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EPISODE 143:

Fixed Income and the Future of Asset Allocation: Inside the CIO Mindset with Nick Gentile



Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, investment consultants, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our Dakota Live content, please check out our website at dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes 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 very happy to introduce our special guest today, Nick Gentile, Interim President and Chief Investment Officer at the Knights of Columbus Asset Advisors, where he oversees more than \$29 billion across insurance, general account assets, and external strategies. Nick, welcome to the show.

Nick Gentile: Great to be here. Thanks for having me.

Robert Morier: Yeah, thanks for coming to Philadelphia. It's almost October. Eagles are 4 and 0. The Phillies are in the playoffs. It's a good time to be in Philly.

Nick Gentile: It is. A little jealous being a Giant fan. But the Yankees are in the playoffs, so that helps.

Robert Morier: Yeah, and versus Boston. I know your colleague is here from Boston. So hopefully you guys are on a speaking basis.

Nick Gentile: Yeah, we'll have a little action on the series coming up.

Robert Morier: Good. I like to hear it. Well, we're going to dig into a lot of different subjects today. Securitized credit, managing through the rate cycle, what stewardship looks like when you're investing for policyholders, pensioners, and

charitable missions. But before we get into that, I'm going to read your biography for the audience.

Nick Gentile: Sure.

Robert Morier: Nick Gentile is Interim President and Chief Investment Officer at Knights of Columbus Asset Advisors. He oversees approximately \$29 billion spanning the Knights' insurance general account and externally managed strategies. A fixed income specialist, his experience includes residential and commercial mortgage, asset-backed government and agency sectors. He previously served as co-head of fixed income and has held roles across research and trading. Nick earned his BSBA in Finance from Bryant University and is a member of the CFA Institute and CFA Society of Hartford. Nick, thank you again for joining us. Congratulations on all your success. Congratulations on the new appointment.

Nick Gentile: Thank you, I appreciate it. It's been an exciting, exciting journey at the Knights.

Robert Morier: Were you ready for it?

Nick Gentile: No, I don't you could ever be ready for a big change like that. But we have a great team, so that's made the transition very easy and very successful so far.

Robert Morier: That's wonderful. Congratulations. We appreciate it. For our audience who are a little less familiar with the Knights, we did have the opportunity to speak to your predecessor, Tony Minopoli, earlier in the year, but we're very excited to have you on board. I suspect there's been a lot going on, but maybe just an overview for the audience to give them a sense some context.

Nick Gentile: Most people are familiar with the Knights from their local towns, the councils, doing charity drives, things like that. So, it is a large Catholic men's fraternal organization. But we do have an insurance company. We're a \$30 billion insurance company selling whole life, term life, annuities, long-term care, et cetera, to our members and their families. Over 10 years ago, we launched our asset management subsidiary, Knights of Columbus Asset Advisors, to manage the general account assets of the parent insurance company, as well as offer the Catholic philosophy of investing, to really anyone in the United States, individual Catholics, institutions, schools, parishes, dioceses, et cetera.

Robert Morier: How does that philosophy, that mission, influence portfolio construction? When you look at the entire remit of responsibility for Knights, and

you and your office, how does that philosophy permeate into the portfolio construction and asset allocation?

Nick Gentile: Sure. So, it's first and foremost, what we do. It's core to our DNA. Our Catholic identity is who the Knights are. It's the Catholic difference, we like to say. So, the first decision we evaluate when looking at a security, or strategy, or a fund, is this compliant with Catholic social teaching, right off the bat? And if it's not, it's an easy way for us to say, no, and move on to the next thing.

Robert Morier: Well, how about those non-negotiable principles that you use to align things like risk, income, liquidity, and preservation across all of these pools?

Nick Gentile: So, I like to think of it as a giant sorting machine, because we encourage our analysts to come up with any idea they think is valid. So, our first check is going to be, is this compliant with Catholic social teaching? Now we have an easy way to do that. It's the screening list, right? If it's a corporate bond or equity security related to a company that is in conflict with moral theology, it's an easy way to say no.

There are some gray areas as well. We like to put ourselves in the shoes of our investors. Is this something they'd want to own as someone who places a high priority on the Catholic faith? So that's one.

Two, does it fit within our IPS rules for whatever account we're looking at? We do manage the general account, which is a regulated entity. We also manage a variety of separate accounts that have their own IPS guidelines. We have our mutual funds that we have a particular strategy for. So, the security has to fit within our parameters. Then lastly, does it work from a relative value standpoint? For that pocket in the portfolio, is that the best place for the incremental dollar? It's a total return concern, it's a liquidity concern, and really, a credit quality concern on the fixed income side.

Robert Morier: You mentioned the analysts, the team. Could you take us through the structure of the team? So, what does it look like today? Who is responsible for what? And how do you sit within that framework from an oversight perspective?

Nick Gentile: Sure. So, we in the fixed income side have a typical pyramid structure, so to speak. So, the head of the whole group is Gil Marchand. He's the head of fixed income for Knights of Columbus Asset Advisors. He oversees all day-to-day portfolio management trading analysis functions.

Before I entered into my new role, I was running the securitized product section of the portfolio. So, at Knights, we like to think of fixed income into two main food groups. There's a securitized product side, which is all the acronyms and all the things that cause the financial crisis, and then there's the corporate credit side, and that's what Gil was responsible for.

Robert Morier: Is it the same for the external manager program? So, when you're looking at managers that are outside of the Knights, is it the same team, are you employing the same types of criteria, as it relates to your investment approach?

Nick Gentile: Great question. So, we never built out a dedicated alternative investment team or external management team. We figured it would be best to have cross-function training. So, our credit team and our securitized product team handle the evaluation of a particular manager, depending on their strategy. So, first lien debt, mezz debt, that's going to be guys on the corporate credit side. If you're doing real estate debt, real estate mezz, that's going to be our securitized product team.

Robert Morier: That makes a lot of sense. How about alternatives? Is there any private credit in there?

Nick Gentile: Oh, we have lots of private credit. So, we have about \$2 billion allocated to alternative assets right now. We've prioritized more of an income focus, a stability focus. So, it's a lot of private debt where it's first lien or mezz. We have a lot of real estate debt in the portfolio. So, we try to keep our big food groups there. Just we think it works better for the insurance company. And then we have a satellite strategy where we tack on smaller niche or your non-correlated strategies that we feel could really add a tremendous amount of value to the surplus component of the insurance company.

Robert Morier: That's great. Thank you for sharing that. Well, why don't we start with the securitize, then, your old world. I know you're still in it, but when you think about all those acronyms, walk us through your current playbook as it relates to RMBS, CMBS, ABS? Where is spread compensating for structural and collateral risk today, and probably as importantly, where isn't it?

Nick Gentile: So great question. And over the past several years, we've really placed a lot of focus on the securitized part of the portfolio. After the crisis, after COVID, with rates so low and spreads so tight, it was really hard to find value in meeting our liability yields and securitized product space. So, the portfolio became very corporate credit heavy and a lot of BBB corporate credit. Once the Fed started increasing interest rates, implementing quantitative tightening, mortgage spreads widened out a bit, we really started allocating pretty heavily to longer duration, predominantly agency structures, where it's on the Reserve side or the commercial mortgage side. We've always been big players in the esoteric, asset-backed security space. It's where I grew up from. That was my first job. We still think there's value there, especially compared to corporate credit. But you really have to be careful on the story you're lending against. As you know, Wall Street can be very creative with how they package securities. So, you have to look past the narrative and really figure out what are the nuances of the security, where it's in the

language or the waterfall, that can really catch you off guard and be the difference between getting full principal and interest or taking an impairment.

Robert Morier: Interesting. So how are you balancing, then, carry versus Convexity with the curve where it is today? And any preferred duration, a home base?

Nick Gentile: We were pretty short our liability for a long time, especially coming out of COVID. Now, given where all-in yields are, you look at how we're matched up on asset liability basis at the insurance company. We've been extending duration. You're locking in attractive yields. We were buying a lot of 6% government guaranteed paper. We think that's pretty attractive from a risk-return basis. And you're also seeing that for our pension or LDI clients. They see just the yields they can secure now in fixed income. They're taking money off the table from public equities and just trying to immunize the liability. And we're supportive of that. I think if you look at our total return strategies and funds, and we still like being on the shorter end of the curve, we were pretty heavy front-end buyers. We've moved out a bit to the three to five-year segment. So, the short belly, if you could call it. The long end still is pretty volatile. And I think there's a lot of questions about fiscal policy. Is it sustainable? Can the long end be controlled? We'd rather just be on the front end. Continue to clip carry, because we think there's still attractive profiles there, and just mitigate your volatility risk.

Robert Morier: I'm imagining your meetings right now with external fixed income managers. How do you cut the time off in terms of making sure that you stay within an hour or two? Because I can imagine talking shop as a trader yourself, or at least a trained trader, speaking with external traders in the bond market, particularly given everything going on right now. So where does the discipline come from, from your perspective, when you think about your career, to be able to really narrow in and understand what gives somebody a competitive edge?

Nick Gentile: I think it's the experience of going through decks and analyzing securities, first and foremost. Same thing when evaluating an external manager. The deck is always going to present the best-case scenario, them in the best light. It's like a dating profile. Everyone's going to lay it out as we're the best, our strategy is the best. You really have to start digging into the details and figure out, hey, is this a sustainable strategy? Is it repeatable? Is it provable? Because a lot of times, it's people just trying to catch a hot ticket, and just generate fees and revenues, especially when it comes to private credit investing. It's the Golden Age, as we've heard. You really have to see, are these guys experienced in doing it, or are they just trying to latch on to what's hot in the markets today?

Robert Morier: I'm thinking about really funny social media posts about fixed income portfolio managers, social media profile, and how long it probably would be

and filled with graphics as to why they're so suitable for the person evaluating them. It's really interesting and a great way to think about when you're sitting across really being able to see all that information but dial in to what's most important. So, when you think about your own experience, though, trading esoteric ABS, what edge from that seat do you think is coming with you into the new interim CIO role?

Nick Gentile: It's been a journey. So, coming from the analysts and the trading side, you're extremely detail oriented. I remember being an analyst, you put on your AirPods in the morning, you sit there, and you crank through spreadsheets for 10 hours. No one really bothers you because you spend all day looking at an individual security. Now, the CIO function, I'm covering every asset class that the company is involved with. We have a huge team of people, over 40, doing direct investments for us on fixed income and equities. So, you don't have the ability to spend that much time evaluating individual security. So that's why we're relying on our team and trusting their judgment and the education we've put into place to make sure our processes and procedures are carried forth throughout the analysts and traders that we have.

Robert Morier: So, you had talked about how Wall Street likes to package these securities and create new products. Wall Street media likes to talk about bonds right now and that bonds are back. So, when you are thinking about the current market environment for fixed income, how are you discussing the opportunities with your clients?

Nick Gentile: Here's the difference between spread, which is what we look at on the fixed income trading and analysis side, and then yields, which is really what our clients care about the most. Spreads are insanely tight, multi-decade tight for corporate credit. Even in a lot of securitized product spaces, the spreads are very tight for the risk you're taking on. So, it doesn't make us very comfortable from an asset management, portfolio management perspective. But when we're talking to either an individual, or a pension fund, or an institution, they see yield. They don't particularly care if spreads are 10 basis points tighter than they were a year ago. They just liked that you could lock in mid-5% for investment grade securities. They'd rather buy that yield at tight spreads than wait to see yields go down to 3% or 4% level, even if spreads widen out 10 or 20 basis points.

Robert Morier: In terms of asset classes that would be off limits, maybe not necessarily off limits, not that they'll never be in the portfolio, but asset classes that don't tend to have as high of a profile or an allocation within the external component of the portfolio.

Nick Gentile: Sure. So, we haven't had a lot of venture capital or private equity, traditional LBO private equity in the portfolio. That's not to say that we're never

going to do that. We've always just been focused on stability, and security, and certainty of cash flows. When we think about our founding mission was to take care of widows and orphans back in the 1800s. We still have that philosophy today. So, we want to make sure our members capital is invested in a prudent, conservative manner.

Robert Morier: The increase in private credit, both in the markets as well, it sounds like, in your portfolio, to a certain extent, \$2 billion of which is in private credit, there seems to be more crossover, though, these days between private credit and private equity. Traditional PE managers doing credit, and now credit dabbling into PE. How do you manage or navigate that crossover opportunity within your managers?

Nick Gentile: Yeah, so the big private behemoths have both sleeves, in addition to many others, as you mentioned. You really want to make sure there's no conflict of interest. So, we're lenders. We want to deal with true hard and fast lenders, where they're not going to be afraid to go and take collateral if it's necessary. Instead of trying to work through deals with the private equity sponsor and kick the can down the road on a security that may be in trouble or a company that may be in trouble. It's probably why you see default rates in private credit be lower than their BSL counterparts, just because there's so many extend and pretends in that. So, from a partner side, we want really hard, tough lenders.

Robert Morier: That makes a lot of sense. There have been a couple notable bankruptcies recently, particularly on the auto front, though. What kind of questions is that raising from your clients?

Nick Gentile: Sure. I think that's an example of you really have to do your due diligence on a security. We remember seeing Tricolor presented in the market by the banks, it became a \$2 billion platform in the ABS markets. The theory behind it may be made sense to some people, but that's an example where suddenly there's no collateral. You have to be very careful. That's why it's best to stick with your proven issuers in a space. For subprime, you think Santander. AmeriCredit, they've been doing this since the '90s. The fly-by night guys, you've seen those securities really struggle. And we haven't added any of those to our portfolio.

Robert Morier: So, what's your liquidity framework, then, for an insurer? And how do you pressure test it under stress?

Nick Gentile: Sure. So, the Knights place is a big priority on liquidity. I'd say if you look at our portfolio and look at the things that are non-tradable, so to speak, so that's all your alternative investments, your CMLs and RMLs, it's only about 10% of our balance sheet. I would say our large peers, their medians in the 30-percentile range. You look at the private equity annuity sponsors, they're running 80% non-

tradable. So, we've always placed a big priority on liquidity. Now, the portfolio spins off a significant amount of cash, whether it's through interest or principal paydown. So, we have ample coverage to cover our liability needs. But we work hand in hand with our actuarial teams to just run through stress scenarios to make sure that in the worst-case event, can we raise that liquidity fairly quickly?

Robert Morier: Can you take us through that drawdown playbook?

Nick Gentile: The one great thing about being an insurance company is that you can often be the liquidity provider to the market. So, I would say, my best experience trading, and the most fun I had trading, was during the first couple of weeks of COVID. So, if you remember, the markets were collapsing. Sitting on the trading desks, we're seeing huge bid lists come out every day. And the banks were constrained by their risk managers. They have balance sheet constraints anyway, so there's no bid in the market. So, since we had a ton of liquidity available, we were able to buy amazing assets, we've done all the work on and love, at once in a lifetime price. I remember buying big chunks of AAA CLOs with dollar prices in the high 80s, AAA prime autos in the low 90s. But it lasted a week, but it was a fun week.

Robert Morier: How about governance? How do you translate investment committee guardrails into portfolio management actions, those day-to-day decisions that you have to make, you and your team?

Nick Gentile: It's really communication. We have a pretty flat organization where we have daily meetings with the insurance company investment team. 10:00 every day we run through what's out there on the macro front, what our cash availability is in the portfolios, and then what we're seeing on a relative value standpoint. Our investment rules are pretty broad at the insurance company. So, there's a lot of leeway. But we always make sure that we're on the same page from a philosophy standpoint. And then in addition to that, we make sure all our portfolio managers are meeting every week to share ideas, both on the fixed income and the equity side, because we want our house view on risk to be aligned across all those segments.

Robert Morier: Before we talk about the external program, I'm just curious about your role now. You're Chief Investment Officer, Interim CIO. You're in a leadership position. When you think about the leadership qualities that you believe make for a good chief investment officer, what are some of those things that you're trying to bring to the table now with your team?

Nick Gentile: Sure. It's communication. That's first and foremost. I'd say, making sure that everyone's on the same page with the direction we're heading, and allowing people to bring forth their own ideas and really get buy in that they're a

part of where we're going as well. That could be a junior analyst with one year of experience or someone who's been trading corporate bonds for 25 years. Everyone's input is extremely valuable. And then it's just the work ethic, where we have a mission, which is unique at Knights. We have a specific mission to bring forth into the world, into the markets. And we need everyone to understand that, because once you have that, it gives you a bit more pep in your step. It could be a grind. You remember looking at your Bloomberg screens, your Excel screens all day, every day. But when you understand your purpose for what you're investing in and why, that helps make those tougher days fly by a little quicker.

Robert Morier: When you're sitting across from someone who's a potential candidate for your team, what questions are you asking them that you think or believe yields the most results for them to be a good player, a good part of the culture at Knights, and specifically on the investment side?

Nick Gentile: You're looking for curiosity. Are you an intellectually curious person where you'll go down a path because it interests you? Because that's the way I think you learn best. Instead of being told what to do every single time, go out, develop your own ideas, work through them, then you're going to be able to better explain them and pitch them early on as a young analyst. And that's what's really going to improve your career, because you're going to add a lot of value to our process.

Robert Morier: When you look at what's happening in the industry today as it relates to acquisitions, consolidation, and then democratization, particularly of private markets, there's a lot of big forces kind of coming together, a little bit of a perfect storm maybe, in terms of opportunities for asset businesses like your own. How do you see those big forces interacting and then impacting the Knights?

Nick Gentile: Sure. So, we've seen it on the private side, the big behemoths continue to get bigger and bigger every day by just bolting on platforms. So, one thing we try to manage is just our exposure to a particular manager. There's Blue Owl, for example. We have a lot of exposure to them because they've added a ton of different asset classes, KKR, Ares, et cetera. So, we just try to make sure that we're not too concentrated with a particular firm. And then on the true asset management side for liquid investments, it's getting tougher. You're seeing industry consolidation. RIAs are being rolled up into big platforms. So, there's fee compression across the board. And people are trying to figure out where is the best way to earn the next dollar. And that's where we're seeing a push into retail markets for private assets.

Robert Morier: So, when you think about your external manager program for the DB plan, as well as the DC plan and the charitable assets, what makes a manager worth allocating to today, beyond the presentation? So, when you're sitting there...

and maybe you could actually take us through the cycle, if you wouldn't mind. So, when you think about the underwriting process, it's the first time you've sat down with a manager. You know the asset class is something that you're looking for, but you're trying to get to know that person. So, what makes that manager someone that you would allocate to?

Nick Gentile: And this goes back to trying to look past the dating profile, right, of the deck. So, we like to have meetings in person at our office. You get a real sense of the team when they're in front of you instead on Zoom, or Teams, or what have you. You let them tell their story. And you're trying to ask as many questions as we can. And then there's subsequent rounds of follow-up questions. We're looking for case studies. We really want to see, because one of the challenges, Rob, is that a lot of these strategies started after the crisis. They haven't really been tested through a true economic cycle. So, you really want to get a sense of, is this something that's going to be robust through a cycle instead of in the heady markets we see today? We're going to do reference checks, due diligence checks. Again, walk through people instead of the leaders of the fund, more the day-to-day, the boots on the ground types understand, what's the process here? Is it key man risk issue or is the team fully on board and the process is robust to protect you against that key man risk? And then lastly, I'd say, is this a firm or an entity that's a true investor, they want to be your partner, and they have a strategy they believe in and want to share that with? Or is it a firm focused on raising AUM to generate fees and income for the team?

Robert Morier: It's an interesting point that you mentioned that strategies, a lot of these strategies, haven't been tested. And to your point, neither have the people. A lot of the employees who are working for these private credit and public credit shops weren't working during the financial crisis. So, they haven't experienced that true test. So how do you uncover whether they have the drawdown discipline that you have at Knights that you described earlier?

Nick Gentile: You really have to just walk through scenarios with them, because they don't have the data to show that they've done it. So, you say, walk me through a scenario where you're getting huge markdowns in the portfolio. How do you resolve that? How do you reallocate capital? How do you rescue a particular investment? And then you have to say, is that going to uncover better opportunities? Sure, you're targeting a 10, 12 IRR now, but if we get into a stress environment, is our IRR going to shift higher because now we have fresh ways to deploy capital, or we're going to be looking at lower returns because we weren't positioned right for the risk that suddenly appeared?

Robert Morier: So, for your defined contribution menus, how do you think about active and passive design?

Nick Gentile: Sure. So, this is where you have to wear two different hats.

Robert Morier: Like two personalities.

Nick Gentile: Exactly. So, running an asset management company, we're big believers in active management. We have one passive fund in the market. Everything else is active. But then you have to think about what's in the best interests of our planned participants. And we all have seen the studies. It's very difficult for an active manager to perform in excess of the benchmark over a very long time periods. It's very rare. And then it's fee compression as well. So, in our DC plan, we have a broad suite of options for our employees. There are your conventional index funds, very low cost. There are active strategies that we believe are run by experienced teams that have proven their mettle for a long time. And then, of course, we provide faith-based options for our employees to invest in accordance with their faith, if that's a priority for them. But in terms of how we want our participants to invest, we want them to set it and forget it. That's why target date funds are so great. We don't want people going in there and trading their 401(k)s around, especially if they have zero experience in the markets. So, the rise of target date funds is tremendous. We're trying to do the same thing for Catholic institutions out there. We have a target date solution, and that's what's best for employees.

Robert Morier: When you think about the external manager program, again, how long is that typical underwriting process for you? I know it can vary. I would suspect it can vary. But when you think just on average, managing the expectations for the asset manager who's coming in and getting to know you, what does that typically look like?

Nick Gentile: Sure. So, it could take up to six months, if not longer, I'd say. One of the things we try to do right off the bat is explain what our budget is for external managers in over the next year, or six months, what have you. That'll give people a better sense. Hey, is the Knights able to allocate money now, or is this more of a get to know you and maybe next year there'll be money available? And then the back-and-forth process takes a lot of time. You have to run it through internal investment committee approval. It goes up to our senior executive team for final approval. So, it could take six months.

Robert Morier: Are there any third-party advisors, consultants, that you utilize either for sourcing or as part of the due diligence process?

Nick Gentile: Sure. So, as you can imagine, an institution as large as us, we get a tremendous amount of inbounds from managers. I could say my email box gets a couple every single day. So, we have that. We have a couple, third-party marketing

services who work with funds to introduce them to us. I would say, the only external consultant we have is Callan on our pension side.

Robert Morier: When you are in that underwriting process, and we're talking about that courtship and getting to know the team and the people, what are some of the questions that you're looking for to uncover, similar to what I asked you before with your own team, to uncover whether or not that edge exists for that specific manager? And I understand the security; it makes a lot of sense. But there's also the fit. So, when you're thinking about portfolio construction as part of that Q&A, what do those criteria look for?

Nick Gentile: Sure. So right off the bat, do we have a spot in the portfolio for that asset class? We try to allocate or design a plan on a high-level basis. Those food groups, I mentioned before, private debt, private real estate debt, a little bit of real assets, and then real estate equity. So, we'll look at where our capital is available, and then we'll start throttling down our manager selection to fit that need. And then you sit down and try to get a sense of the team. And one of the good things we look for, is the founder of the firm still involved, or even the high senior executives? They may have gotten one or two funds off the ground. Now, did they check out and they're playing golf mostly, or are they still involved in the day-to-day nitty gritty of running the fund? That's a good sign, if they still are, because that means they really believe in what they're doing.

Robert Morier: Where are some of those spots that you're currently looking? There may not need to be an active search going on, but when you think about areas of opportunity, or potentially areas of under allocation, where are you looking to spend your time, at least in the next 6 to 12 months?

Nick Gentile: Sure. I would say secondaries have become a new asset class for us. We started our first private credit secondaries investment last year. We've done a little bit of PE secondaries, which is really our first foray into PE in general. We thought it was an opportunistic time. If we were going to build an allocation to private equity, let's look at secondary's funds, or trophy asset funds, continuation vehicles. I'd say more of those are probably going to be our focus going forward. And again, those small niche non-correlated things we love looking at as well.

Robert Morier: You mentioned real estate. What's the outlook on real estate right now, both commercial and residential?

Nick Gentile: It's been tricky. So, on the [INAUDIBLE] side, we're large investors in residential and commercial. On the agency side. So, we're really not taking credit risks. It's mostly the convexity risk we talked about before. On the alternative side, we took our lumps a little bit on some of our debt funds, as you can imagine, with high office exposures. Those loans just don't work anymore. And the values of

those properties are not going to come back. I think now if you look at distressed or opportunistic strategies, it's a great time because there's still not a ton of capital being pushed through the market. There's a lot on the sidelines, but you're not seeing a lot of transactions. But if you have an experienced manager who could do conversions or workouts, it's a good way to deploy capital, I believe.

Robert Morier: Is that where you would allocate office space, when you think about office? Are there opportunities in office today?

Nick Gentile: I think there are. So even on the liquid public side, the [INAUDIBLE] side, we look at seasoned conduit CMBS deals. If you go through and look loan by loan and you get a pretty good sense of, hey, this loan could probably refi pretty soon, that's a good way to pick up some alpha for a high quality CMBS security.

Robert Morier: I was at a private credit conference last week, and it seemed like the topic du jour was Europe. So, looking overseas. So, when you think about your portfolio today, particularly as it relates to opportunities that are being presented to you outside of the United States, have you seen a shift in managers' opportunity set as it relates to US versus non-US, both in private credit and other private securities?

Nick Gentile: We have. And I would say our portfolio is still very US-centric. It's a home market bias, right? But I think you're seeing more managers flow to different parts of the world because they need to find ways to deploy capital. They've raised it. Now it needs to get invested somewhere. So, if the opportunity sets in Europe doing private lending, well, they'll go to Europe and do private lending. We see residential lending over there sometimes, but not a huge space we're involved with.

Robert Morier: How has your process evolved going from analyst all the way to interim CIO? I think, for me, it's really exciting to hear about and talk about, because you grew up at the firm. And you've made it, at least on an interim basis. I hope for the best it's going to be on a permanent basis, but it's exciting. And I think I say that mostly as an educator. I think so many of our students these days are looking for that job, that place to work, hoping that they get that type of longevity. They may not admit it, but I think they're looking for it. So how did you find that longevity? And then what's that evolution look like for you?

Nick Gentile: Sure, and it's been a great experience. I started the Knights as an intern. Previous, my summer job was a janitor at a local church and school. So Tony Minopoli, who you've had on the program, I knew him. He said, "what are you studying in school?" I said, "finance." He said, "do you want an internship?" I said, "sure, that sounds great. It's better than cutting grass." So, I've been at the Knights ever since. It's been a great place to work. Tony was a great mentor and leader for the firm. I worked for him my entire career. And they really gave me an opportunity.

They had the doors open, and they left it up to me to walk through them. And it's something I'll always be appreciative for the rest of my life. And I would say, when you're talking to your students, the best advice I could give is just present. Always show up. Be a problem solver. Be clear in your ideas. Don't be afraid to present ideas and just stay in the mix and think of new ways to help your manager, your leader, your portfolio guy. Really make a new decision.

Robert Morier: I was thinking about your journey as well. A question that I had put forward in advance of this conversation is, what did you have to unlearn because you see so much. You see the development of an organization. And sometimes when you're growing up from the farm leagues and you make it to the majors, you see a lot of challenges with the organization as you make your way up. So now that you're there, what do you think that you need to somewhat unlearn as it relates to the role and your responsibilities?

Nick Gentile: So, for me, it was going from focusing on a mile deep to a mile wide. Coming from the analyst side, like we talked about, you spend all day looking at an offering memorandum for a particular security. Now I'm responsible for all the asset classes. And then as president of the asset management company, I'm dealing with marketing, with sales, with doing accounting, projection work for the firm, in meetings constantly, as you can imagine, at a 1,000-person organization. But what's great is the Knights, as an organization, is trying to shift and modernize as quickly as possible. So, they've recognized things that maybe we are slow to do as a firm, and we're changing that. Whether it's focus on data modernization, really buying into what we're doing as a faith-based investment manager and being the leader in that, as it becomes more popular in markets today. So, we're doing it both on my personal side, trying to change and cover a lot of things and move quickly, at the asset management company side, and at the parent insurance company level. So, the Knights, even though they were founded in 1882, we're still trying to be dynamic and forward thinking.

Robert Morier: That's wonderful. Thank you for sharing that. How about team design? Any changes on the horizon as it relates to the team? What structure do you think fits a \$29 billion asset management organization like the Knights, as it relates to the team that's in place?

Nick Gentile: Sure. So right now, the way we run it, we have a senior group of leaders. That's all the heads of the product lines. So, a head of fixed income, head of equity. Andrew, who's in the studio today, our head of sales and marketing. Rick, our COO and CFO. We're all getting together very frequently and making sure the firms on the right direction, both from a day-to-day management standpoint and investment philosophy standpoint. Then we get a little bit more flexible within the asset class to have team structure fit how they view portfolio management. So, we talked about, fixed income is more of a pyramid shape, I'd

say, which is traditional. On the equity side, it's more PM-led, where we have a number of portfolio managers for the various strategies on the equity side, and they share a small group of analysts to look at company securities. So, I don't think there's one right answer. It's best to just be flexible, for one, the asset class you're managing, and two, the personalities of the employees that you have.

Robert Morier: When you have a very specific mission, it can be, at least some organizations have struggled with cognitive diversity, making sure that there are different opinions in the room. How do you ensure that cognitive diversity remains when you have a very firm mission?

Nick Gentile: It's a great question. I'd say it's even more challenging for us because our team on the fixed income side skews younger, a little less experienced, maybe people who might be a bit gun shy in some instances. So, the way we try to do is just have open conversations, where it's like the Socratic method. We're just asking questions and letting anyone give an opinion about whatever topic we're discussing. I always try to go last in those meetings. I don't want anyone to defer to my idea as the right one, just because I have final say on the investment. So, we want to be very shared, flat, dynamic environment where people can just give their opinion, and there's no right or wrong answer right off the bat. Because even if your idea is not fully fleshed out, that discussion can help you either improve it or learn where you made a mistake in your process.

Robert Morier: So, I'm thinking if you came into the classroom and you were following a private equity manager or a venture capital manager, now is your turn to talk about fixed income. How do you convince a student to start a career in fixed income?

Nick Gentile: So, I always say that we're not the most exciting people at parties, unless you find someone else in fixed income, and then you could talk for hours, as we figured out. I would say the breadth of the market is so big. There are so many different pockets where once you get into fixed income in general, there's so many different avenues you could go down. Frankly, when I was in school, we didn't have a huge, fixed income focus on the curriculum. It was very equity heavy. It's what's on TV, et cetera. But when I got in, I didn't know anything about esoteric asset-backed securities. All of a sudden, I'm analyzing bonds backed by Dunkin' Donuts franchise royalties, shipping containers, commercial aircraft, which is fascinating. And then if you want to get into the private markets, you start doing direct lending, you do asset-based finance on the private side. So many different avenues to go down. And the market is humongous. So, the opportunity for a career is great.

Robert Morier: Yeah, I always say to students, learning fixed income at the beginning of your career is advantageous because it's a base language. Once you

have that language, you can really take it in any direction. So, you can really become proficient in a lot of different areas. So, thank you for sharing that. You had mentioned being present as an area of advice for students. What are some of the other areas that you would advise students coming into a career, not just in fixed income, as we had just talked about, but really a career in asset management, in finance? We talked about the changes that are happening in the industry. So how would you advise someone coming out of school?

Nick Gentile: I think it's all about idea, the clarity of your ideas. We've always practiced writing. Writing is the most effective way to communicate an idea, especially a complex one. You think about whether doing a VC investment or a P investment, or even on fixed income, some concepts can be pretty tricky to walk through, and you need to be effectively able to communicate that. So constantly practice your writing. Constantly practice your public speaking abilities. Communicate that idea effectively in front of an investment committee. They don't have a lot of time. They want to hear what's the pitch, and how is it going to work, and where are the risks. And then be a problem solver. And don't be afraid to learn different tasks. Just because you may be an analyst on a corporate credit side, doesn't mean you can't do a creative thing on portfolio analytics to uncover some hidden value or hidden risk in the portfolio. So just be willing to pitch in wherever the company needs you to be.

Robert Morier: It's funny, your comment on writing is leading me to a question on technology. Because of artificial intelligence and things like ChatGPT, it's so much easier to get someone else to write for you. It might look like you are writing, but we know, for the most part, it's not. So, when you think about technology and how technology is changing both the organization, so in terms of how you manage your team, as well as the investment opportunities, what are some of those bigger picture thoughts that you're having as it relates to technology and innovation?

Nick Gentile: And to your point, we can't let AI writing ChatGPT become a crutch. And I don't know why I'm able to, but I could really tell when someone should use ChatGPT to write, and it irks me. So, I always go back and say, how about you try writing this on your own? Because when you're walking through something, you're writing in your own words, that's really where you're getting the understanding. Just because you produced a credit analysis report from AI software, you probably don't know what exactly you're talking about, especially at the younger analyst level. We have to see AI as a tool, easy way to gather and synthesize information, great for comparing legal documents. Especially when you're looking at complex, securitized securities where you have OMs, where there's little loopholes in those 400-page documents you want to be aware of, AI is a great tool to help uncover those. But I would say it needs to just remain a tool and not a replacement for what people can bring to the table with their own ingenuity and talent.

Robert Morier: I appreciate you sharing that. How about some of the mentors, people who have helped you in your career? You mentioned Tony earlier, but anyone else? And what were some of the lessons that you took from them that have really impacted the way that you now lead your team?

Nick Gentile: Sure, yeah. So Tony was great from a firm leadership perspective and a big overarching investment philosophy. He was our CIO for 20 years. But I was lucky to have Neil Jordan be my portfolio manager when I first started. So, Neil joined the Knights in 1987. So, a ton of institutional knowledge. Great, he did corporate credit and then he was a securitized product guy. So that's where I learned everything from. He was not only extraordinarily hard working and disciplined and demanding, which is good, especially when you're coming up, you need that kind of rigor, but he's also one of the most genuine nice people I could imagine. And he really allowed me the room to explore different ideas. He'd give us feedback, say course correction here and there. But that was where I really became quickly experienced in all the different segments of the market. And I owe it all to Neil.

Robert Morier: I've never met a fixed income portfolio manager who doesn't have a favorite chart at the moment. So, when you think about your favorite chart, what's the best chart you've looked at this quarter?

Nick Gentile: Yeah, it's not even fixed income. Apollo put out a chart showing the rates of AI adoption are slowing on large firms, which I thought was pretty intriguing.

Robert Morier: Interesting. Do you think that's because they're trying to build their own in-house, or they are trying to assess the landscape and what it means for the near to mid-term?

Nick Gentile: I think a lot of firms got caught up in the fear of missing out, where everyone's talking AI. I saw some stat that 80% of S&P 500 companies mentioned it in their earnings calls. So, you just need to say you're doing something AI to make your investor base happy. I don't think a lot of companies have figured out, well, how do we actually apply it to our business use cases?

Robert Morier: Yeah, students aren't mentioning it at all, because they're pretending like they're not using it. So, it's the complete opposite in the classroom. One of the things, speaking of students, and I think one of the challenges with fixed income is that at least looks perceivably more quantitative. So, when you think about your favorite bond math shortcut, what's something that you've adopted that you think could help students?

Nick Gentile: Oh, I tell our first-year traders and analysts all the time, if it's a premium run, it's a call. If it's a discount run, it's a maturity. So, you don't get caught off sniped by a sell side trader.

Robert Morier: Good advice. So, what's one book that you would recommend to every junior fixed income analyst?

Nick Gentile: I mean, I'm supposed to say anything by Fabozzi. But I would say Liar's Poker, for sure. It's a great read, and it gives you a sense of what a bond trading desk was like in the heyday of Wall Street.

Robert Morier: Is New Haven a New York town or a New England town?

Nick Gentile: Would split, I'd say. I think it leans more towards New York. I'm a New York fan, as we talked about. So, I'll lean towards New York.

Robert Morier: Thank you so much for being here, Nick. It was a pleasure to speak with you. We appreciate your time, your insights into your new role. We wish you nothing but the best of luck and future success.

Nick Gentile: Great. Thank you, Rob. Great to be here.

Robert Morier: Thank you for being here. If you'd like to learn more about Nick and the Knights of Columbus Asset Advisors, please visit their website at www.kocaa.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. And for more content, please visit our website at dakota.com. Nick, thank you again for being here. And to our audience, thank you for investing your time with Dakota.