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EPISODE 145:

The OCIO Playbook with Prime Buchholz



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, 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.

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Andrew O'Shea: Thank you. Great to be here. Excited to hear from Adam.

Robert Morier: Yeah, we are, too. Thank you for taking time off the road. I know it's a busy season to be hitting different markets. I'm sure you've been out and about.

Andrew O'Shea: Yes. Yeah. Busy fall. Summer ended, and it's been very busy since.

Robert Morier: And I was thinking a lot about Dakota Research and the Metro Areas, and thinking about the Greater Boston area, specifically Portsmouth, New Hampshire, which is an hour north up I-95 from Boston. And I am very happy to introduce our guest today. Adam Lerner, managing director with Prime Buchholz. Adam, welcome to the show.

Adam Lerner: Thank you for having me, Rob. It's a true honor.

Robert Morier: Oh, thank you. Well, we're so happy that you're here. Just on a personal note, when I started my career back in 2002, one of the first calls I ever made was to Prime Buchholz in Portsmouth, New Hampshire. I took a trip up. Didn't know what I was doing or talking about, but they were very courteous and kind, and I appreciate all these years later that we get a chance to speak to you, Adam and Prime Buchholz. So, thank you so much. And before we get started, Adam, I'm going to read your biography for the audience and introduce the folks to Prime Buchholz. Founded in 1988, Prime Buchholz is one of the industry's leading independent investment consulting firms, advising on over \$80 billion in assets for a diverse range of clients, including colleges and universities, foundations, endowments, hospitals, pension plans, and other long-term investors.

Headquartered in Portsmouth, New Hampshire, with offices in Boston and Atlanta, the firm is known for its deep commitment to mission-driven organizations and its focus on building customized research-driven investment programs. Prime Buchholz provides strategic advice across asset classes, from traditional public markets to private equity, venture capital, and impact investing, helping clients achieve their long-term financial and mission-oriented goals. Adam Lerner joined Prime Buchholz in 2007 and brings more than 29 years of investment industry experience. He conducts manager due diligence across the public equity space, with primary coverage of both domestic and global equity managers. Adam serves as chair of the firm's equity asset class committee, leads the performance working group, and is a member of both the investment committee and the senior management group. Before joining Prime Buchholz, Adam was a member of the Global Investment team at the Massachusetts Institute of Technology Investment Management Company and a senior research analyst focused on equities at Kobren Insight Management. He earned his bachelor's degree in economics and mathematical methods in the social sciences from Northwestern University and is currently enrolled in Columbia Business School's executive education chief investment officer program. Adam is also a member of the CFA Institute and the CFA Society of Boston. Adam, thank you again for being here. Congratulations on all your success. We very much look forward to the conversation.

Adam Lerner: Thank you, Rob.

Robert Morier: Another aspect of what Dakota does as part of the Marketplace is Dakota recommends. So, I know you're sitting in Boston today, but for our audience just to kick things off, if we were to be there in person in Portsmouth, Adam, where would we go to lunch?

Adam Lerner: You would go to Moe's. Excellent sub sandwiches. It's been about 10 years now; we moved out to the Pease Air Force base. We've got a huge office

space there. But in the early days of the firm, we were right downtown. You were a minutes' walk from a ton of beautiful shops and restaurants.

Portsmouth, for those of you who haven't been, it's a wonderful town. And as Rob was saying, it's only an hour's ride from Boston.

Robert Morier: And is the Red Hook Brewery still close to the new offices?

Adam Lerner: It's not too far. That's the go-to place for our team meetings, our after-office outings. It's a good time, Rob.

Robert Morier: That's wonderful. Thank you for sharing that. And thank you for our audience as well. We're always looking for new places, so we appreciate it. Well, let's start with your story, Adam. How did you first find your way into investment consulting and then eventually to Prime Buchholz?

Adam Lerner: So, I would share, my career path to finance and investment consulting more specifically, was far from predetermined just in terms of growing up. I had no family in the financial services industry. I had no connections. My mother, she was a party planner, and she was a clothing designer. Her father and his whole family, they were in the scrap metal business. Started that during the Second World War. And on my father's side of the family, him and his brother and his father, they owned a series of furniture stores. And the one piece of advice my father gave me over the years was never go into retail. So, I took that advice. And, I guess, basically, what I'm trying to say is, I was going to have to find my own career path. So just in terms of, again, why finance and how did I get there? I'd started at a pretty early age. I was always fascinated by mathematics, more specifically numbers and thinking about patterns and statistics. Being a huge sports fan, particularly in Boston, I was always obsessed with baseball and was an encyclopedia of sports statistics. I think I was also probably one of the first, even before it was an industry, an expert on sports analytics. I'd be telling friends and family about the benefits of the 3-pointer... this was back in the '80s and '90s... why weren't professional basketball players taking more 3 pointers. And then the last thing on sports before we go on to the actual stocks is for the past 35 years, one of my passions has been fantasy sports. I've played in fantasy baseball leagues for the better part of the past 35 years. And I could probably do a whole another podcast on that. But I think there are so many parallels between the idea of portfolio construction and the notion of building and drafting a fantasy sports team and managing it. But again, that's probably a story for another day.

Robert Morier: Well, I'll ask you one question based on that because that's very interesting. Of the teams that are in it or have been in it this year, what's one team that you think best reflects your fantasy team? So, who's put together the best roster this year in your opinion?

Adam Lerner: I think that even though they're losing the series right now, the Milwaukee Brewers. I think also Toronto. And again, it's not necessarily that they have the best players, but in terms of building the team, they have so much balance across both the pitching and the hitting. And one of the keys, whether it's winning a sports team, it goes from 1 to 25. It's not just about having superstars. It's about having balance. And again, that's the same thing, I would say, about building a portfolio. It's just as important to have diversification as it is to have a great roster of managers. And in our case, we seek to have both.

Robert Morier: Yeah, it sounds like you were talking about an asset allocation model. So, I appreciate that bridge into this conversation. Thank you for sharing that, Adam. I really appreciate it. Well, you've been with Prime Buchholz now for nearly 20 years. So, when you think about the experiences that you've gathered over that time, what's shaped your perspective on research and portfolio construction as well as serving clients over that time period? I'm just trying to think about talking to somebody with your level of experience, particularly in one shop, which is frankly refreshing to see these days. There's a lot of movement in the industry, but you've been there for quite some time. So, when you think about that arc, what are some of those experiences that have stayed with you?

Adam Lerner: Thinking back to graduating from Northwestern, my first job out of school was in fund accounting. Quickly realized that that wasn't the path I wanted to go down. But shortly after graduating, it was less than a year, I fortuitously came across an ad in a local paper for an RIA called Kobren Insight Management. It's located right near my home. I went to their offices, met with Eric Kobren who, by way of background, was an executive at Fidelity in the early to mid '80s. Left to start his own shop. He became essentially a pioneer of the mutual fund newsletter business. First started a mutual fund newsletter focused on Fidelity funds. This was at the time where Fidelity was among the kings of the mutual fund world. It was the time of Peter Lynch. Kobren subsequently launched a second newsletter that was focused on the entire mutual fund universe. And then from there, used his client base to essentially launch a very successful RIA business. So, when he brought me on in 1997, I had very little experience. It wasn't with the idea that I'd be doing any sort of research. It was with the notion that I was very meticulous at numbers and that I'd be putting together his newsletter scorecards, which tracked all the data and portfolio characteristics for the mutual funds. I also tracked the model portfolios that went into the newsletters, as well as the portfolios for the clients in the RIA business.

And what I would say, looking back 25 years, it's very different than it was now. The technology wasn't nearly as great as it was. We had a Bloomberg feed that would download daily mutual fund values. But everything I did was very mechanical, adding in dividends, including mill rates for bond funds. This was a process that every day probably took me between 60 to 90 minutes. And at the

end of every month, in putting together the mutual fund newsletters, which went out on the first business day of every month by mail, I might add, this was probably a four- or five-hour process. We'd be spending endless nights making sure that everything was lined up perfectly, that all the returns were spot on. That was my entry into, I guess, the asset management business. But because I became so proficient at that particular role, the firm gave me the opportunity to get more involved in the asset management side of things. So being 23, 24 years old, I had a great opportunity at a young age to be able to sit in on meetings, meet mutual fund managers. I wasn't asking questions so much at first, but I was surrounded by some great mentors. If I was to highlight a couple, I had two great directors of research when I was at Kobren Insight Management. The first was Bala Cumarasan who runs his own wealth management shop in Boston. And he basically taught me the notion of how to ask questions, how to prepare for meetings. I learned so much from him.

And then my second director of research was instrumental in shaping more of my thoughts on portfolio construction, strategic allocation, and, particularly, the power of mentorship. And that was Rusty Vanneman who was, up until recently, the CIO at Orion Wealth Management. He's been very instrumental in shaping how my career has progressed. From there, just to provide some more perspective on my career, I had a great opportunity in 2004 to head over to MIT Investment Management Company. I became a part of their public markets team. This was before they were taking more of a generalist approach. And during my tenure there, there were two great CIOs... Allan Bufferd, who was in the latter stages of his time there, and then was there in the very early days of Seth Alexander. And I'd say about my time at MIT, it was such a great experience being able to work for a world-class endowment, see the inner workings of how things operated there. Being able to sit in on meetings with some of the renowned investors across the world, across asset classes. And also got to work with some really great people, very smart people, a number of whom are leading their own investment offices or wealth management firms today.

And that brings me to Prime Buchholz. I had an opportunity to join here in 2007, taking more of a leadership role on public markets team. Originally, more on the domestic and global sides. Since then, I've become much more of a generalist. And again, this has shaped so much of who I am. I've learned a lot from my colleagues on the research side, but I would say, in terms of mentorship and what I've particularly taken from my time at Prime Buchholz, is the client service focus at the firm. So many great examples at the firm. I hate leaving anyone out, but I would highlight our president, Bill McCarron, our vice president, Greg Johnson, and then Greg DeSisto. All three of them have been at the firm for over 30 years and are just such good examples of what it means to serve clients and looking out for their best interests, which is ultimately our top priority in helping clients meet their missions and objectives.

Robert Morier: That's great, Adam. Thank you for giving us that background, particularly as it relates to your career. Because I think it helps us set the stage, as we look at Prime Buchholz and we start to think about and uncover your underwriting process as it relates to manager research and due diligence. But before we get there, for our audience who may be less familiar with Prime Buchholz, can you give us an overview of the firm, its history? We had talked about it being founded in 1988, and you've talked about client service. But the client base and then where it sits, probably most importantly in the OCIO landscape, which has grown quite a bit over the last few years?

Adam Lerner: The firm was founded in 1988 by Jon Prime and Jim Buchholz in Portsmouth, New Hampshire. Both were CFOs at prestigious universities. And essentially, their mission in starting the firm was to provide the best client experience. Again, like I said, everything is centered around the client. And their thought was that the best way to serve the client was both through independence and focusing on conflict-free investing, a mantra that's held true 37 years later. Jon and Jim, both great men. Jim, unfortunately, passed away a few years ago. And Jon, still an active cheerleader for the firm. But in terms of carrying on that mission, Bill McCarron, who's our president since 1999, he's been at the firm for over 35 years, he's held true to that North Star that Jon and Jim initially put forth. And again, to provide your audience a little more perspective on who we are exactly, again, you mentioned \$80 billion in assets under management or advisement. It's across a client base of around 250 clients. Somewhat of a unique client base compared to many of our peers. We don't have any pensions. 85% of our clients are non-profits. There's heavy emphasis on educational institutions as well as public and private foundations. We work with hospitals, insurance entities. We work with faith-based institutions as well as high net worth individuals. I would say about our client base, it's a great client base. It inspires me and my colleagues every day. We want to do the best job for them, across all of our clients.

So many of them have such great missions. And we try to be engaged within the community, with all of our clients, and have very close relationships with them. I would say, just terms of where our clients are, as you can imagine, being based in New Hampshire and having a satellite office an hour away in Boston, many of our clients are New-England-based, but we do have a pretty broad presence across the East Coast and in the Midwest and have been gradually growing our client base beyond that. We're the largest employer in Portsmouth, New Hampshire. Probably 2/3 of our 140 employees are based in Portsmouth. We've got about 30 of us in Boston. When I started back in 2007, I was employee number 2. So, I will say, having this office in Boston, much more engagement than I had when it was just myself and my colleague, Rick Morrison. A lot of lively interaction. I'm probably up in Portsmouth one or two days a month, meeting with my colleagues, particularly when we have our global equity asset class meetings. And then the

remainder of our employees, we have a small cohort down in Atlanta and then a number of field consultants that work out of their home offices, mostly across the East Coast.

Robert Morier: That's great, Adam. A quick question for our audience, particularly the asset managers who are listening in. When they're thinking about calling on Prime Buchholz, and they're planning that trip into Boston, potentially going up to Portsmouth, do you generally advise the asset manager to focus on one office or the other? Or is it really about the people calling on yourself? And since you're in Boston more often, they should be coming to the Boston office?

Adam Lerner: I would say, ultimately, it's dependent on which asset class they're focused on. If it's an area that I cover, they go to Boston. A number of my colleagues on the private equity side, on the real asset side, and the fixed income side are based in Portsmouth. So, often, I'd advise going there. But we have flexibility. I could leave my office right now, get in the car, and be in Portsmouth in an hour or so. If a manager happens to be up there, I'm glad to meet them. More often than not, it's the other way around. The manager will be meeting with a number of our competitors that are right around the corner from us in Boston. So, we have colleagues from Portsmouth that are in the Boston office all the time. It's a very vibrant space and very collaborative.

Robert Morier: That's wonderful. Thank you for sharing that. Well, speaking of those competitors, as I mentioned before, the outsourced CIO space has grown substantially over the last few years. And a question I always love to ask the people who usually ask this question of the asset managers is what's your competitive edge? So, what separates you or distinguishes you from your peers operating in the same space, Adam?

Adam Lerner: It's a great question. One, truthfully, we discuss all the time, it's such a growing space. It's also such a competitive space. So, it's important for us to put our mark out in terms of what differentiates us. I will highlight a few things for you. I did highlight earlier our independence. You and all of your colleagues see in the press the ongoing mergers and acquisitions of consultants with consultants, consultants with asset management firms. We're probably the last of a dying breed that are 100% employee owned. We have about 70 employee owners. It's a very diverse ownership base. That's the path we've opted to go down. We respect that a lot of our peers have opted to merge. There are probably benefits in terms of synergies. But at the end of the day, and again, highlighting what I shared about the mission of the firm, we believe that there are benefits to being independent in terms of providing the best service and the best product to our clients.

The other thing that I would highlight is, just broadly our customization in terms of portfolio construction, everything is open architecture. We have no model

portfolios, no off-the-shelf products. And thinking about it from that perspective from our size where it's somewhat of a sweet spot, I'd say that \$70-\$80 billion range, we're large enough that we get access to any managers that we want. It's not a function of being too small. I think firms really like working with us. They've gotten to know us over the years, particularly my colleagues that have been here for a long time and know that we take a very long-term focus to investing that we want to build multi-decade relationships. I would say, at the same time, we're not so large that we have to be recommending everything. We're not in a position that we have to be constantly recommending managers. We want to focus on best-in-class products. If we do find new ideas, we're open to certainly looking at them. But we don't feel the pressure to add more products simply to meet capacity for our clients.

I think our research team is top notch. When I joined in 2007, we made a very concerted effort to build out that team. A lot of my colleagues, who are now research heads along with me, joined around the same time. So, most of us have been working together for 10, 15-plus years. All very smart individuals. I think we're just as strong as any team that I've worked with at any of the other shops I've been with. Have great engagement with my colleagues across asset classes who are super knowledgeable in terms of knowing the environment, knowing the managers. I'll sit in on each of the asset class committees that we hold every month, and there are always such great discussions on managers, on topics. I just think bring so much to the table there. And particularly, from the perspective that working together for so long, we also all know our clients very well. So that when we have relationships with those clients and there are certain types of products that may resonate with one type of client versus another, we're able to go to our client teams and bring that knowledge to the table. And then, lastly, along the lines of the whole emphasis on client service, I think we have an outstanding client team. This goes all the way from the data analysts, the investment analysts, and then to the consultants who are the most hands-on and working with the clients on a daily basis.

At the end of the day, I'm focused on one asset class. I give our consultants all the credit in the world. Not only do they have to pass along information on all of the asset classes to their clients and have a pretty broad base of knowledge in that area, but they're also doing a great job particularly on the consulting side and working with those clients to guide what are often committees with different views or different perspectives to make decisions. Because effective decision-making is a big part of what we do. Our consultants have been here for a long time. I highlighted the three that have been here 30-plus years, but I think more than half of them at this point have been here since 2007. So, they experienced the GFC. I think we came out of that a much stronger firm. And the consultants are the steady hand that help the clients and guide them through all different market environments, and that's been a key to our success.

Robert Morier: Thank you, Adam. That's all very interesting and insightful. We appreciate all of the distinguishing features that Prime Buchholz offers. But I do want to say it's very exciting for us, as much as the consultants know about the variety of asset classes that you offer, to be able to dig into public equities with you today is really interesting. And I know Andrew's got some questions as to how you do that.

Andrew O'Shea: Yeah, thanks for that. Adam, I would just comment from the other side of the table. Given Prime Buchholz's very specific focus on nonprofit clients that shows itself in the rigor of their research process in terms of identifying true managers that fit their client base relative to other consultants, that might have to be all things to all people. So, we look forward to digging into that here a little bit more. So, Adam, could you talk to us about just your manager research process in general, from the sourcing to the underwriting, and then, how that might ultimately end up in a client's portfolio?

Adam Lerner: Absolutely. And I would preface at the onset that my priority on a day-to-day basis is the managers that we currently recommend that are in client portfolios. We probably have, at this point within public equities, over a hundred active managers on what we call our A-list. Those are the strategies that when approved, if we have searches, are the strategies that can be included in client searches, or potentially, in client portfolios. We take our diligence very seriously. It's ongoing aim to have quarterly or, at least, semi-annual meetings or calls with managers in addition to doing on-site diligence, reviewing all of the client's materials, running our own attribution. It's an ongoing process. But just in terms of a new manager ideas... the bar is high. We've got a very mature program. So, we're only looking to add products if we think, A, that they're distinguished in terms of what they bring to the table versus other products, and B, if we believe there's a true alpha opportunity.

We live in a world where alpha is scarce. And particularly in the active versus passive world that we live in, it's a tough environment, particularly in public equities to add value. So, we're only looking for managers where we think there's a high level of probability that managers will outperform over time. But in terms of the diligence process, I'd say, we're always on the lookout for new ideas. They can be, from a combination of sources. They can come from screens. They can come from industry contacts. They can come from portfolio managers who left their prior firms that we worked with and are starting new shops. Or in some cases, they may even come from existing clients that we work with. And far from embarrassed to say that a number of our best ideas have come from members that have been on investment committees that we work with often. Very well-heeled individuals in the investment community and, essentially, always willing to listen, out for new ideas. I would say in terms of the diligence process itself, there's no set time on how long

we'll review a manager before we decide to bring it formally to our global equity asset class committee. It could be as short as a few months. It may be as long as a couple of years.

I think, at the end of the day, what's most important is having the conviction in bringing a strategy in front of our peers that we think is going to be value-additive. So, I'll have countless meetings and conversations with members of investment teams, getting to know who they are, how they invest, whether the firm adheres to its process and philosophy, and then pushing them over time, getting to know specific holdings, specific decision-making, think about things like risk management. Before we go in front of our investment, our asset class committee, for any sort of decision-making, a very thorough checklist that's pages long. Not going to spend the time today walking you through it all, but it's a very comprehensive process. And in addition to that, we have an ODD department that also does all the operational work to make sure that we're crossing our T's and dotting our I's from that perspective. But if we finally do get to the point where me or one of my colleagues has the conviction to bring an idea in front of the group, we have a global equity asset class meeting that meets on a monthly basis for two hours. I chair that committee. There are 10 members on the committee. It's comprised of four of the senior equity team members. We have a number of consultants. And then we have our head of ODD. And in addition to the checklist that I was talking about, making sure that all the necessary items have been documented, we'll put together a thorough, probably, 5 to 10-page document that walks through the thesis for the investment, both the pros and the cons, and then all more specific elements on people, process, philosophy, vehicles. It'll be a very lively discussion. There'll be a lot of tough, tough questions that hopefully, me or my colleagues will be able to answer. If we don't have the answers, we're not shy about saying, we'll come back to you and potentially vet the manager at a future meeting. But at the end of the day, if a manager is approved, we have a consensus decision-making process. It'll go on what I was referring to earlier as our A-list, which is the list of managers that are able to be included in client searches or both for our consulting clients or can be included in OCIO portfolios.

Andrew O'Shea: Once you're on that A-list as a manager, do you recommend asset managers build relationships with the consultants themselves, or do you prefer that relationship stands with the research team on a go-forward basis?

Adam Lerner: We have some consultants that are keen on working more directly with the managers. I would say that for the most part, at Prime Buchholz, our consultants have a very busy book of clients, and they have a lot of other responsibilities. I'm hopeful, after 18 years, that they'll ultimately defer to my wisdom. But when they do have specific questions or they do want to have a manager present in front of a client, that's where the consultant may get engaged more often than not.

Andrew O'Shea: How do you balance the quantitative screens with the qualitative aspects of due diligence? Obviously, past performance doesn't always guarantee future results. So, understanding team dynamics, culture, how do you think about the qualitative component of due diligence with your background in quantitative?

Adam Lerner: From my perspective, like you said, very, very, very quantitative. Interestingly enough, though, I'd say my personal process has evolved over the years. I've become much more qualitative than quantitative. And I'd say that's largely because a lot of the initial quantitative work is more about screening for ideas. And I think in terms of the databases that we work with, I have a pretty good sense of the managers that are in there. I'd say where quantitative screening may be beneficial is in terms of, A, either screening out managers where the return profile may not meet what we're seeking for managers. Or potentially, if I'm looking for something more niche, I may run a narrow screen thing, for example. Screens that I've run in recent quarters, looking opportunistically at some risk-aware 130-30 products. So being able to run some screens that focus on performance and tracking error and using that as a starting point to identify some managers. By and large, my emphasis is more on the qualitative side. Once I've narrowed down what's important in a manager, it's all the things that you mentioned that are part of our diligence process, making sure that the manager's interests are aligned with our client's. That the process and philosophy is consistent with what they espouse.

Andrew O'Shea: One last question on this topic. Are there any common pitfalls you see with managers in the process where you're going along, things look good, and then you're like, ah, that's kind of a red flag here. Are there any common themes that come up that have those red flags?

Adam Lerner: Consistency of process and philosophy. At the end of the day, we're focused on performance. But if we can't find that a manager is adhering to its process and philosophy, that's essentially everything when we're putting together portfolios, it's with the notion that every manager has a specific role in the portfolio. Going back to the fantasy baseball, the portfolio construction, every manager has a slot. And if their slot isn't being executed as we expect it to be, then it really doesn't have a place in the portfolio. The second thing that I'd highlight as we're looking at managers, and one of the things that we focus on in our diligence is team stability. You can have the best process and philosophy in the world, but if there's inconsistency in the individuals that are executing it, that raises a red flag. It's not only the chief investment officer or the portfolio manager. It may be, if there's a lot of turnovers on the analyst side, we're mindful of that, thinking it could potentially be a culture issue. And then just to provide one more example in terms of a red flag that may preclude further diligence is the whole notion of capacity. It's very important for us that managers are mindful of capacity, particularly in less liquid spaces down cap and in areas like emerging markets. If we see a manager, for

example, that says we have excess capacity and then they get to that level and say, we're now in the process of reevaluating, that may be a concern because we want to be mindful that these managers, particularly in these less liquid asset classes, are getting into best ideas and aren't hindered by assets under management.

Robert Morier: Adam, thank you so much. It's just one additional question. When I think about the role that you play at Prime Buchholz and with your clients as the intermediary, the advocate on their behalf, as you mentioned before when you're talking about your mentors, one of the things that you learned from them is the art of asking questions. So, when you think about the questions that have yielded the most results for you during that qualitative exercise, what are some of the questions that you find are most helpful when coming to that conclusion as to whether or not that asset manager will be a good partner for a Prime Buchholz client?

Adam Lerner: A lot of that is probably holdings-based. And again, that goes to the adherence to the process and philosophy. While we're not specifically covering stocks, having had so many conversations over the years with managers, outside of the mega cap stocks that everyone knows, we have a pretty good sense of what holdings should be in what type of portfolios. So going in-depth with a portfolio manager or an analyst and getting to understand the rationale for owning a stock, obviously, we want to understand the thesis. But walking through how that particular stock fits into the portfolio, and then, I think, from the perspective, too, of understanding the discipline, oftentimes, we'll walk through different stages of a stock's life cycle. And particularly, in terms of its performance, if a stock is performed very well, understanding if the rationale still holds from a valuation standpoint to hold it, and if the stock has gone down significantly, understanding if, potentially, the thesis is broken, or if it's an opportunity to add more. Because I think what we see with a lot of our managers is the value-add often doesn't necessarily come from not only the specific names, but when they get in and when they get out, and that's a big part of what we do in building portfolios as well.

Robert Morier: That's helpful, Adam. It makes me think about portfolio concentration. So, the more concentrated a manager is likely, or potentially, the more intimately they may know and understand that company. So, when you think about portfolio concentration, it's kind of a backdoor way to ask you about your biases. Are there any biases as it relates to portfolio concentration versus diversification? And how do you think about a concentrated public equities manager? How many companies in the portfolio qualifies as concentrated or highly concentrated?

Adam Lerner: The definition of "concentrated" will definitely vary by manager. I would say concentration is probably as low as 10. We work with a couple of

managers that have that few stocks to probably something along the lines of 30 or 35. In terms of diligence in managers and whether we support more concentrated managers, the answer is yes. I think that we need to have a high level of conviction in that manager's ability to generate alpha, because there's greater potential for meaningful outperformance if they don't perform well. But what I would say was, at the end of the day, when we think about pairing these portfolios with other types of strategies, it's a function of looking at risk at the total portfolio level. So, on one hand, you could have a smaller allocation to a 10-20 stock portfolio. But if you also have heavy index exposure, your risk profile may be similar to, say, owning a handful of 50 to 75 stock portfolios. And again, it's going to depend on the specific managers and what type of risk characteristics the underlying strategies have.

Robert Morier: Very helpful. Thank you so much, Adam, and thanks for the follow up answers. I appreciate it. You mentioned indexing. So how does Prime Buchholz frame the active versus passive equities debate in the market today? How are you having that conversation with clients, and how are you approaching it from a portfolio construction perspective?

Adam Lerner: It's an ongoing discussion that never ends as far back as I've been in the industry. I mean, we've slowly seen the level of passive assets tick up. Don't quote me to the exact percentage, but I believe the latest number, I saw something along the lines of 57% of fund assets that US investors are invested in are passive. This is a topic we take very seriously. And in terms of doing our diligence in making our decision-making, I'd say we look at a lot of the same analysis that you and many of our peers look at. We'll look at the SPY of the data on an ongoing basis, both in terms of active manager performance and persistence. We'll look at Morningstar databases. We run our own peer universes through invest metrics. One of the projects that I've worked on over the past couple of years that I've been particularly excited about is also looking at what our client's experience has been in terms of active versus passive. Because I think that also shapes how we think about it. If you're in active managers in a space that is relatively inefficient, but if you don't do a good job, or your clients make untimely decisions in terms of exiting or entering managers, there is a lot to be said for going passive just from the perspective of poor decision-making, both in and out.

I would say broadly, and again, I don't want to paint every client with a broad brush because every client does choose to allocate differently, but generally speaking, I'd say most of our clients have the largest exposure to passive management in the domestic large cap space. It's a heavily concentrated space. It's a space where passive management has worked very well for the past 20-plus years. We're probably more active on the whole in what we consider less efficient, less covered spaces down cap across regions, and then in emerging markets. It'll also come down to at the end of the day where we're finding active managers. If we find great

active managers in a certain space, we'll be willing to be more active, whether that's in emerging markets or whether that's in domestic large cap.

Robert Morier: You mentioned that when you started in the industry tracking mutual fund data, it was a very manual process. I think you had mentioned to me in one of our prep calls, 90 minutes each day, that I would assume now can probably be done in seconds. So, when you think about how technology has transformed the way that you do business, that Prime Buchholz does business, what have you seen as those changes that have really been able to help you as an organization and with those clients that you had mentioned earlier?

Adam Lerner: Technology has been a game-changer. Having that perspective from 20-plus years ago when I was sitting in front of spreadsheets for two hours a day, running a report that we can now run internally here in a matter of seconds, it just makes our lives more efficient. I think we're able to provide a better client experience at the end of the day. I can think of countless examples on the research side. We run a report every morning that has hundreds of mutual fund returns. It has indices. This is a report that's run through FactSet. It's pretty much run through the push of a button at this point. We also use FactSet tools that we didn't have 25 years ago, to be able to do our research more effectively... running manager attribution, running holdings reports. So, when I get on the call with a manager, I'm able to ask better questions. I'm able to push them harder than I was able to years ago when it was maybe more likely that you'd get holdings on a monthly or quarterly basis. Didn't have the same statistics to be able to ask managers the same depth of question.

I mean, we've got lots of tools. We use eVestment. We use Morningstar Direct. And each of those serve a different purpose in helping our research team. On the client side, I would say, just the broader technology that we have today that we didn't have years ago has made working with clients much easier. Something as simple as Adobe Acrobat, being able to put together client reports for meetings, or if I need to get on a Zoom with a client and be able to present, to be able to just simply email those over to an investment committee rather than printing books that are hundreds of pages long. Putting them in the mail through FedEx and hoping they get there in time for the meeting. And I did just mention Zoom. Whether it's Zoom or Teams, that has definitely been a game-changer, particularly since COVID. Being able to get on a call, have consultants be able to get on a call with their clients, for us being able to get on a call with managers, get numerous folks on at the same time. At the end of the day, from a research standpoint, there's nothing that replaces the direct face-to-face contact, whether it's a meeting in our Boston or Portsmouth offices, or going on site and meeting with a team. But for pure efficiency in a lot of cases, this technology has really made us better investors, and, again, being able to serve our clients as best we can and as efficiently as we can.

Robert Morier: Adam, just a quick follow up to that. Are there any particular tools or capabilities that the firm is using that help with this client experience that you're talking about?

Adam Lerner: Absolutely. And on the portfolio construction side, we have one internally that we use. It was developed by our IS team. And it's been a real game-changer. It's called Prime Plus. And, essentially, it's a portal that integrates our portfolio data with market data from numerous sources. It helps me, particularly, from a diligence perspective in working with clients to build portfolios that can swap one manager in, one manager out, look at all sorts of different characteristics of the portfolio across equities, whether it's style, size, geography. I can look at what the impact of tracking error is on a portfolio as well. This is a tool that's used by our consultants on an ongoing basis. They use it on their Zooms to be able to present up-to-date data to our clients. And it's just really a great tool for our clients. We have a number that use it that are more keen on tracking daily performance, that want to track their capital calls for private equity, liquidity, cash flows. This tool is just getting better and better day by day, and I give all the credit to our IS team for its efforts here.

Andrew O'Shea: Last question, Adam. A lot of endowments and foundations are navigating volatility, liquidity, pressures, calls for mission-aligned investing. Does the traditional endowment model still hold, or do you see areas where it's assumptions like diversification, illiquidity premiums, governance need to evolve?

Adam Lerner: That's a good question. I don't necessarily think it changes. I mean, a lot of these same issues have persisted for some time, particularly, as you think about volatility. I'd say we are in very interesting times from an illiquidity perspective. We'll work with our clients on a case-by-case basis, particularly everything that's going on. In the US now, issues with funding. If we do have clients that have greater liquidity needs, we'll work with them to reshape their portfolios so that they have the cash that they need. On the mission aligned side, that's obviously been an issue that's garnered a lot of attention in recent years. And again, we want to work with clients in terms of aligning their objectives with where they want to be. So, it could potentially mean revising an investment policy statement. I'd say, generally speaking, what we've seen in recent years is, the clients that we work with, and just clients more broadly, that are most committed to mission-aligned investing, they've stayed the course. Those that have probably been more middle of the road, that's where more of these conversations are happening.

But in terms of the traditional model itself, I think we've seen an evolution over time. If you go back 30, 40 years, you'd see your typical endowment would be more the 60/40, 70/30 stocks, fixed income model, probably over the past 20-plus

years, particularly following David Swensen's pioneering portfolio management and all the success that Yale's had. You've seen a lot of endowments and foundations try to replicate that approach. Some have been more successful than others. But I think it's going to be an evolution. Even Yale itself has said, what's worked for them over the past 20 years maybe a different or slightly modified playbook in terms of what's going to work for the next 20 years. And I think that's true just broadly, as we look at investments. So, to be opportunistic and go with opportunities as they arise, that's going to be the key to success.

Robert Morier: Adam, thank you so much. One last question just on the home front. I think you're on the college circuit right now with your daughter doing some college tours. I'd be interested in your experiences, but what kind of advice are you giving her as she's thinking about where to go to school, and what to major in, and some of the lessons maybe that you're trying to impart on her?

Adam Lerner: Thank you for the question. We're just starting out in the process. She's only a junior but looking to get a head start. I would actually say she's got a pretty good head on her shoulders. She's a kid who's very smart, has dealt with some health problems in her life. So, I think what's interesting is, my wife and I have talked to her. She's very interested in going into public health. Wants to make a difference in the world. That's the advice I'd give to her, or to anyone who's thinking about what they want to do, either in college or in their career, find something that you're interested in, find something that you're good at. But at the end of the day, also make sure that it's something that you're passionate about and that gives you purpose, because that's what's going to get you up every day. That's what's going to excite you and inspire you to do great things. And if I can set that example for my daughter Peyton and my younger daughter Ava, then I think I've done a good job raising my kids.

Robert Morier: That's wonderful. Thank you for sharing all that. I do recommend asset managers call you when they're preparing for their fantasy baseball drafts next season. It sounds like you've got quite a bit of experience there. But I do want to ask you one last question, and I was just curious. Because there's so many parallels between baseball and the asset management industry. If you could carry one rule from baseball into asset management, what would that be? So, if you thought about the rules in baseball that you could potentially apply to the asset management industry, is there one that you would like to institute for all the asset managers out there that is similar to baseball?

Adam Lerner: No. How about no intentional walks? And let's parallel that with moving all to cash. I'll use that as the parallel, because when we invest with a manager, we want them to invest. They have a specific role in the portfolio, particularly on the long only side. We'll leave that to the hedge fund managers. We want them to do what we expect them to do and not take a free pass.

Robert Morier: I like that. No intentional walks. I thought you were going to say the pitch clock. But that was wonderful. Adam, thank you so much for being here. Thank you for sharing your insights into your career, into the work you and your colleagues are doing with your clients at Prime Buchholz. Congratulations on all your success. We wish you many more years. And the best of luck to your children as well as they go off to their next adventure.

Adam Lerner: Thank you so much. I really enjoyed working with you guys today.

Robert Morier: If you'd like to learn more about Adam and Prime Buchholz, please visit their website at www.primebuchholz.com. You can find this episode and past episodes on Spotify, Apple Podcasts, or your favorite podcast platform. We're also on YouTube if you prefer to watch while you listen. And you can always find this content and more at dakota.com. Adam, thank you again for being here. Andrew, thank you, as always, for joining me. And to our audience, thank you for investing your time with Dakota.