dakota

Special Edition Dakota Live! Call

EPISODE 1:

Bill Kennedy, CEO and CIO

at RiskBridge Advisors

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment 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 Searches. Are you tired of endlessly scrolling through investment publications, trying to stay on top of the latest investment mandate opportunities? Look no further than Dakota Searches. With Dakota Searches, you'll never miss a new mandate again. Our powerful platform sends you email alerts as soon as new searches are posted. So you can be one of the first to know. Subscribe today for a 30-day free trial and experience the convenience and efficiency of Dakota Searches. And for even more benefits, become a Dakota Marketplace member for full access to Dakota Searches, our institutional investor database Dakota Marketplace and more. Sign up for Dakota Searches and stay ahead of the game. Visit our website at dakota.com/dakota-searches to learn more and start your free trial today. Before I kick it off to Chris and the team, I want to introduce you to our guest William Kennedy, the CEO and CIO of RiskBridge Advisors. Bill Kennedy is the CEO and chief investment officer of RiskBridge Advisors, an independent full service investment office serving families, nonprofit endowments, and foundations and insurance companies. He brings over 30 years of experience investing in public and private markets and is responsible for RiskBridge's business and investment activities. Previously, Mr. Kennedy was the chief investment officer at Fieldpoint Private based in Greenwich, Connecticut, where he was responsible for $4.5 billion in client assets. From 1996 to 2008, he was with Citigroup and predecessor firm Salomon Brothers in their Tokyo and New York offices most recently as the global director of Citi Investment Research, one of the leading research firms on Wall Street with more than 300 research analysts and strategists covering nearly 3,000 companies globally. Mr. Kennedy served on Citi's management committee and wealth management planning committee. He started his investment career in 1992 at the DuPont Pension Fund and held senior roles at TIAA, Century Atlantic Capital and Marsh McLennan. Mr. Kennedy earned a BS in economics and an MBA from Texas Christian University in Fort Worth, Texas. He is a CFA charter holder.

Mr. Kennedy currently serves as the chairman of the board for the Global Interdependence Center, a Philadelphia nonprofit committed to influencing policies for the greater good through neutral nonpartisan engagement among thought leaders worldwide. He is a member of the Economic Club of New York, the CFA Society of New York, and the University Club of New York. Let's get right into the interview. Take it away, Chris and the team.

Chris O'Grady: That is a very impressive resume. And Bill, thank you for taking time to join us today. And as always, we kick off our first question with just give us an overview of RiskBridge, how we should think about RiskBridge in the current environment.

William Kennedy: Absolutely, and good morning to you guys. And thanks for everyone for joining. So RiskBridge Advisors is an independent investment advisory firm. You've listed our clientele. But what we do really are three things. We have discretionary OCIO mandates, particularly in the endowment and foundation space for nonprofits. We do wealth management for family offices and ultrahigh net worth individuals and then we do institutional advisory. So what does that mean? One aspect of our institutional advisory, we actually work with other advisors. We will deliver what we consider the 3Ms. We do macro. We do manager research. And then we provide investment models for other independent RIAs around the country. And Tim Dolan from Dakota was kind enough to introduce us as an example to an RIA based in Illinois. So Tim, thank you for that. And working with other RIAs to lift the burden on the investment side so that they can grow their business is part of our institutional offering. The other side of the institutional advisory business is working with some of our larger institutional clients on a sleeve. So where our OCIO mandate may be managing the entire portfolio, we also work with some institutions just to handle one aspect of the portfolio. A good example of that, large insurance client, multibillion dollar fixed income portfolio. All that's managed away. RiskBridge was hired by the insurer to help them create craft and implement their alternatives platform. So we built alternative philosophy, baked that into their investment policy. We're doing the manager search, manager selection, implementation, and oversight for that firm.

So it's a little bit of-- little bit of everything from an institutional advisory standpoint. But all of it comes with a risk lens and thinking about risk first and how that drives returns to meet our clients' financial goals.

Dan DiDomenico: Yeah, and with that, Bill, when you have such different underlying clients, we think that it brings-- and I'm sure you would agree-- such interesting perspective across multiple underlying needs from those clients and then understanding where are those risks exposures. Most people don't care about risk until we're in an environment like we're in today, where it re-emerges and it's real. So maybe you can talk to us a little bit about what that difference is in your conversations with those underlying clients in these types of environments and addressing that kind of risk.

William Kennedy: Yeah, so surprisingly, the difference between the institutional clients and the ultrahigh net worth client, for example, is not that wide. And here's what I mean by that. An entrepreneur head of a family office, what they're trying to solve for is time. The highest order for them is to get more time on their hands and to try to hire somebody to help deal with the investment aspect of their financial life. The same is true of an endowment and a foundation, although in that case, they're focused on mission. And so we work with endowments and foundations. And one of the things we say is, you focus on your mission. We'll take care of the rest. So both types of clients are trying to solve for either time or freeing up their focus for mission-based purposes. But what we find in our investment approach, our philosophy is grounded in this belief that return is a byproduct of the risk you take. It's not the other way around. We don't solve for risk. We don't try to predict what a manager or an asset class is going to do and then just accept the volatility that comes with it. We actually target the volatility for the portfolio. And then we start to budget the amount and types of risk to solve for that given level of volatility. And as it turns out, that actually works pretty well, whether you're an individual investor or an institutional investor, because that risk component is directly tied to who you are, what your goals are, what your organization's mission might be. And you're right, many investors may not think about risk until it hits him in the head. But what we've tried to do is help all of our clients prepare for risk and all of its different forms, try to protect the wealth that they've already earned or the endowment that they've been able to raise for the organization, and then drive that performance by focusing on the risk elements and making sure that we're getting paid for the amount of risk taken in the portfolio.

Tim Dolan: Bill, we have a number of listeners in the market raising capital across different investment strategies and asset classes. Can you talk about your team internally from a research standpoint? Are they covered-- are they covering certain asset classes? And who would be the best people to reach out to to ultimately get a meeting and introduce their strategy?

William Kennedy: Yeah, we've got a great research team in house, which is our differentiator, if you will. So our Senior Managing Director Molly Burba, she is handling all of our alternatives research. Molly's got about 19 years of industry experience. She has looked at anything that's a private placement. She's got experience in that space over a very distinguished career. And then on the public side, Josh Kaufman and Esme Miano, our analyst working with me and looking across the spectrum. Could be equities or fixed income or other types of diversified buyers. Let me share with the audience what we don't do because that might help get to what would be a useful call for RiskBridge. So we don't do seed or start-up. We're not any good at it. I know there's room for it in client portfolios. But we just avoid that. So that's something that we're not going to spend much time on. When it comes to thinking about how do we screen our managers, the other thing we'll discard pretty quickly is if it's a consistent bottom 2 quartile manager over a 3-, 5-, 7-, 10-year basis. It's probably not going to see the light of day for us. One of the biggest mechanical or quantitative factors that we consider is what we call the participation differential.

And that's just simply what is a strategy's up capture ratio minus its down capture ratio over a given period of time. The wider that spread, the more interested, we are. Because we think that is one indication of risk management skill within that manager. So we don't do the start-ups. But what we do do is we like to look at the managers who have been pretty consistently in the top 1 or 2 quartile performance for their group. The wider that participation differential, the better. And so just to give an example of that, if we found a manager with 100% up capture ratio and an 80% down capture ratio-- that spread is 20 points-- that's pretty attractive. That's going to catch our attention and lead us to go the next stage of our process. So in terms of how to get in touch with us, if you've got a product or strategy you think might be worth taking a look at that meet those criteria, probably the best way is just to email us that info at riskbridgeadvisors.com. We've got access-- all our research team has access to that. And we can take a look at whatever comes across.

Chris O'Grady: It's helpful participation ratio. That is good to know. I mean, obviously, we know the up versus down, to think of in those terms is super helpful. Bill, we always want to know who we're talking to in terms of what the win looks like. What does a win look like at RiskBridge? Do you have a select list? Do you have models? Or is it a case by case basis for individual clients? And then you'll have a handful of searches a year. So how should we think about that in terms of bringing a portfolio manager, an idea to you, and how germinates into ultimately perhaps selection on behalf of your clients?

William Kennedy: Yeah, so a client win for us, just to give you an example, is where we come into a endowment and foundation. And our target market is sort of $250 million and below. And the reason we're chasing that market, we find that they tend to be a little bit overlooked and underserved by the bigger, larger OCIO firms out there. And so a win for us is to be able to get in with the board or the investment committee, help them articulate their risk tolerance. Everyone says, I want high return and low risk. We put some math and some science to that to really help the committee understand how they, as individuals perceive risk and then how do they as a group think about risk. That all then goes into investment policy design, investment governance documents, portfolio construction, do you have alternatives, no alternatives, are you going to be all passive or active or some combination of the two. And then we implement for them. Then as a follow-on, we work with those

investment committees on education and training and thinking about some of the issues that nonprofits face away from the investment perspective.
So that's a big win for us. Our approved manager list, which is what we rely on to express that portfolio and to solve our clients' issues, is relatively small. It's somewhat finite. So we're not-- our research management team isn't constantly searching to add a third, a fourth, a fifth strategy to fill a particular sleeve in our asset allocation. We're very targeted. And probably the thing to really know is we're selecting our managers based on conviction, high conviction. So when you look at the-- I think now, we have just about 30 strategies total on our platform. We don't expect to grow that going forward. But we're always trying to build conviction in those 30. And sometimes a new shiny thing comes along that is a good addition. And we'll want to take a look at that as well. And when we find that manager that meets all the quantitative components that we've already discussed but also has a great culture is proven as a risk manager and where we can partner together-- and I mean really partner together in terms of sharing of information and trust in everything that comes with that-- that's a win for us in terms of seeing a manager come on to the RiskBridge platform.

Tim Dolan: Bill, you had touched on Molly is the appropriate contact that covers alternatives. Can you expand deeper into alternatives and what that looks across your client base, obviously, covering institutions to high net worth and the ability to access certain alternative strategies? But just higher level, what is the alternatives platform look like at RiskBridge?

William Kennedy: Yeah, so six buckets generally. That's going to be private equity, private debt, hedged equity, hedged credit, infrastructure, and real estate and other diversifiers. And we throw real estate in as a diversifier. We think of multistrat and macro as diversifiers as well. So those are the six buckets. We think about how should we allocate liquidity and think of the timing of liquidity. So some of the strategies are locked up for much longer, might be 7, 8 to 10 years. Other strategies might have a 3-year investment horizon. So we try to think about the allocation of the risk of those six different buckets, how you pair the wine and cheese and bring all of those together but also thinking about the liquidity element, particularly for the endowment and foundation community where they may need access to that capital at a reasonable period of time. And so we try to match that liability need as best we can.

Chris O'Grady: Great. Bill, the topic always in all meetings is diversity equity inclusion. Talk about your perspective and RiskBridge perspective on allocating to managers.

William Kennedy: Yeah, so as a-- to begin with, as a firm we have adopted the diversity, equity, and inclusion code from the CFA Institute. And that goes into our hiring policies and promotion policies and how we manage our own culture. We've had a number of prospects and clients who have put DEI at the top of their list. One example is a health care foundation that we know of where they had a mandate for 20% of their managers needed to be minority or women led. And so we've incorporated that into our own due diligence process. So we think of that as in two ways. First of all, it's always a question that comes up in our initial screening. Are there managers out there that we happen to overlook? And putting a minority or woman-owned filter on that just might broaden our search a little bit further. And then we try to bring those managers in and just compare them. Do they meet all those other criteria? Are they consistently top quartile? Do they have a strong participation differential, up capture, down capture? Is there a good culture of risk management there? And so we try to incorporate that into our manager research process. First, it just makes it for better-- it makes for better research. But secondly, the clients are demanding it more and more. And I think that's going to become a bigger part as a percentage of our overall approved list going forward.

Chris O'Grady: Great. Now, it's definitely a structural reality in the marketplace and will continue. So it's always great to get perspective. Question from the audience, Dan, before you ask one. "Can you talk about vehicles preferred SMAs, LPs, mutual funds? What is your vehicle of preference?

William Kennedy: Yes, all the above.

Chris O'Grady: Good.

William Kennedy: So we will go passive and active. And one thing I should mention, that in our process, because we're high-conviction managers, sometimes we'll actually take money away from a manager. We're not firing them. We're just reallocating to a segment or a source of return that we think has a better probability over the next 18 months, 24 months, whatever the period might be. So that might take us from an active manager into a passive vehicle, an ETF, or out of an ETF back into an SMA. But on our platform, to answer the question, we're using mutual funds, SMAs, private placements. And if we can find a good strategy that has both wrappers and SMA and mutual fund, all the better. It's not a requirement. But sometimes that's a plus when we can get access multiple ways.

Chris O'Grady: Actually, Dan, I'm going to interrupt you one more time. All right, another question. Thank you for the questions. "What qualifies as a, quote, 'start-up'?" So boutique manager. "Is there a minimum AUM for consideration?" Obviously, you don't do seed. You made that clear. But what would be the minimum size of a manager that you'd want to look at?

William Kennedy: So our sweet spot for managers is around the 750 to $1 billion of AUM. Will we invest in a manager with less than 750? Yes, we will. Will we invest in a manager whose firm is 3 years old or maybe 2 years old? We will consider it if that manager has the pedigree and the background of coming from another firm and they've decided to go out on their own. We love the fact that in this business, people take their dough and put it to work in an entrepreneurial fashion, do a start-up firm. If they've got the pedigree and the history behind them, we'll take a look at that. But I think in terms of a minimum AUM size to the question, I would say hard pressed for us to come below $300 million. So that would probably be a minimum for us.

Chris O'Grady: Good. Super helpful.

Dan DiDomenico: That is. Yeah, just understanding what that framework might look like. And, Bill, I mean, it sounds like you're all very high touch with your underlying clients incorporating that proper framework for understanding risk and volatility. Now, here we are in a period of time in the market that is presenting certain levels of stress. So within those client conversations, your client views, what are those points of stress and what are the opportunities that are coming out of this?

William Kennedy: Yeah, so for ultrahigh net worth and family office clients, they've already made their money. They're hiring RiskBridge in order to hold on to it, to help grow it over time. The stress on the endowments and foundations is a little bit different because they're trying to balance meeting the needs of their organization, the fundraising objectives that they have. A donor will plop down a chunk of cash into the endowment. That needs to get invested. And can they meet their 5% target, 6% target each year, whatever the case might be? So those conversations are ongoing. But we like to-- we like to-- I joke that we have three pieces of advice to all of our clients. Number one, we advise that you think long-term. Number two, be opportunistic. And number three, give us more of your money to manage. And we're at that point in the cycle now where we think the opportunities are starting to present themselves, whether it's in segments of the equity market that are already priced for recession and beyond. There are opportunities where we think there's going to be growth that is faster than nominal GDP, either here in the US or overseas. We would put things like health care and biotech and life sciences in that camp. Infrastructure, we think, is a pretty interesting opportunity going forward. But as we're coming into the end of this year, early next year, and we have no crystal ball to say what the volatility environment is going to look like as we get into the first half of next year, we do think this is a time to start looking for some new opportunities to put some capital to work. On the private equity side, I think the 2023, 2024 vintage years are going to look pretty spectacular. I think have a really good chance to be great vintage years. We're looking at that. And we think there's some stress in the private equity space right now. So we're thinking about secondary PE opportunities as well.

Tim Dolan: Bill, you touched on a handful of opportunities there-- life sciences, health care was one, infrastructure. Specifically for our listeners in the next 9 to 12 months within the investment committee, what are the current searches you all have right now on behalf of clients?

William Kennedy: Yeah, so on the public side, two. In the US, we're looking for midcap equity. And that could be core growth value. We're looking across the spectrum there. And then on the international side, we're doing the same in the developed markets, particularly in the EFA markets. If any listeners are associated with a firm not based in the US but they have an office in New York or Chicago or San Francisco or someplace, we like boots on the ground for our international investing. In that EFA space, we're trying to identify some additional long only strategies that we can consider for the platform. Then the other two that are front and center in our mind, in the infrastructure space, we're looking in three sub areas. First is just core infrastructure-- bridges and tunnels and airports and things of that nature. Second is the digital infrastructure. And then third is energy transition. And so anybody with a strategy in one of those areas of the infrastructure spectrum, we certainly have an interest in taking a look. And then I think most immediately in the next 6 to 9 months, the secondary PE opportunity is something we want to take a look at.

Chris O'Grady: That's great. No, thank you. That's a lot to look at. And we're starting to hear more and more of longer lists as people are putting their list together as the market's going to do what it is creating some distress bonds backing up, et cetera. So thank you for that. Bill, it's the bottom of the hour. It's a Friday. We can't thank you enough. I mean, obviously, you sit up there in Connecticut. A lot of people come to see consultants yourself as well. And after this discussion, hopefully, everybody, if you have something topical, reach out to Bill and his team for a meeting. As we said, we're hosting these cocktail events around the country. People want to be out and about. People want to be engaged in person. And I think it's going to be a pretty busy fall in terms of trying to get portfolio managers around and getting meetings with people. And the ideas are starting to flow. So, Bill, we can't thank you enough for your insights today. And we look forward to crossing paths soon.

William Kennedy: All right, thank you, everyone. Have a good weekend.

Dan DiDomenico: Thanks, Bill.

Tim Dolan: Take care.

Dan DiDomenico: Yeah, take care.

Robert Morier: Thank you, Chris and the team for that insightful interview. If you like what you heard, check out dakota.com and register for the next Dakota 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.