail and telling me the stories about why certain credits are good and they like them and why certain credits are bad. And then, you would use that on the telephone and negotiate buying and selling bonds for the portfolio managers as a trader in that space. So, it feels very coincidental. But looking back, it all seems to make more sense.

Robert Morier: You have spent a number of years in the health care industry in a number of different investment seats. But before we do, can you tell us about the importance of education and continuing education for you throughout your career? I listed off a number of degrees, including your PHD, which, as an educator myself, I think is wonderful. But tell us about why it's been important for you to be a lifelong learner.

Rob Roy: Yeah, I mean, I talk to… I have two daughters. And the two things that I've said, look, I really want these characteristics to be used. And as you're looking for a partner or spouse of some kind, you would want to look for these characteristics. But find somebody who's curious and kind. Curiosity, I think, keeps life really interesting. The other thing I've told them is, I don't mind what you want to do. You need to find the thing that you enjoy doing. But then, when you find that, be amazing at it. And so, education is a formalized way of filling in that curiosity and a way of making yourself better at the thing that brings you joy. The greatest joy is going to come at the intersection of what the world needs and what you can provide. And you get better and better at that the more curious you are and the more you focus on increasing your expertise in that space. I've been really fortunate… like I started in finance and I'm sure we'll talk about this. But over time at AdventHealth, they keep adding on these additional responsibilities. And it's not to overwork me, but because I'm very curious about a lot of different things. And they've seen me sort of fill in that hole with education.

Robert Morier: Makes a lot of sense, Rob. Thank you for sharing that. Talking about AdventHealth, as I mentioned before, you're now approaching 25 years in health care from an investment seat, several decades now at AdventHealth. What are some of the more notable changes that you've experienced within your roles? Because as you said, they have been growing, particularly as it relates to the approach the health care industry takes from an investment perspective. As Andrew had mentioned, we interviewed with Children's Health System of Atlanta about a year ago. And from our perspective, it's always interesting to hear how the health care industry has evolved and how roles like yours as CIO have evolved with it.

Rob Roy: Sure. When I joined in '98, we were not that far removed from the days where health care was cost plus reimbursement. So, whatever it cost you to take care of somebody, you would write that number down on a piece of paper and you would send it to the government, and they would send you that number plus a markup back. You joke, if you can't figure out how to make money in that environment, that's pretty tough. And the industry went through this big change of fee for service where it became incumbent upon the providers to figure out how to make a profit based on a certain amount of money for a certain diagnostic code. That has its benefits. It also has its consequences of where the decision making is based. And now, we're beginning this transformation across health care to go to value-based care where providers are stepping into taking that first dollar risk. So, we're going to get paid $10,000 to take care of you for the year. Now, instead of waiting for you to show up sick, we really need to figure out how to keep you well. Because when we keep you well, it's a less expensive pursuit and we're allowed to make a profit that way. So, there are these incentives that are changing alignment over the last 30, 40 years that have been really interesting. The other thing that parallels that is the explosion in data. So, I remember being at one of our early financial officer meetings and talking about putting in our initial clinical data system, electronic medical record, we didn't exactly how we would pay for it or exactly what it would do, but we knew it was the right thing to do. And we went through a good 15, 20 years with that one. And we've now gone through another transition to move to Epic, which is our system. Having amazing amounts of data and computing power changes what you're able to do. I think, for us, on top of all of this, we have a big focus on changing the consumer experience. Because let's be honest, nobody really loves the way health care works. It's difficult to access. It's expensive. It's opaque. The navigation is difficult. And we've got to now use the transformation of the pay system, the availability of data, clinical quality, all of these issues around whole person care to transform the consumer experience, not necessarily where you're going to want to love to go to the hospital, but it's going to be something that falls in line with all the other consumer experiences that you have. So, Amazon makes it easy. And you go to a hotel, and they know who you are. And health care needs to be moving in that direction. There's really moving pieces to get there. But transforming this into a consumer experience that is appreciated is a big lift and we're squarely focused on it.

Robert Morier: Absolutely. How are you harnessing those new technologies in the context, as you mentioned, of AdventHealth, but specifically around your investment portfolio? So how is data being applied differently or uniquely, potentially, relative to some of your peers in the industry?

Rob Roy: Data and systems have developed tremendously. When I started on the trading desk in 1989, I was… I look back now. I'm fortunate because I took pictures, or I saved some of these pieces like that calculator you were referencing. But we didn't have all of this data. We didn't have all of these computers. Even when I went to Chicago in 1995, I tell the story of how market prices were transmitted. There was a big pit of traders and there was literally two or three people hanging over the pit in a basket with a catwalk. And they would observe what was going on below them and they would type that into a little machine. And that's how it got out. So, this transformational workstream that's happened in healthcare has happened in all industries. For us, I think in the investment space, when I started here in 1998, we did not have a good balance sheet. We didn't have the capacity to really take risk. And so, focusing on risk budgeting and risk management was a survival mechanism in the early days when we started. Now, 1998 was also a time very close to when the 415 group at JP Morgan spun out into risk metrics. And it was the early days of having risk metrics and algorithmics and maybe one or two other types of players. I think Bankers Trust had Ray Rock at the time saying, how do we use data and computing power to start to calculate metrics around risk? And so that was one of the earliest things that we did is to think, OK, we know we're going to get paid to take risk. We want to take as much risk as possible. But we're in such a precarious financial position at the start of this journey, risk management is going to matter a lot. And we put a lot of effort into developing our risk management systems, our risk budgeting to connect the amount of risk that we're taking with the operating business strength and with the balance sheet strength. And then, in the management process to say, look, all of these are models, which mean they're going to go wrong. And so, what do you do when it goes wrong? What's plan B? You want to that in advance? So that's been that's been a foundational element of how we think about the investment portfolio. Because it's an operating capital portfolio, it's here to support the operating business, which means that it needs to be managed in conjunction with the financial capacity of the overall organization. It doesn't live on a silo.

Robert Morier: Well, we had a chance to hear your biography at the beginning of the episode. But for our audience, would you mind taking us through? Maybe a little bit more specifically your role and, as you said, growing responsibilities within the organization and how you've set up the team probably.

Rob Roy: Probably for the first 10 years or so, my sole focus was on the investment portfolio. And so, moving from director of cash and investments… because when I started, I know $500 million is a lot of money, but that's what we had. And I was the first person that was dedicated to thinking about, how should we build this portfolio and this process and this team. And so that was… my title was Director of Cash and Investments. Over time, as the team grew and the process built out, I became the Vice President of Investments. And now, I'm the Senior Vice President and Chief Investment Officer for that group, which is 12, I think 13 people as of today. We had another person accept an offer today. But then, about 10 years ago, they said, you seem to be doing a reasonable job at this. Why don't we also have you lead our retirement plans? Because that sounds like investments. Well, it turns out, it has investments as a component. But retirement plans are so much more complex than just thinking about building an institutional portfolio. There's all the sort of behavioral things. There are all these new regulatory frameworks that you need to deal with. People love to sue pension plans. So, there's all the legal framework around that. So, it took me a little while to get my arms around running retirements. All the while, I'm seeing what's happening with my peers around adapting their investment process to listen to their stakeholders. So, if students at a university or alumni or people like that, I'm seeing this wave of expectations changing from stakeholders about how you do your business. So, I'm making these statements around our C-suite like, OK, we have a beautiful mission, but how we do that work is going to matter just as much to our employees and to our communities and to our patients. We should really be proactive about that. And for the most part, they said that sounds about right, but you run all these other things. Why don't you just go back to your office. Eventually, it sunk in, and they started to hear it from their other health system, CEOs and other corporate CEOs. So about three years ago, our board, in updating its enterprise risk management framework, said one of the top 10 things that we need to focus on is having a consistent framework around all of this kind of work. Well, if the board is going to make that a top 10 priority, then they have to find people to go start executing on that. And they asked me to do that. And so, I've been privileged for the last three years to be co-leading the environmental transformation. Now, I'm getting involved in that top of the pyramid. We talked about the whole person care. I also get to chair an external board, which is called the Ardmore Institute of Health. And we're about a $100 million grant making institution. We're working on partnership ideas between Ardmore and Advent to make sure that we can continue to develop on that whole person care. So, I've got this breadth of responsibilities that touches on different areas of the business. But one of the key things that it allows you to do then is to find connection points among disparate topics. You can get really good at a single topic. But it's when you get really good at multiple topics you start to find connecting points that can be really valuable. And so, I'm asked more and more to participate in things that have less investment focus. But it's because the framework and the experiences and connections that we've made within the investment world can bring a lot of value to an operating company in a number of different ways. It's what we call strategic alpha. You can probably unpack that a little bit. The other part of your question was on team. And so, I've had the pleasure to be building the investment team now for about 25 years, and that continues to grow. We've, in general, built that as a generalist model. So, our investor team is thinking about the whole portfolio. And we also have an administration team and a data and analytics team. So those are the three main teams. And I've done similar things in sustainability and retirement. And now, I finally this week for the first time have a new Chief of Staff who's going to help me across that breadth of disparate topics, stay optimized on all of the things that we're doing.

Robert Morier: Thank you for sharing. That's a lot of puzzles for… a lot of pieces for one puzzle. So, it sounds like you've been quite busy. But you did touch on environmental transformation. We're going to go into investments here. And I know it's one aspect of your role. But just thinking about our audience, which are primarily asset owners and asset managers, for their benefit. But before we do, just environmental transformation sustainability. How do you at AdventHealth define sustainability and environmental transformation? What are some of the big milestones that you're looking to achieve as an organization as it relates to those goals?

Rob Roy: So that's a really big question. I'll try to give you a tight enough answer here. But I think the greatest part of the privilege of helping to co-lead this is the fact that this is starting from the top of the house so that the board has said, this is really important to us. And we've been able to articulate it in our sustainability report why this is important to us and why this is important to our employees, why this is important to our communities, and how this affects the health of those that we care for. So, we've made it clear where culture begins from and that this is starting from the top of the house. We've made it very clear why it's important work to do. And then, we've put the right people, hopefully, and the right funding in place in order to actualize on that. The part that I get to work on is the environmental sustainability. And so, broadly, when we think about environmental sustainability, we're trying to change the way that we do our work so that we can be a new… so that we can realize new ways of being a benefit. We reach out and touch people. We care for them in some of their most needy moments. But how we do that matters just as much. But there's two parts of this environmental sustainability landscape. One is the fact that, as a business or as individuals, we're having an impact on the planet. And so, let's sort through all those different things that we're doing and let's work to solve those in a way that can be accretive to the environment and accretive financially to the organization because that will create momentum. So, in that space, you generally have emissions, waste, and water. But on the other side of the equation, even if you were to clean all of that up immediately, the planet is going to continue to have an impact back on us. It'll change the prevalence of heat related diseases that we see. It's going to change the weather events to which we're responding as crisis providers. It's going to change the legal and regulatory framework that we operate in. It's going to change the cost of insuring all of our physical plant and equipment. And so, there's this whole area of resilience that you have to think about in addition to solving the impact that you're having on the planet. And so, we have work streams going in each of those spaces and we're starting to make some decent progress in that. The next gear for us, and part of the reason why I enjoy being here to talk with you today is when you're able to authentically communicate that and begin to solve some of it, it's really going to help a lot to explain that to others in a way where they can start to be a part of that journey. Because as individuals, we all feel a lack of agency, I can eat a vegan diet. I can drive an electric vehicle. I can have solar panels on my house. And I know I'm doing all the right things, but I really still don't feel like I'm going to fix the world. It's when we join together with the company that we work for, or the merchants that we buy from, that we start to feel like collective action is going to make a difference. And that same feeling happens between companies. So, if we're able to solve some of these issues in a way that's positive and we're able to put our voice behind it, now you're going to start connecting companies with other companies, then the impact is going to be even larger. So that's sort of where we are in the process.

Robert Morier: Rob, could you elaborate? You mentioned a large and growing team, sort of how that team structured. I know you mentioned a generalist model, but perhaps more detail how the team works together and what the responsibilities are.

Rob Roy: It's probably best to start a little bit with the investment philosophy. And so, if you go back to the part of the conversation where I was talking about risk management as being the primary key, you have to develop what your approach is going to building a diversified portfolio. And I think there's kind of a fork in the road where, depending on how much risk you want to take, you're doing this swap between riskier and less risky assets. This is a traditional asset allocation. If you want more risk, you sell your bonds and you buy stocks. The other path that you can take is one that says, look, I want to build the most diversification that I can into the portfolio. And then, I'll change my leverage in order to get the amount of risk that I want. And so, for us, early on, we looked at that fork in the road and said, we would rather bet on a diversified portfolio as long as we can run it at the level of risk that we care about. Because for us, the journey has been that we started with a weak balance sheet and an inability to take much risk. And we've got the same mix today, essentially, as we had back then, we just have different leverage in the portfolio. And so, with that as the core philosophy, we've built the team around that generalist model where everybody's thinking about, how do you build a well-diversified or a balanced risk portfolio? And then, how do you find the best ways to change the risk profile of that? So that's different than saying, well, our goal is to beat the strategic benchmark, which is 60/40, 70/30, whatever it's going to be. Then your job becomes, how do I try to pick managers or time or overweight or underweight things that help us? We're saying, we're going to be the greatest benefit to our company if we first and foremost get the risk connection between the portfolio and the operating business. If we get that right. On top of that, we've said, we're going to get better at that if we can work with large, well-resourced partners that think different from each other and are built around client solutions. And so especially around our risk balanced portfolio, which today is 75% of the total book, we have five managers that run strategies quite similar to us. And we engage with them on a deep level at the research process. So, when we're thinking about making changes to our portfolio, we'll take our quantitative research, and we'll go, and we'll pitch it to these highly sophisticated managers. They love that. No other clients are coming and talking to them at that quantitative level about new ideas that they're thinking about. It's always the other way around. They have to work behind the scenes, get it 100% perfect, and then they bring it to the client and pitch it. So, these two ways, we've had some of the best conversations that have made both sides of that partnership better investors. We've actually had some of the investment managers go, that's really good. We want to take that, break it down, and see what we can do with it. They've taken their own data, their own systems, re-engineered it and said, yeah, it turns out we love that idea and we're now going to implement it. We can't give you credit for it, but we're definitely going to use that in our process. So above the risk management piece, there's this sense of partnership. For the public market side, that makes both of us better investors as we engage at that level as opposed to, tell me about performance last quarter if you're talking about, what did we observe, what have we learned as a group, and how can we get better? And then, when we get to the private markets part of the book, which is a 25% allocation, we think in similar ways there except we're saying, look, fundamentally, these GPs are about buying companies and transforming them to be the best companies in the world. That's what we're trying to do with health care. We're trying to transform health care into being a much better industry, a much better consumer experience, which means we have a million things that we need to do in that space. So, we engage with our private market managers and partnerships to say, what are we trying to solve on our side? What companies do you have in your portfolio where we should not only be an investor, we should probably be a customer of that company? And those kinds of partnerships mean that we've built our team in a structure that supports that as opposed to maybe a more traditional structure that you see.

Robert Morier: Starting with asset allocation, obviously, a big part of that is based upon the operating budget and the current status of that. But how are you setting down… setting the opportunity set up from a top-down perspective when you're looking at markets or various investment opportunities?

Rob Roy: So, you need to slice the asset allocation decision from the risk decision. If you don't use leverage or you're not allowed to use leverage, those two things are fused. And so, you have to do them in conjunction with each other. If you can use leverage, which we can, then you can think about these two things separately. And so, what you would love to have, is the highest possible Sharpe ratio at the level of risk that you choose. And so, because we can do it that way, the first step is to think, OK, what are the components that you could put into a portfolio? Let's have enough components where you can create a diversification of drivers of return, but not so many that you start overcomplicating it. So, you end up being at equities, nominal bonds, inflation linked bonds, credit, commodities, and maybe gold, let's say. That's a fairly complete set. And then, understanding what the drivers of return are in that space, you can start to construct, how would I build a portfolio that's got sort of a balanced set of risk drivers across that allocation? That then is sort of like your favorite recipe. You can't think of a better way to get an optimal Sharpe ratio from that. So that's like my favorite chocolate chip cookie recipe. Now the next thing I need to know is, how much of that recipe do I need? And so there, we're looking at our operating business and saying, OK, a snapshot of where you are today is your balance sheet. So, what are all your financial metrics that would indicate your level of capacity to take risk? It's your debt to cap. It's your day's cash on hand, which is the cash and investments divided by what you spend on a daily basis. Debt to equity, days cash on hand, cash to debt, things like that are telling you where you are today. The other thing that you need to look at is, where are you going? And that's looking at the strength of your operating business. So today, post-pandemic, we're basically back to the EBITDA margins that we had prior to COVID, which, for us, because I think we do a good job of managing health care, but we also happen to be in growing markets, our EBITDA margin historically has been around 13%, which is very high in the health care space. So, if you look at a strong balance sheet and you look at a strong operating business, you can see the direction of travel. You can see your starting point and you can see the direction of travel. And that then gives you an opportunity to think about the risk in your portfolio and say, look, I can have an expectation for returns. That will also give me an expectation for risks, if I look at a really bad risk scenario, so I look at a 5% worst case risk scenario. Let's assume that happens next year. How badly will that impact my balance sheet, my ability to spend capital, and my ability to grow the mission, which is extending the healing ministry of Christ? You want to maximize the risk that you're taking in the portfolio because that's going to maximize return subject to the fact that when that bad event happens, it ought not to impact any of your mission. And so that's how we kind of connect those two pieces together. And over time, when we've done that and focused on our operating business, you've had this compound effect of going from a small amount of cash to a larger amount of cash and going from a really weak balance sheet to a really strong balance sheet.

Robert Morier: Rob, I'm curious. You mentioned that 75% of the investment portfolio is concentrated with five managers. Is that correct?

Rob Roy: Not quite. So, 75% of the portfolio is in a risk balanced approach. So, 50% of our portfolio we manage internally. So, part of my 13 people team is a set of people that are buying and selling stocks and bonds and commodities and whatever built on that quantitative model, that framework that we've developed over time. So, 50% is internal, 25% is with five managers that run similar strategies. And it's the differences between what all of us do that creates the research friction that's making us better.

Robert Morier: So that friction is how I would assume you are evaluating those external relationships. You're looking for strategic partnerships, so it sounds like it's quite collaborative.

Rob Roy: Yeah, it's extremely collaborative. The bigger part of scoring those managers is on how much… friction sounds like a bad word. But how much did we engage in exploring the differences between how they think about it and how we think about it? How much did we give ourselves the opportunity to learn and grow and get better? If the manager just sits there and waits for us to call them and ask them a question, that's probably not a good… as good a score as someone who's burning up the telephone line the other way going, hey guys, we got some ideas. They're not fully baked, but we'd love to get your take on what we're thinking about on our shop. But that's a great two way set of conversations. And it's more about that than it is, did you beat your benchmark in the last quarter? What's your trailing one year? What's you're trailing three year? You can't let that stuff go, but that's not the substance of the partnership conversations.

Robert Morier: So, what did… what then is the criteria you're looking for that remaining 25%? I believe you had said that's primarily your mostly private market exposure. So, when we think about things like the underwriting process, when you are looking for a manager to fill a certain allocation need or risk budget need in the private market portfolio, what does that underwriting process look like for that 25% that remains?

Rob Roy: Yeah, so we started building this part out more recently because our balance sheet had been weak, and we didn't have the risk capacity to be doing much in the way of illiquid or long dated kind of investments. So, as we started maybe three, four years ago really starting to build up this part of the portfolio. We talked with our peers and said, what do you like and what do you not like about your portfolio? And every single one of them said, I have 200 GPs and I'm like pulling my hair out. I can't keep track of them. It's too much. So, I thought, OK, well, let's not do that. If everybody's telling me not to do that, let's not do that. But then, they also caution you and say, you're going to start off… because we all started off the same way. We started off with a plan to keep this manageable. But you always find something really cool, and you want it to be part of your portfolio and so you get this creep. Well, we had this experience with these five managers where we built deep relationships. We'd seen the value of the strategic alpha that can come from that kind of relationship. And we really had this initial thought like, if we have a small set of GPs that are large and well-resourced, we'll be able to get the market exposure that we want. At the same time, we'll be able to access ideas that we can bring across from the investment portfolio to the operating business. And so, we've said the same thing all along. It's really large, well-resourced managers that think differently from each other and that are built around client solutions. So, we tried to find managers that were GPs that had private equity, secondaries, co-invest, private credit, real estate, infrastructure. All of that would be possible. We might not want to take everything that they have, but there was capacity to fill in the structure that we wanted to build while keeping a smaller set of relationships and giving ourselves the opportunity to go talk about the fact that a year ago I was going to them and saying, hey, I'm working on renewable power. We're going to be in the market with some gigantic virtual power purchase agreements. I know you're all doing things in renewable energy. Please come bid on our project. We're going to them with operating improvements that we want to make and trying to find solutions. If you've got 200 managers, a lot of those are not going to be doing anything in that space and you just can't have all those conversations. So, we've kept it small saying, we will get the market exposure, but the impact that we'll get from transformational strategic alpha type projects will vastly outweigh the performance we might get above the peer group or above the benchmark. If we can create that level of value for the organization, that should be our focus.

Robert Morier: We spoke with another health system that talked a lot about investing in health care. Is that an area of focus in your portfolio as well?

Rob Roy: We've used a little bit of our portfolio around health care venture capital to access some of those early stage, newer ideas. That initiative was not necessarily about driving higher returns for the investment portfolio. It was not about the fact that we know a lot about health care and so we can make great investment decisions. And it was more about this industry needs to transform. There will be ideas in that space… in that creative space, especially around venture capital, that we're going to want to be in the mix of. Let's take a little bit of our capital, let's select some health care venture GPs that we can engage deeply with, and let's get in that conversation of, what are the early-stage things that are happening in that world that we really ought to be thinking of on our side, and where possible can we become customers of those early-stage companies? So, it was more like R&D to make our health care delivery system better. And not anything about, hey, we're really smart about health care. We can make awesome health care investment decisions.

Robert Morier: Given the concentration, I wouldn't anticipate. But just wanted to ask if you utilize an investment consultant in any capacity as well to support your team?

Rob Roy: Yeah, we've had a… when I first started here, we did have more of a traditional investment consultant. As we started to build more of our internal capabilities and our thinking around asset allocation and risk management, the traditional consultant was probably less necessary. But as we've been spending more time around private markets, we realized that we're never going to be as good or have the scale that a consultant might have in the due diligence space. So, things like operational due diligence, early-stage legal due diligence, to some degree, investment due diligence, although I think that's probably more on our side than it is on the consultant side. There are really great consultants that you can work with that will bring so much depth around things like operational and legal due diligence. To us, that makes sense to work with them in that space.

Robert Morier: Maybe partly a devil's advocacy question, but when you concentrate your portfolios the way you've done and that you use larger providers that can offer a lot of different solutions, it certainly makes the number of calls and operational due diligences that you have to do a little bit easier. Have you considered what you may be missing from an emerging manager perspective? When you think about the smaller managers, the boutiques, will you still look at those smaller managers or have you aligned yourself in a way where you recognize that there's an opportunity cost to doing that? I'm just curious what your philosophy is, I guess, behind the smaller early stage emerging manager.

Rob Roy: I joke because it's a really interesting seat to sit-in over here. When you're managing a big pile of money, everybody wants to come and pitch you their idea. And the dichotomy of the story that you're told is amazing. So enormous Asset Manager A comes and tells you, look, our advantage is we're enormous. We've got people on the ground; we've got boots on the ground in every country on the planet. We've been doing this for 40 decades. That's why we're the best in the world at it. You say, that's really interesting. Thank you. And then, later that day, Emerging Manager B comes in. You go like, look, we're nothing like the big guys. Our real special sauce is we're very nimble. We can take advantage of opportunities that they can't take advantage of. And you're sitting there thinking to yourself like, OK, how do I make sense of these opposite stories about what really is going to make the manager better? So, we've looked at that from a different perspective, which is, there are two kinds of value that we can create for our organization. One is going to come in the format of investment performance. So, if we have a benchmark, what is our performance relative to the benchmark? The other kind of value that can be created is, what are the transformational ideas that we can engage in with those managers and almost pull across? So, with our risk balanced managers, they have hundreds or thousands of Quant PhDs that are thinking about this stuff. Well, we've got a great Quant team as well. We're learning and growing from them with all of that data and all that capacity that we couldn't necessarily get from an emerging manager. And then, on the GP side, we did a power purchase agreement with one of our biggest real asset GPs that now has our entire company 40% on wind power starting this year. I can't get the transformational alpha pieces from emerging managers. Yet, we still have the same amount of time to run the book and to run the business. So, we have on purpose concentrated on the larger manager because we value that transformational or that strategic alpha more than we value the investment alpha that's there. So, I don't know if I answered the question about, is it emerging managers are better than big managers? Or big managers are… I sort of couldn't answer that for myself. I almost had to look at it from a different angle, which is what's going to make a difference for our organization.

Robert Morier: Yeah, thanks, Rob. No, it sounds sensible for your plan. And I was going to ask about that because I guess one of the areas where we see maybe a proliferation of emerging managers, smaller boutiques, is around sustainable investing. So, thinking about environmental investing, perhaps social investing. So, I was curious maybe where that line was in the sand as well. It sounds like you've been able to accomplish some of those goals, particularly that milestone. Starting this year, you had mentioned 40% of all of the electricity for the company is now clean and renewable. I think you've got 100% goal by 2026. So, it's helpful for us to understand where sustainability and how sustainable investing sits within the plan. But I know you had mentioned something prior to the recording about how that can be challenging, maybe, to accomplish in some other ways. I'm just curious to hear your thoughts around sustainable and sustainable investing related to that kind of same approach to the larger managers versus some of the smaller ones.

Rob Roy: The framework that we've been building and the actions that we're taking around our operating business… OK, they're a little complex. But they're pretty clear to us what we can do and what's possible and we're kind of getting about that. What we've got less well-developed thinking on is, should you then align your investment portfolio with what you're trying to accomplish as an operating business? How do you do that? And what are the areas in which you should focus? If you just think about caring for people, OK, we're going to align our investment portfolio with caring for people. That's everything. No area of the business that should not be part of. It's environmental, it's social, it's governance, it's just… there are all these things. And how are we going to express that? We haven't completely formed our framework. Now, we're doing a number of things that could be described that way. So, I think it makes a tremendous amount of sense to do some of the energy transition and renewable power type of investments that we're seeing from the large GPs. So, we've committed to some of them. I mean, to us, forgetting the whole sustainability thing for a second, they just make great investment sense to us. And so, they're sprinkled throughout our portfolio, but it's not a dedicated sleep. We're looking right now very hard at workforce and affordable housing. A huge part of the social determinants of health and what drives health outcomes is having access to affordable housing. And interestingly, the companies that have done it for a long time have had enormous returns. The return streams are fantastic. These are not concessionary. Forget sustainability, you would just invest in this anyway. And it has diversification properties because guess what? When the economy turns down, all the people that are in luxury housing create more demand for this stuff. So, it matters in a lot of different ways. But what I've struggled with is creating a holistic framework that says, here's how we're going to do this for this entire portfolio. And everybody that knows me knows I'm not giving up on that. We're doing some things, but I would much prefer to get us to the point where we have a framework that we can… that makes sense for us. That is something that we're able to communicate well and something that we can actually put into action. But we're still kind of early in that space and keep leaning into it.

Robert Morier: I'm curious. Will you invest in any directs or co-invests with a GP where you do not have an existing relationship?

Rob Roy: I don't think that we will do that now. We did one of those early in our healthcare VC space, but we only did it with a GP… a well-known GP. We hadn't committed to any of their funds. But they were a very, very well-known GP in that space and we did a sort of a ride along with them. But I think going forward we would keep this in the… in this set of relationships that we have today.

Robert Morier: Well, in addition to health care VC, any other areas of opportunity that you have sparked your interest recently in terms of where you're thinking about doing a little bit more research with your partners?

Rob Roy: On the environmental side, which I think is one of the most interesting areas that I've been able to work on, we talked about the impact that we're having to the planet. I think that framework is pretty well developed. We're doing a lot in emissions. More work to be done there. There's still waste and water that needs to get sorted. I'm really, really curious right now about building the framework for the resilient side. We spend between $1.5 and $2 billion of capital every year in building out new facilities, renovating facilities, adding on, things like that. But if you think about the fact that those are long-lived assets and we're in the midst of significant climate change, which is going to change the demand for our services, and we have to do all of that in partnership with local government, how we think about sustainable development for health care in the face of climate change is an area that I think we're going to need to spend more time focusing on, and it's really starting to spin around in my head. And we'll probably need some more work in that space.

Robert Morier: Do you still watch the high yield bond market?

Rob Roy: A little bit, yeah. I mean, yields around 8% are a lot more interesting today than they were five years ago.

Robert Morier: Any high yield bond managers giving you a call?

Rob Roy: You know, they all call. When you're responsible for a big portfolio, everybody calls, but mostly goes to the team now. But I had a… I was on an interesting call. I was part of the Global Capital Markets Advisory Committee that Milken puts together. And when yields started to break higher, he talked to all the pensions that were on and said, OK, you all need 8% returns for your actuarial assumptions. You can have that now in high grade, first lean, corporate credit. Who was all in on that one asset class? Of course, nobody's got the governance structure to go all in on what they need. But it is… it's a different world today in yield space than it was five years ago. It's changing things.

Robert Morier: I would actually like to get back to your history. And I was just curious how you the bridge between Putnam and how you found Advent. Obviously, that was exciting change for you. But I was just curious what occurred.

Rob Roy: It was Christmas time, probably '97, and I was with my uncle. And he said, hey, what are you doing these days? And I told him where I was working in Wall Street and all this kind of stuff. And he said, I'm on the board of this health care company down in Florida. And they've gone from having no money and no balance sheet to having a little bit of money. They really need somebody to help them build that program and think about putting that together. Would you be interested? And I immediately said no, I just gotten married. And I said, look, Florida is where old people go to die. I don't know anything about health care. And I'm not really sure I want to work for a religious organization. But I like you and I want to be helpful. So how about if I go down there and talk to them and maybe I can offer them some suggestions or point them in the right direction or maybe there's somebody that I know of that would like that role. And he said, yeah, that's good. So, he made the connection, and I came down. And it was really compelling what they were wanting to do and the mission that they had was compelling. And I went back, and I told my new wife, I think we should do this. And she said, absolutely not. I said, come on, it's like two years, maybe three years, a steppingstone. It'll be great. It's the first time I'm going to go from thinking about a single asset class to thinking about a portfolio. I think we should do it, but it'll be short-term. And none of that's actually worked out at all. So, 25 years later, here I am with the same mission and the same people, but a different part of the journey and with more opportunity to be helpful and to lead other parts of the organization. I don't think I could be more blessed to have taken this opportunity.

Robert Morier: Rob, I noticed that you recommended a book not too long ago. It was called the Rocking Chair Prophet by Matthew Kelly. I picked it up as well. I thought it was a great read. There was a quote in there that stayed with me. It said that all human interaction is rooted in either acceptance or judgment. Acceptance leads humans to flourish. Judgment causes us to wither. So how do you maintain acceptance with your portfolio, the people you work with, your own goals, while still doing what's in the best interest of the plan, the overall mission?

Rob Roy: I mean, you asked that question like I've got it figured out or something.

Robert Morier: Well, you're doing pretty well so far, so we've been impressed with your answers. So, I took a shot with it.

Rob Roy: You want to experience health care, it's like going to the DMV. You've got everybody that's there. All of humanity is there. It's an interesting cross-section. What you see common across all of the people that show up is that everybody wants to be loved. Everybody yearns to have purpose and meaning, to feel a sense of belonging. And you have every opportunity to do that with every interaction you have. I tell the people that work for me, that's sort of my goal every day is to have people come away from an interaction feeling like they got the best of me. And the worst days I have is when I revert back to being probably a more normal human where I've used my position or my voice or some part of power to get what I wanted out of the situation. And I go home, and I think, that was just… that was not good today. I got to get better at that. That's just how I think about the day, every day. I've been given a certain set of talents and a certain set of responsibilities, and you can express those either in a powerful way or in a loving way. I still always love that Maya Angelou quote about people will forget what you say and what you did, but they will never forget how you made them feel. It's kind of cool that we do that on the front end of our business in the way that we care for people. But even at the corporate office and even all these support departments that we run, we can do the same exact thing in all of our interactions every day, in every case.

Robert Morier: Thank you for sharing that. I spend most of my days with students. And they're often asking for career advice. So, if you had to give a little bit of career advice for those students who are going out into the world, looking back on your history and success, what are some of those pieces of advice you'd share?

Rob Roy: I guess I'll build up from the earlier things that I said, which is find the thing that makes you happy. You're going to find the most happiness in the intersection between what the world needs and what you can provide. When you're serving other people in a way that you were made to do it, it'll never, ever feel like work. I'd also say be curious and be kind. Keep getting better at what you do but treat others with an enormous amount of respect. I would add to those two other things. One, just be fearless. Act as if you couldn't fail because it's probably true. And as our CEO likes to say, if you want to get promoted, solve problems. Identify places where things can be improved and show up with solutions.

If you do all of those things, you're going to start wandering around buildings in a city with a clipboard and a bad suit and a bad looking resume not knowing what your path is going to be and you're going to end up doing incredible things that you never would have imagined with people that you care deeply for.

Robert Morier: That's great. Rob. Thank you for sharing that. Rob, who are some of those people who helped you in your career? Who gave you advice, those mentors that helped you through those days where you had to be a little bit more fearless, and you needed a little help?

Rob Roy: Man, you get… later on in your career, that list is super long. And you hate to start saying names because you're going to leave out a million people that helped you along the way. But, at the very beginning of my career, Tien Nguyen and Rick Wyke at Putnam, I have no idea why they gave me a shot to be a trader. I really don't. There was nothing in my professional history that told them I should do that. But they did it and they forced me to be good. They had a high set of expectations for me, and they didn't let me off the hook when I didn't perform at that level of standard. And I think that taught me a lot. Clearly, my parents and my family have been supportive. I'm really lucky to have a set of parents that have been married for many years. Two Sisters. Everybody's got complete families. Everybody got an education. I have this family community that supports that development and growth. And then, here at AdventHealth, I've had the privilege of working with my boss, Paul Rathman, who's our Chief Financial Officer. Before he was the Chief Financial Officer, our CEO now is the CFO. So, Terry Shaw, I've had the privilege of working with him. And these two are incredible visionaries that hold the standard of performance so high that it's created a culture that I almost can't imagine leaving. Not almost, like I definitely can't imagine leaving. It's like a beautiful mission at a high level of performance.

Robert Morier: That's wonderful, Rob. Thank you so much. And thank you so much for being here today. Congratulations on all your success. It sounds like you're going to be in that seat for quite some time based on the way you just answered that last question. So, we're happy you will be. We look forward to touching base with you again in the near future. So, thank you and congratulations.

Rob Roy: Thank you both for what you do. I think this is an incredible service that you bring to the community to build that bridge between allocators and managers. And to both of you, for the way that you've set this up, I've watched many of your episodes in the past and the way that you care for the people that come on is incredible. So, thank you both for the service and the way that you do it.

Robert Morier: If you want to learn more about Rob and AdventHealth, please visit their website at adventhealth.com. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We're also available on YouTube if you prefer to watch while you listen. 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. Please, Andrew, I appreciate it. We welcome your feedback as well. Rob, thank you again for joining us today. Andrew, thank you, as always, for being here. And to our audience, thank you for investing your time with Dakota.