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Special Edition Dakota Live!

EPISODE 4:

Going Outside the Model

with Adam Landau, Cerity Partners

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 and executive officers, manager research professionals, sales leaders, and other important players in the industry who will help you sell in between the lines to better understand the investment sales ecosystem. If you're not familiar with Dakota and their Dakota Live content, please check out dakota.com to learn more about their services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker who is not affiliated with Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fund raisers for fund raisers. 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, before I kick it over to Chris and the team, I want to introduce you to our guest Adam Landau. Adam is a Partner and Co-Market Leader in the Pennsylvania office at Cerity Partners. Prior to joining Cerity, Partners Adam served as Co-Chief Executive Officer and Chief Investment Officer at Permit Capital where he was responsible for formulating and implementing the firm's investment strategy. Prior to joining Permit, Adam served as the managing director at McCabe Capital, working there from '97 to 2011. He oversaw the integration of McCabe Capital's advisory efforts. Prior to joining McCabe, Adam spent four years at DLJ, where he worked on both the retail and with institutional clients to develop the asset allocation plans and construct appropriate equity and fixed income portfolios. Adam received his MBA from finance, from St. Joseph's University and a BA in Economics from Rutgers University. Holds his CAIA and is a member of the CFA Institute and CFA Society of Philadelphia. Adam also serves as Chair of the Board at A Meaningful Purpose, which is a charitable organization behind Reed's Organic Farm, a farm and animal sanctuary helping underserved and marginalized individuals through workplace development and educational programming. Also serves as the Chair on the Advisory Board at the Field Center for Children's Policy Practice and Research at the University of Pennsylvania. And he also serves as on the Board of Directors of Bancroft Women's Way, as well as the ESF Dream Camp Foundation and serves on the corporate boards of Elevate Eyecare LLC and GOTTA Sports, Incorporated.

DLT: Give an overview of Cerity Partners. It'll be a great place for us to begin the conversation.

Adam Landau: Yeah, and I'm a year old in Cerity. My firm, Permit Capital Advisors, merged with Cerity Partners a year ago. Cerity was founded in 2009. I think we now have offices in 15 states around the country. I have over 800 colleagues. We serve 19,000 plus clients. And I think we advise on about $65 billion in AUM, so going from running a $3 billion firm to a cog in the wheel of a $65 billion firm.

DLT: It's been one year since the merger with Cerity and Permit. What are some of those big differences and key advantages of combining forces with Cerity?

Adam Landau: One of the biggest difference is in decision making. I was the Chief Investment Officer, as you said, at Permit. I didn't have unilateral decision-making authority, although I had obviously had a significant vote. I'm now a member of a 20-plus-person investment committee, so one of a broader array of voices. But as I said to our clients before the merger, giving up that level of autonomy that I had for the group of people that I joined-- and that was the due diligence that we did prior to the merger, understanding the people within the Investment Committee within the investment office, how they thought about investing and came away with so much respect for them that I said, if I'm in a room with 20 people and 19 of them think that we should be doing one thing and I think we should be doing something else, I should probably heed their voices. So decision-making has changed a significant number of advantages, primarily capital, human capital, the people that we have within the organization that are now sharing ideas and contributing to our investment program is obviously significant greater-- significantly greater. Although I think we had a great team at Permit that punched above our weight. Our weight now is significantly larger, and that's a big difference. And frankly, the AUM going from $3 billion to $65 billion gives us the opportunity to participate in some-- with some managers in some funds that we may not have had before. And it also gives us a little bit of leverage that we wouldn't have had before, which all accrues to the benefit of our clients.

DLT: How should an investment salesperson think about approaching that centralized research team, given the size and reach of the firm now?

Adam Landau: Well, it's interesting. To borrow a term from portfolio construction, I think we have a little bit of a core satellite approach. There is an investment office led by Chief Investment Officer, Ben Pace, that's based in New York. A number of the investment resources are in New York. But just like with Permit, Cerity has grown by partnering with groups all over the country, many of which had their own investment talent. So there are investment committee members and investment contributors around the country. And I would say for somebody who wants to kind of walk in the door that's already-- you could do it either through New York or through one of the offices. And then we will bring it to New York, and we'll go through the Investment Committee, and we'll go through the channels. So I think there are different ways to approach it. But certainly, within the local community is one way.

DLT: Can you talk a little bit more about manager selection then? And this might be drawn on a little bit of how you think about it from your prior experience and being independent in Permit, but also, what does that mean now from a Cerity standpoint and thinking about manager due diligence?

Adam Landau: Yeah, I mean, we have more resources, and we have a little bit more structure than we had at Permit. At Permit, we were kind of all generalists, which I think worked well at that size firm. You know, now our structure is a little bit more specialization, a little bit more responsibility delegation, so just within the alternative space. We have a private equity group. There's a private equity head. There are people that report to the private equity head. There's a private debt group, private debt head. There's venture capital team, and there's a real estate team. And then within traditional asset classes, there are teams as well. So oftentimes, those teams will be where the opportunities are funneled to. They'll do a lot of the legwork. They'll get to the sixth or seventh inning of the due diligence, and then they'll bring it to the Investment Committee for ultimate decision-making.

DLT: So let's build on that. What is a win?

Adam Landau: One of the things that was important to us when we joined Cerity before we made that ultimate decision was, for lack of a better way to put it, the ability to have the best of both worlds. Because to your point, I do think that we were able to find those kind of boutique types of managers who in certain spaces, there are certain asset classes in which size and scale are beneficial. But there are a number of asset classes where I think being smaller, being nimble, being able to participate in lot types of opportunities is very beneficial as well. We still have those, but now, we just have a broader set of them. A lot of our opportunities were locally sourced. I happen to see things through a prism. I think there's a lot of great investment talent in Philadelphia. But just as we are able to find managers in our backyard that someone on the other side of the country probably wouldn't have found, now there are Cerity offices in LA, in San Francisco finding kind of managers in their backyard. That become kind of part of the boutique segment of the platform. So we have not lost that ability. As far as your question, Tim, about what a win looks like, you're right. It is an approved list. A manager goes through the rigor of the due diligence process. They're added to the approved list. You know, and at that point, there's what I would call almost an onboarding process that takes place. There's generally a call that goes out to all the client-facing advisors, where the head of the search process will explain the manager, talk about the merits of the manager, maybe talk a little bit about the search, how we think they work in portfolios. The manager themselves are a component of that. They'll have the opportunity to speak to the breadth of the Cerity advisor platform. It can be done at a top-down level, where they can speak to all the advisors and calls occasionally. But they're also welcome and, I think, encouraged to get out to individual offices to speak to the advisors. Because ultimately, you know, your question about a model portfolio, there are model portfolios. There's no model client, so I'm not necessarily a believer that model portfolios have a lot of applicability. These are advisor-driven decisions based upon what's best for their clients. You know, no two clients are the same, so no two portfolios have to be the same, of course. So I think getting out there and meeting with individual advisors is in the best interest of a manager, particularly at the beginning.

DLT: Can you talk a little bit about how they are thinking about actually implementing alternatives across client portfolios? And that might be different across different offices, but just how you guys think about that generally?

Adam Landau: Yeah. No, that's a good point. It probably is different across offices. Oftentimes, when we talk about alternatives, we talk about client comfort level. You know, I believe there's also a significant consideration with respect to advisor comfort level in using alternatives. I mean, we to your point, did-- Permit, we use them pretty prolifically. When we talk about alternatives, I always say alternatives aren't an asset class. They're not monolithic. The way we think about the world in its simplest form as it pertains to portfolio construction is kind of risk on, risk off. So if we're going to use an alternative, it's either replacing equities in a portfolio or it's replacing fixed income. And the ones that are replacing equities, we call it directional alternatives that tends to be private equity venture capital, maybe leveraged hedge funds, most real estate. And then we have non-directional alternatives, those that are less correlated as you would imagine. So relative value hedge funds, absolute return hedge funds, things that you're going to want to have in your portfolio when markets are choppy. And they don't share identical characteristics to bonds. They don't generally pay income. They're not generally liquid. But from providing balance to a portfolio, providing diversification and correlation benefits to a portfolio, that's generally how they work. So we think of it as directional alternatives. Non-directional alternatives, how we implement them is based upon obviously the risk profile of the investor and, also importantly, the liquidity profile of the investor. We have investors-- and it's not always directly linked to the size of the portfolio-- who want to stay more liquid. And we have investors who are very, very comfortable being predominantly illiquid because they're less comfortable in public markets. So we spend a lot of time thinking about the liquidity profile of our portfolio. So when-- every client report, we put out a liquidity pie chart in there. And that becomes a big part of decisions about using alternatives as well.

DLT: Are you on the alternative side? Or is it because of your sheer size, you have access to these managers?

Adam Landau: It's both. So we are going direct oftentimes, but we are using groups like the ones that you mentioned to put together vehicles for our clients. And I should say when we speak of alternatives, that's primarily funds. But we also, and this is kind of borrowing from our Permit days, do a fair amount of what we call private direct investments as well, or we'll make individual investments into companies.

DLT: You mentioned sometimes you're thinking about it from a risk on, risk off. Where are we today? Are we risk on or are we risk off? What's the current mindset right now for Cerity?

Adam Landau: For the first time in a long while, and I will say there is a Cerity view, you're also going to get different views, to some extent, advisor. But I think for the most part, and my personal view is we're for the first time in a long while, pretty much down the middle. You know, I mean, I think the first thing that any of us learn in this business that actually sticks with us and makes some sense is don't fight the Fed. For many, many years, the Fed was in an easy monetary policy position. They were very transparent about that, where they were not only bringing down interest rates but expanding the size of their balance sheet. Access to capital was easy, and we saw the effects that had on capital markets. And it was easy to follow that trend. For the last 18 months, it's gone in the other direction. And they've been tightening monetary policy, and they've been transparent about that. I think for the first time in a long while, there's probably a pretty even split with respect to, not necessarily when the next move is going to be, but what it's going to be. And that can change day to day. But because there's no strong consensus as to the state of monetary policy, I truly believe that we're kind of down the middle for the first time in quite a long while.

DLT: In the Investment Committee meeting, in talking to the research analysts, what does look interesting? And any asset classes should our listeners have a strategy reach out, being mindful of the fact that Cerity has grown, merging with a lot of offices, onboarding a lot of strategies across different offices. So the team is busy, but if there were a priority kind of coming up through year-end, what asset classes would those be in?

Adam Landau: Yeah, that's a good point. To the managers out there, = who were probably already using you, but if not, we're always looking. And so, I'll give a nonanswer to your question and an answer. The reason we're always looking, and it's an important question, it's a relevant question. But when I think about our job building portfolios for clients, the truth is that the significant majority whether it's 60% or 70%, we're always looking for good managers, who are going to be good, strategic, long-term holds across various asset classes. And we're always looking to upgrade, and we're always looking to fill gaps. I would say the next greatest proportion is probably opportunistic, investments which goes more towards your question, managers who are doing something that's opportunistic in a space that has a competitive advantage or a proven advantage either where they are now or where they came from. We'll always look at I would say the smallest piece is probably tactical, investing into the environment just because the environment quickly changes. And it's an easy way to make mistakes. But the answer to your question in terms of from a tactical perspective what we think is interesting, we've done a lot with private debt in the last couple of years and continue to think that's interesting. With banks stepping away and the turmoil that we've seen in the banking industry, I think private lending and private credit becomes interesting. A lot of the private credit that we invest in is short duration. You know, mezzanine credit, bridge loans, so in this kind of upside down interest rate environment, I think private credit is interesting. Real estate is something we spend a lot of time talking about. This is a really difficult environment to be owning real estate, and we're feeling the effects of that. We have exposure to real estate that is scary right now in terms of what's going to happen based on financing markets, but that also means the other side of that coin is that there should be some really interesting opportunities in real estate coming down the pike. And then, more broadly, I would say just distressed. I still don't think we've hit a distress cycle yet. We may not, but we want to be prepared in advance in case one is coming. And that means not only looking at managers who are primarily distressed but managers who have the flexibility to move in distress that-- at the right time.

Robert Morier: Thank you to the Dakota Live! team for that insightful interview. If you like what you heard, check out decoded and registered for the next Dakota to live call, every Friday at 11:00 AM and 2:00 PM. You can find this episode and past episodes on www.dakota.com as well as Spotify, Apple, Google, or your favorite podcast platform. Finally, we are available on YouTube if you prefer to watch while you listen. Thank you all for being here. And we look forward to seeing you again soon.