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EPISODE 149:

The CIO's Playbook with American Beacon Advisors



Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better 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 endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or a recommendation of the investment advisor or 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. Our guest today is Paul Cavazos, Senior Vice President and Chief Investment Officer at American Beacon Advisors. Paul oversees the firm's investment strategy, manager oversight, and OCIO business, bringing over 25 years of experience managing institutional portfolios for some of the largest corporate pension plans in the country. American Beacon Advisors is a Dallas Fort Worth based investment management firm with more than \$60 billion in assets. Founded in 1986 by American Airlines, the firm is known for its subadvised exchange traded funds, mutual funds, and collective investment trusts, as well as separate account management and OCIO solutions. The firm partners with leading managers across asset classes to deliver disciplined, research driven portfolios. Paul earned his MBA in finance from the McCombs School of Business at the University of Texas, Austin, and a BS in finance from Oakland University in Michigan. Before joining American Beacon in 2016, Paul led investment teams at DTE Energy, Navistar International, Boeing, and Chrysler. His career has spanned both sides of the institutional investing world, from being an asset owner to now serving as an asset manager, giving him a rare perspective on fiduciary discipline and client alignment. He's also served as the chairman of the Committee on Investment of Employee Benefit Assets, representing the CIOs of more than 120 of the nation's largest corporate plans, with over \$2.5 trillion in combined assets. We're excited to have Paul join us today to talk about his journey, the evolution of American Beacon

Advisors, and how he thinks about investment discipline, manager research, and long term markets. Paul, thank you for being on the Dakota Live Podcast. It's wonderful to see you. Thanks for being a guest.

Paul Cavazos: Pleasure to be here, Rob. Thank you.

Robert Morier: Yeah, thank you. And thank you for putting up with my voice. I am fighting a cold. It's Halloween, so I'm going to date this episode. We're probably going to release it pretty soon. So I'm going to be going around the streets of Philadelphia with my daughter with a very raspy, scary voice.

Paul Cavazos: It's very fitting.

Robert Morier: It is, it is. I'm not sure what I'm going to dress up as yet, but I'll figure it out. Well, thank you so much for being here, Paul. It's really a pleasure for me. We actually probably met when you joined American Beacon back in 2016. So I've had the pleasure of knowing you for a long time, and knowing that you've had all of these decades of experience before that, overseeing these large pension assets for major corporations. But I always like to start at the beginning. I'm a teacher now in the classroom with university undergrads. So when you think back to Oakland University, what were you thinking? Where did you think you would go from a career perspective?

Paul Cavazos: We have three boys, my wife and I, and they're kind of that age. And it's always kind of striking to me where it's like, hey, you're 17, 18. You got to figure out what you want to do for the rest of your life. And so I don't think I really knew exactly what I wanted to do. I would say, in school, I was fortunate to be pretty good at math. I thought, business finance could be a fit. The year I graduated from high school, the original Wall Street movie came out. That was with Michael Douglas and Charlie Sheen, directed by Oliver Stone. It definitely had some influence on the intrigue of finance and investing to me. I do think investing is very dynamic. The markets are always changing. There's different products and new products. You tend to work with very smart people. And I think all of that, it's very energizing. And so I think within the corporate landscape, I truly felt that I have one of the best jobs out there in kind of a corporate structure.

Robert Morier: When you think about manager research and asset allocation as a discipline, did you get any exposure to that early on, whether it was at college, grad school, or just even early in your career? I'm always curious where that skill set comes from. Is it an apprenticeship or was it taught learning?

Paul Cavazos: I think you learned some things going through the books and going to class and all that. I would say, though, Rob, really the most important thing is actually doing it. And so being at a place and learning, hey, here's their process,

here's how they look at things. And so I think I really officially cut my teeth doing that at Chrysler. And so I was in a leadership development program there coming out of grad school. Those skills were kind of born there in the asset management department within the Treasury group at Chrysler at the time.

Robert Morier: What did you also learn? So thinking about Chrysler, maybe just using that experience specifically. What did those experiences or that experience in particular teach you about risk and structure and how decision making in large organizations takes place?

Paul Cavazos: Kind of starting my career in this space really at Chrysler and then followed by Boeing, I mean, I think those are both large, complex companies with engineering at their core, and both happen to be very regulated as well. So certainly both firms had a strategic and risk management focus, I guess I'd say very data dependent. A lot of governance structure there, going through several committees and all that. And I think also being kind of cross-functional. When you went to a committee or a board, you had to be buttoned up. You had to have solid data that supported your proposal. You had to be able to also synthesize more complex information. And one of the things that we did, particularly at Boeing, a bit at Chrysler too, was on any slide, it's what is the one or two points that you want to make? Because you often have-- there could be a lot of words, there could be some charts and graphs. And to me, that was big, because it also, as you're going through and talking to folks and making your case for your pitch, I think having those takeaways keeps you focused on what's the right messaging here. It helps to always understand what are their peers doing in this space as well. Because even though you want to be independent and do your own thing, folks tended to look at, hey, at Chrysler, you look at what are the other large auto manufacturers doing? Honing in on those skills and really getting an understanding and an appreciation for that strategic view, that risk management view. How do you go through committees in an appropriate manner? What's important? Definitely honing in on those skills helped me throughout my career, going from Navistar and forward.

Robert Morier: Before we get to Navistar, I'm just curious, you were at Chrysler and Boeing at an interesting time. Defined benefit and defined contribution plans were evolving, going through a true evolution, maybe even a revolution when you think about the switch from DB to DC. What were your experiences when you think back to what was happening in the pension landscape at that time?

Paul Cavazos: DC has kind of taken over from an asset level. And I do think there's a bit of a nuanced difference there. You still want to have, obviously, great products and great funds and options for defined contribution 401(k) participants, but you can't really force them to have a diversified portfolio like you can create on the DB side. So I think making sure in working with HR and others, making sure 401(k) plan participants, your employees, but the participants in the plan can have

access to the right information that you're communicating effectively to them. It's a bit different. So you have to have that, I think, that HR lens. It's important to have good executives in that space and good partners and providers that you're working with that can help you with those communications. Look, I think it's human nature in some ways where you see the Mag 7, and you have the fear of missing out, and all your buddies or friends are talking about it, and then you want to put all your money in there. The idea is to really be more long term strategically focused with these retirement assets and not do tactical day trading. So I think anything you can do to really provide that education and information that would help folks create a long term, diversified portfolio, that probably has exposure to many different asset classes, and depending on your age and your appetite for risk and all that. So all those things are important. On the DB side, very different in that you control that. And so I do think, yeah, that's a unique thing that was certainly happening as I was kind of entering the marketplace there. Yeah.

Robert Morier: Well, now we're at Navistar. You're the Chief Investment Officer. You were managing \$5 billion in retirement trust assets. So what was it like to take on full fiduciary responsibility for the first time?

Paul Cavazos: Both scary and exciting about that. And maybe it's apropos, saying scary with Halloween here. But I did have support from a couple of mentors that was extremely helpful with the transition. It took some time to settle into the role and figure out how my boss and committees wanted to see information, and in essence, how do they want to communicate. As you know, I mean, each board and committee is nuanced with members that have various levels of investment background experience. And each may have a different area of focus. There's oftentimes an HR person on that. I think really having to really passage of time and learn how do folks want to be interacted with? What are the key things that you need to make sure you cover when going to a committee meeting or board meeting. And that does take time. It takes a bit of time.

Robert Morier: One of those mentors was Mark Schmidt. How did that relationship shape your leadership style and your investment philosophy when you think about going forward into your next chapters, specifically with American Beacon?

Paul Cavazos: Mentorships are key to a successful career. And I'll go back I have three boys that are either entering the workforce or will soon to be entering the workforce. And I've kind of stressed the importance of having good coaches and mentors and really seeking those out. So look, it significantly influenced me. I think Mark gave me certainly opportunities to grow and learn, and that means sometimes you're going to make mistakes and stumble, but to be there and be supportive. He encouraged me to go for the CIO role at Navistar, even though I followed him from Chrysler to Boeing and was doing really exciting and good work there. Investment strategy, asset allocation. You mentioned the defined

contribution 401(k) plan. I was overseeing that and that was \$25 billion at the time, and doing good work there. Also working on their \$45, \$50 billion defined benefit plan. But this was an opportunity to run my own thing. Much smaller, but still in the multiple billions in dollars. And so he provided me sage advice on many occasions. Something I do to this day that I think is really important that, if possible, to always preview any big changes that you're looking to make or recommend. To have preview, though, and have discussions with key constituents in an informal manner prior to the official committee meeting or board meeting. So that approach has served me very well. And I didn't do that when I first started at Navistar, and it became evident that I needed to. Let's just put it that way. And so that's something that, again, doesn't always work out with schedules or calendars. But if you have time and the ability to do that, and that's something I tell and try to be a mentor to others. And that's something that I share, because that was a big deal, almost like a light bulb went off. Because what you don't want is to go in there and somebody challenges something or throws a grenade on your conversation, and you have to address that. It's much better to address that ahead of time. And even at times, what I saw, Rob, was some of those people that might have had questions or concerns, if you were able to preview it with them and then you go into the meeting, they'll actually say, oh yeah, I talked to Paul about this, and I'm comfortable. And turn, what could have been a problem in just not having a smooth meeting into somebody that's really advocating and supporting your proposal. So that's just been great. I look to emulate a lot of what I learned from Mark. And I think talent development is crucial. It's not just providing projects to the team that they can grow. That is part of it, but it's also helping them build soft skills. I think that's sometimes missed. So I do think you have to-- you want somebody to have high IQ, of course. But to me, it's also critically important to have that high EQ. And I think as you develop and you grow and get promoted in any corporation, small, large, whatever, having those softer skills is vital.

Robert Morier: Paul, what do you think some of those softer skills that you have, that you've employed, have served you best? Which ones, if you had to name a few that really stood out? I mean, it sounds like one of them is collaboration, pre-collaboration, making sure that you're talking before the meeting. I think that's very sensible and intuitive from a leadership perspective. But what other soft skills do you think are important for the role?

Paul Cavazos: So I do think communication is so vital. And so I think just being available, listening to other, just really listening sometimes, not speaking, is important. I think especially with some of the cross-functional groups that you'll end up working with, I think it's important to have a good rapport with them, to become somebody that's trusted, not going to fly off the handle, is going to listen, is going to be pragmatic. And I think it's different within your own team than those cross-functional teams. So that's something that comes to mind there. Part of the thing that I would tell my boys and also others that are coming up, I would say, there's

always an ability to learn. And if you think that you know everything, it's not a good thing. I think you're going to fail if you believe that.

Robert Morier: After two decades as an asset owner, you make the move to American Beacon Advisors. Did they call you? Did you call them? What were you thinking at that point in your career when it came to this opportunity that was being presented?

Paul Cavazos: A headhunter had called me on some other opportunity, and we got to each other a little bit. It wasn't the right fit. But they ended up looking at my resume, Rob, and they were like, hey, you went to UT Austin for grad school. Would you ever consider moving back down to Texas and would DFW be of interest? And I was like, yeah, you know what, for the right opportunity. That's where my wife and I met in the mid '90s, and we were both Midwesterners that met there. And so I said, sure, yeah, let me what the opportunity is and we'll take a look. So that's really the impetus. So yeah, somebody reached out to me. I think American Beacon was looking for someone with a combination of that large corporate plan sponsor background, because they had this outsourced CIO mandate. And also, I think they were looking for somebody that had, of course, sound manager diligence experience. And that could translate to the other side of the house. So I really wear two hats in my current role. So the CIO of all American Beacon branded mutual funds, ETFs, CITs, and also act as that outsourced CIO. Those things I think are something that they were interested in, as well as looking for somebody that would have a bit of an entrepreneurial spirit to them, let's say. Because coming from very large corporations, American Beacon is not a large corporation. So we have about 120, 130 employees. And at the time, maybe it was even a little bit less. So I do think being owned by private equity owners and that and wanting to be part of something that could grow and be OK with being at a smaller firm with those kinds of goals. And that was exciting to me. So that was right up my power alley. So both of those things, I kind of was like, yeah, check, check. And we've been down here for now coming up on 10 years. And we love it.

Robert Morier: Well, you're a Midwesterner. You're in the DFW area. But the firm is run by a very Philly guy, Greg Stumm, as the CEO. So how is the dynamic? When you think about the leadership style of Greg all the way through the organization, and maybe you can contextualize this for the listeners who didn't have a chance to listen to that interview with Greg, just a little bit about American Beacon Advisors. Maybe a little granularity around the OCIO business would be very helpful in the context of the leadership structure.

Paul Cavazos: We operate a subadvised open architecture investment platform. We do partner with more than 30 independent and institutional caliber investment managers globally. And we do come with that fiduciary first mindset being born out of American Airlines and in doing that. So that really does emphasize a long term

focus, long term partnerships, disciplined oversight. We do believe in really depth over breadth. We focus on institutional quality, but differentiated specialized managers that have distinctive capabilities. And I think, again, maybe going back to the diligence, we do have a rigorous diligence process that we follow, and certainly that begins with a search initially. But importantly, and I think this is what differentiates us from others is, we're continually underwriting all of our subadvisors. And that's formally on a quarterly basis. I talked to some other folks that are in our similar space and we talk to other consultants in relationships. And they're like, you guys reach out and talk to us on a quarterly basis. Other providers in that space, other advisors might talk to us once a year, maybe once every two years if there's nothing going on. So having that ability, we can understand if there's a reason why somebody's underperforming as an example in our multi-managed value products, we really can stick with them if they're having some performance struggles, if there's a reason and we understand the reasoning behind why they're struggling. We don't want them to change their knitting. If we hired them as a deep value manager and deep value, as an example, is out of favor, well, then if they were being successful in that environment, that would be a concern. And so I do think having that long term mindset starting with that fiduciary first mentality has bode well for us over the decades. Yeah Greg, look, Greg's a ball of energy. Came up through the sales force. But he's not just a smile and dial type of sales guy. Greg has very good investment acumen coupled with strong sales capabilities. Look, I really have a fondness for the folks that hired me on here almost 10 years ago, and I thought they were very good leaders. I do think for where we're positioned right now, just in the environment and what we're looking to do and how we're looking to grow, Greg's the right guy for the job. And a lot of energy. If you meet Greg once, you're going to remember him. And look, I think we've been able to partner together really well. We're two of the six product management committee members. It's great to have that product management committee. Co-head of sales is on that. Greg and I are on that. Product people are on that. The CEO is on there. A financial person that can run the numbers and make sure we might have some ideas like, oh, this is a great investment opportunity. But if the numbers don't work, we're not going to move forward. So I think that kind of cross-functional product management committee is something that we think is a great thing. And we're meeting more and more on that, because we are looking at ways to continue to develop and grow our firm.

Robert Morier: You touched on something very interesting. I think that there is this misunderstood belief that if an asset manager wins a subadvisory mandate from someone like American Beacon, that to your point, it's a kind of a set it and forget it. We'll touch base with them at year end. The American Beacon distribution team is out there selling it. Paul is the one talking about the markets. He can put us into the context of his overall portfolio construction decision. But as we know, and you alluded to, it's a lot more than that. So could you talk a little bit about what makes a successful advisory partner from your perspective as CIO at American Beacon?

Paul Cavazos: I think we believe in diversification and active management. We think we have some of the best in class managers across all the primary asset classes. I think what makes a good partner is somebody that is willing to share. Look, we've talked to other managers that had very good performance, but they weren't willing to meet with us, as an example, every quarter. And we just walked away. Certainly, we had other dialogue before we walked away. But that is just part of what we require in our partnership. So it has to be both ways, and they have to be willing to share with us and spend time and commit to provide us the information we require to do our job well. Oftentimes not always, but oftentimes we find managers when they're just emerging. And we've done that over the life of our firm. So now some of those managers are larger than us from an AUM standpoint, but we start with them. We were initial investors with a number of different managers. And we continue to do that. And I think that's something we're very proud of. So we think we have the ability to identify really strong, differentiated managers that might be underappreciated or undiscovered. And we can help them grow. And I think Greg would say, and I agree wholeheartedly, we only do really three things here. It's pretty simple. We identify these differentiated managers. We create the right product with them, whether that's an ETF, mutual fund, CIT, et cetera. And then we know to sell, and we're connected with wealth and retirement channels in a meaningful way. And so that's what we really do. And that's what we can offer to those partners. Hey, if you're doing something really well, but you're undiscovered and you don't have access to the wealth and retirement channels, we can provide that. And we can create funds in that where we handle all the administration and the operational aspects of it. And that's attractive to a lot of people. So we find ourselves with that open architecture, really receiving many, many, many inbound calls. We have a lot of experience in the market, and so we players. And so we certainly have those contacts. We certainly can utilize databases and all that, and we do. But more and more, we're receiving so many inbound calls.

And look, we don't know what we don't know. So we do think we know a lot of managers out there. But we will take those calls, and sometimes it's just an intro call and we move on, but oftentimes it's not. And we try to figure out, are there ways for us to work together and to partner? And so some of that is creating a fund. Some of it could be a distribution arrangement. Some of it could be creating new product. It could be adopting some of their products. So yeah, it varies. And I think having that ability in that breadth to offer those different opportunity sets is what's attractive to those partners.

Robert Morier: In a lot of ways, you're asking your asset management partners to be very entrepreneurial and very opportunistic, meaning what are the opportunity sets that you're identifying at American Beacon, whether it's the subadvisory vertical ETF, CIT, or the OCIO vertical. When you think about the mechanics of that sourcing, what do those conversations typically look like or sound like? So

you're sitting down with that manager for the first time, and you're asking them if they would consider a new strategy that they don't currently manage, or if they would consider a new vehicle structure that they've never had experience with before. It sounds like a lot of consulting in addition to investing. So I would love to hear your thoughts on that based on all of the experience that you have there.

Paul Cavazos: It is very consultative. And look, it's a back and forth. And I do think, yes, I would say a number of those product management committee members will be involved. So it's not just me. It's not just Greg. We may do an initial call or two and we'll bring in others that can really help with some of the operational aspects, what about these different structures, what are the pros and cons of those. From a sales standpoint, so we might say, this is a great investment opportunity. But if you don't have it in the right product for RIA's financial advisors, wealth channels, retirement, then it's not going to go anywhere. So it's one of the reasons why we've created-- now we have our own ETF platform that we began a couple of years ago. And it's still in the nascent stages, but we're continuing to grow that. And look, we're wrapper agnostic, meaning we don't dictate, hey, it has to be in a mutual fund. It has to be an ETF. I will say we're cognizant where the market is going. And a lot of investors today really value and are moving more towards ETFs, and so we want to participate in that. But we can structure something-- so we came up with CITs too for qualified plans. So qualified retirement plans. As a fiduciary in their role, they need to make sure they have the lowest cost product available. And so creating those products, that's really a growth space for us that we now have a billion dollars. In that we're continuing to grow. And so you look at where we think we're going to be in five years, we'll still have mutual funds. I think Greg has said, the death of the mutual fund has been greatly exaggerated. So we think mutual funds are still going to be very good, and we want to be a part of that. But we're also looking to grow our ETF business and our CIT business. And we also are looking to grow in the private market space, because we do think that's a new area. You had the executive order that came out with the administration earlier this year. And that, I think, has sparked a lot of interest. And so we're excited to look at what we can do and who we can partner with in that space.

Robert Morier: What does that exercise look like? So just taking that forward with private markets. You said earlier you're looking for differentiated managers. So I can't help, I almost feel like I'm hearing the conversation. An email comes in and you say, oh no, not another private credit manager, not another lower middle market, not another. So what stops you from saying that? What gets you to say I haven't seen something like this before? So what are those characteristics that you'll tend to really drill into? And if you wouldn't mind using private markets as maybe the baseline example, I'd appreciate it.

Paul Cavazos: We've been investing in private markets within that OCIO role since the late '80s. And so we were one of the pioneers in that. I certainly wasn't here back then, but have private market experience throughout my career. But we do have that experience, and I would just say on the front end, if you're going to be a median private market manager, you should not be making those investments. Of course, nobody goes into it thinking they want to be the median type of manager. But it is so vitally important to make sure you're partnering with and working with those GPs that are top tier. And that's what we've thankfully been able to do within that OCIO role. And there's nothing wrong with private credit, by the way. We have, within the OCIO private equity, private credit, what we call private income. And I think more and more, though, I would just say looking at coming out with a product, what I was-- we kind of chatted a little bit before. What I was referring to is let's say a financial advisor or wealth manager already has exposure. They might have exposure to private equity. They might already have exposure to private credit, kind of that lending kind of middle market lending. And so I think what we're seeing is what are those RIAs and financial advisors looking for right now if you look into that context. So moving away from the OCIO but moving into that space. We think we're not going to come out with an also-ran in that space. We want to be different. So how can we be different? And I think that's listening to them, talking to them, and trying to figure out if they do have that exposure already to private equity and private credit, how can we be complementary? How can we have something that will complete their private market portfolio? And that could be an asset backed financing, what we might call specialty income, that might have mid double digit types of return. So streams that would be different, though, from what they already have. So it's really being able to sit down, see what a client or an investor already has, and then trying to be complementary and offer something there that's unique. And that's what we're looking to do, and that's the conversations we're having right now.

Robert Morier: Would you look at a fund to fund structure? So say, for example, if you're looking at something like early stage venture, which arguably can be a little bit more difficult to identify those earlier emerging managers for a variety of reasons. But if there were a fund to fund solution that was available that you could potentially platform. So not thinking about the OCIO model, but thinking more about the platform model. Does fund of funds fit within the-- I'm thinking about the fire hose of water that you guys are drinking every day.

Paul Cavazos: We could look to develop something that has different GPs and managers underneath what we create. And so I think just on the venture side, I would say on the OCIO side, our client there didn't have a lot of interest. They're more risk averse. And so you have to understand who your client is. That being said, we do think something like venture in a diversified, private offering could make a lot of sense. We do think it should be sized appropriately too, if you had a diversified private portfolio. But yeah, look, I think as we're thinking about these

private market products and opportunities, we would consider a lot of different things there, Rob. So we would consider looking at draw down funds and putting them into an evergreen kind of tender offer type of vehicle. If it were for the retirement space, we would look to create a CIT then, because that's required in that space. And so we would look to offer very good access to GPs that folks otherwise wouldn't have access to, and do it at a price point that's very attractive. That's what we'd be looking to do. Depending on the size too, could just have separately managed accounts underlying or do a lot of co-investing, have companion funds. So it might not be in a typical drawdown fund. It could be a special purpose vehicle that you wrap up together. So we're looking to be very creative. And again, working with those clients on their specific needs I, think is, the most important aspect.

Robert Morier: You've written about the dangers of markets at extremes. You talked about or mentioned very briefly the Mag 7, particularly the dominance of these large cap tech stocks in recent years. So how do you think about concentration risk and valuation today on the public equity side of the business, toggling back to that side?

Paul Cavazos: Yeah, so it's very true that the Mag 7 and the top 10 in the S&P are at or near all time highs and continue to move forward. Look, are I think the difference with most of those-- actually, with all of those names relative to the TMT bubble in the early 2000 is that these are real companies. They have real earnings, they have cash flow. So I do think that is different. If you look at it vis a vis what has transpired in the past and where have there been bubbles. All that said, the valuations are pretty high, pretty expensive? Perhaps even priced to perfection in some cases. And that's where I do think diversification is key in a portfolio. And I think part of that is having a good rebalancing program and plan in place. What we always would try to say to anybody that will listen is you don't want to have too much exposure into any one certainly name individual. Security or even a basket of securities. But even in an asset class. And so you have seen these large cap growth names have continued to run up.

And I'm not suggesting that some of those won't continue to be good investments going forward. It's just at that starting point where they're at, it makes it more difficult to have the same experience that you've seen in the past happen going forward. So I would always be a proponent of diversification and rebalancing. And that's what lot of the conversations that we have and our sales folks have with our clients are around those just broad principles. Really, being more long term focused, being diversified. You've certainly seen a run up domestic versus international. And then this year, international equity has bounced back for a lot of good reasons. Sometimes these things move in ebbs and flows and really will be several years of outperformance and underperformance and these cycles. And if you didn't have exposure before the beginning of the year, the right strategic allocation, whatever you thought that was appropriate for you for your age and

your risk tolerance and that. If you didn't have it at the beginning of the year, you've lost out pretty significantly if you weren't invested fully to the level that you wanted to within international equities. So those are things, Rob, that we always are big, big proponents of.

Robert Morier: Well, I was thinking about a quote as you were talking. Warren Buffett used to say that the difference between value and growth is fuzzy thinking. So when you think about value managers, is there still a place for value in the portfolio?

Paul Cavazos: I have to say, I'm a little biased, because where our firm's beginnings and everything was from was from value oriented portfolios and funds. And some of our biggest funds remain kind of value focused, multi-managed products within domestic and international equities. So a little bias there. But even value managers would say they want them to grow. So everybody wants growth. It's just what price are you willing to pay to get that growth, and how long are you willing to wait, and how do you underwrite things? But I do think there's a space for value and growth. Look, I'm, again, being somebody that really believes in diversification, I think you should always have a good balance of value growth. And if you want to lean one way or the other, that's fine. But I think always having an exposure to both is prudent. You look at where we're at today and there's been fits and starts of value outperforming. I do think fiscal and monetary policy since really the GFC has created some atypical types of markets and you had low cost money and you had all these fiscal monetary programs that were pretty additive and supportive of growth and reaching for more risk. And look, I had exposure there, and I think that's great. I do think over longer periods of time, it's always good to have that balance. And you've seen there's a lot of reasons why you could see the backing and support for value. But again, I would just strongly recommend you have a diversified portfolio that has a balanced approach between value and growth styles.

Robert Morier: Yeah, I would agree. Thank you for sharing that, though. I appreciate it. So what are some of the structural changes in the markets that you think your clients may be underestimating? You're talking about them, but it could be something, as we're looking ahead into now 2026, that should be increasing in prevalence.

Paul Cavazos: What we see going on here with globalization maybe taking a pause, or at least perhaps less of that. So you do have more state driven capitalism or making strategic kind of relationships that aren't necessarily global, and you see the new administration doing that and just on a recent trip to Asia. We don't exactly how that's going to play out. I don't think anybody does know. I do think that kind of industrial policy, just what's going to happen with tariffs, how's direct investment going to change potentially going forward. All those things could

create a shift. I'm not saying this is going to happen tomorrow, but you could see good growth. You could see inflation popping back up again. You could see a lot of different things transpire. And again, that's why I think being more long term focus, having a diversified portfolio, I just keep going back to that, because we don't know what's going to happen. If I really did know, Rob, I probably wouldn't be on a podcast with you. I'd be on an island somewhere enjoying myself. But that's where a lot of our managers, I would say, certainly they understand what's going on from a macro standpoint. But more and more, they're looking at underlying, bottom up kind of security selection and trying to underwrite it from that and saying, hey, this company, this debt or equity piece has an opportunity to perform well, no matter what the environment is. I mean, that's, I think, in general how our managers are mostly looking at things. Certainly there's other types of investors we have. But I'm speaking of the long only space. That's really what they do.

Robert Morier: To our listeners who are not watching on video, Paul has a framed map of the world behind him, which has been in my sight for this conversation. And I've been thinking, Paul, if you had to turn around and pick one region of the world that you're most constructive on, and then one region that you're less constructive on, what would be those two things? You don't have to get up, but I'll help our audience with the visual.

Paul Cavazos: Well, I would still say-- this maybe sounds like a little bit of a homer, but I'm still very, very positive on the US and what we're going to do going forward. So I would never bet against the US. Again, there's certain parts of the market that you might want to look at and just make sure you're comfortable with your allocation, like we talked about earlier. But overall, I still feel that we have the best structure to really have folks be successful in business. So that's, I think, very relevant. I think Asia is somewhere where I have some concerns about. But it's not to say that we don't invest there. We do. I think that's why I do think in the emerging markets, in some spots, certainly we believe in active management. But I would say if somebody on a personal level wants to have some exposure to passive, I think it would be in those markets that are more developed and such as domestic. You could have a portion that's in passive exposure. However, I think in emerging markets, you have to be nimble. You have to be flexible. I think it's of paramount importance to have active management in that space, because there's going to be countries, inevitably, that you just want to avoid. That's part of an index. But you want to avoid. And so the only way you can really do that is be with strong active managers. Look, you don't know what's going to happen between the-- so within Asia, with China and the US kind of relationships and negotiations, I think there's some things there that potentially seem positive. I think it remains to be seen. I think it's been the case where you don't want to pass too much judgment before something actually gets implemented. But look, I do think from a standpoint of China and the US I think could both benefit from working well with each other on a lot of levels. And I am of the belief, I'm a glass half full type of a

guy, and I believe that over time, might not be immediate here, I think they're both going to come to that conclusion and want to do that. And I think that's going to be best for both of them individually, but also collectively for them and the rest of the world. And so I'm cautiously optimistic and hopeful that that's going to be the case. Since the new administration came in, I think when you just look at Europe, I think part of the reason that they've been successful, certainly valuations were attractive, but they can stay attractive for a long time, as we know. There has to be that catalyst. And I do think, look, they have good earnings. But they've all also all increased their spending on defense and structural things. And I think that has, to me, been at least one of the catalysts that has propelled them. And of course, a weakening US dollar has been extremely a tailwind as well.

Robert Morier: That was helpful. No, it's helpful for, I think, for people listening, and it's helpful for me even just as someone who moonlights as a podcast host. I think geographically used to be the starting point for where a lot of conversations began, particularly among public equities, but I think increasingly in private markets as well. I was at a private credit conference in Canada last month, and the talk of really the entire conference were the opportunities in Europe and overseas. So it had gone back to this geographic discussion where for, I guess, what you could consider since this AI undercurrent, it's more of a rip current than an undercurrent now has taken place. It's really all about sector and industry and the dynamics between frontier technology and deep technology and how you play that in a portfolio, how asset managers should discuss it as a strategy. And not to talk about any of your specific managers, but you do have some interesting insights into technology, frontier tech. And just curious if you had to do that same optimism scale, where are you in terms of how you feel about the euphoria around technology, artificial intelligence, and so on?

Paul Cavazos: I think it is real. I'll just start there.

Robert Morier: That's fair.

Paul Cavazos: And I think the administration and just business leaders in general domestically here are looking to make sure we have our best foot forward to stay on top of that leaderboard with respect to that. And so I think we're doing a lot of great things. We're spending a lot of money on infrastructure and the blocking and tackling the foundational aspects of it. And will all that money and capital being spent have a 30x return on it? I don't know. But I do know, I think, collectively us spending that money and in doing that research and that development and creating that infrastructure is going to be helpful.

I do think you have other competitors that are in the emerging markets, and certainly China is one of them, and the whole Deep Seek and other things that they're doing. And even other emerging countries are involved. So I don't think it's something that is solely going to be mastered by the United States. But I do think

we're going to-- I think we're in a good position to remain a leader and lead in that space, which I think is going to be extremely important. Yeah, it's just interesting to see how things are going to change. And this has happened throughout society. And you've seen development happen and it is disruptive and it's kind of scary. But it also leads to other job opportunities. And I don't think we've seen too much of that yet, but it's probably going to come. And for those folks that maybe get displaced, it will be a transition. But I do think when you get out on the other side of that, I think we've proven through history that it's a very good thing. Albeit, again, maybe a little scary for the people that go through that more than others.

Robert Morier: Paul, to my students who I require to listen to these podcasts as part of their weekly assignments, what's some advice that you would impart on them? Many of them are actually thinking about careers in asset management and advisory services, and other areas of the market that touch many of the verticals that American Beacon touches on. So some advice for them would be welcomed.

Paul Cavazos: When I started at Chrysler and I was in this leadership development program, and so I had four rotations that I went through. So four one year rotations. And one of those was in the asset management area of treasury, doing the pension and savings plan investments. And I remember another mentor at Chrysler, there was an opportunity then for me to come off of the program. Actually, Mark created a position for me. But I was thinking at that time, should I stay in this kind of specialized area of this big corporation? And I could have the opportunity to go to a bunch of different finance and accounting types of roles, and that would probably, admittedly, Rob, that would give me more opportunities to advance, just by definition. And I talked to this one mentor. This particular wasn't Mark. It was another gentleman. And he made a very good point, and this is something that has stuck with me, and this is my advice to folks. So he's like, Paul, do you like what you're doing? Are you excited about it? Are you passionate about it? And it just made me really think and write down, what do I really want to do? And like we talked about on the front end, do you really what you want to do at 17 or 18? I would suggest most people, no. The answer is no. A few will know from earlier in their childhood, but most of us do not know. And I would say after that experience and as that mentor mentioned those things to me, I was like, you know what? It is going to limit my ability to maybe move up vertically, because there's not, by definition, there's not a number of promotional advancements available. But if you're passionate about something and you like what you're doing and you're learning, there's nothing better than that. And it sounds quirky and corny, maybe. But I do think if you really enjoy what you're doing, you're never really going to work a day in your life. I mean, I would be doing this stuff anyways, even if I wasn't working. And so I think you have to follow what your passions are. I mean, that's the best advice I could give, and maybe a lot of times it doesn't. You might have a passion of, hey, I want to be a musician, and maybe you can't make it there. So you can always do that on the side. But if you can find a passion in a work

environment, that's key. And I think that would be some advice. I would say having a long term perspective, I've had several folks come to me and they're at a job and they're looking to maybe move for an extra \$10,000 a year and move their family across the country or their young family. And I'm like, why are you doing that? I do think sometimes younger folks, and I was maybe doing this as well, you're always looking for I gotta make more, I gotta make more. I think being patient and having that long term-- I'd say about having a long term view in investing, and I would also say have a long term view with your career path. Now, if something doesn't make sense, certainly shift, and you got to pivot. But I wouldn't just look at, oh, I can make a little bit more money here. I'm going to uproot just for that. That's not always the right decision. In many cases, it's the wrong decision. I would say when you're working, don't be afraid to make decisions that could work or not. Of course, you need to make sure your boss and that is supportive of that. But whenever you make a decision, make sure you own it. Make sure you own the outcome. And whether that's good or bad, that has served me well. And I think that's part of being a leader is making sure you own it. Look, I made mistakes. Inevitably, you're going to make mistakes. But just make sure you learn from them and hopefully you don't make the same mistakes multiple times. I would say being as consistent as you can, being as consistent as possible, is something else that'll help build credibility. It sounds simple, but if you say something, you're going to do something, do it. I think part of the thing is just showing up and being prepared. And we had a saying at DTE Energy, be here now, if you can show up to a meeting a little bit early, being on time is late. And sometimes it's going to be circumstances where you can't make it or you're going from one or the other. But if you can show up ready to go, ready to listen, ready to participate, I think as a young person starting your career, I'm telling you, your bosses and leaders are going to notice that. And it doesn't take much to do some of that. So just know that people are observing. How do you come to meetings? How do you show up? Do you participate, even if you're not a leader? Somebody says, hey, anybody have any questions or thoughts? Be willing and able to share. And I do think that's part of being successful. And again, I'd say looking to have a mentor is paramount. I've already kind of talked about the virtues of that. And lastly, try to surround yourself with smart, thoughtful people. And I think one of the best things that's kind of helped me is being part of that [? CEBA ?] or any organization that you can be with some of your peers in networking and share thoughts and ideas. And I think that sharpens your thoughts and ideas, and that's always helpful.

Robert Morier: Thank you so much, Paul. I can't tell you how truthful that is, especially the showing up part.

Paul Cavazos: Yes. It doesn't sound like a lot, but I'm telling you, a lot of people don't do it.

Robert Morier: I agree. And the ones that do really do stand out. I mean, there's no way around it. Yeah, even if the work isn't what they would hope it is or what you hope it is.

Paul Cavazos: And I think if somebody's there and available, so I'll say this too, I do think being available for ad hoc projects, that is key. So if you're not making yourself available, you're going to miss out. And sometimes that was the way with Mark. I had an opportunity to step in and show what I could do on an ad hoc basis, and he remembered that. And guess what? He gave me more of those opportunities. And thankfully, I performed well enough and learned how to get better. But that created that trust, that ability to say, hey, Paul is somebody I can rely on. He's somebody I can trust with an important project, with a certain aspect of an important project, let's say. And I think, look, that is invaluable. And if you can show that you're willing and able to step up and do those things that aren't even part of your formal "job description," quote unquote, that goes a long way.

Robert Morier: Yeah, I agree. It's actually good advice for asset managers as well when they're thinking about working with strategic partners like American Beacon and others. It's an important attribute to maintain. Well, thank you so much. A fun question for you. Dakota has a very big business, as I've come to watch it develop over the last few years. One area that they've started spending some time with is through Dakota Recommends. So if you are traveling to Dallas Fort Worth, if you are traveling to Michigan, and you are having a meeting with Paul, where should we take you? Without asking you explicitly where should we go? What are those spots that are at the top of your list?

Paul Cavazos: I was thinking, oh, there's restaurants, but there's other just places that would be something I would recommend. But I would say, so I am from Michigan, Southeast Michigan. And unpaid spokesperson I would say in some ways. But my mom and two sisters and their families live there still. I would say fall in Michigan is just one of the best seasons anywhere. And I've been a lot of places. Now, you can wait a couple more weeks and it could snow and be gloomy for six months. But it's the best. So, of course, there's the lakes and the trees and leaves changing colors and all that. I would say one of the things in the area, downtown Detroit has gone through significant improvement, revitalization over the last number of years. In Detroit, a lot of people might not be aware, but four major sports teams in Metro Detroit, and all of them are housed downtown. So it is incredible. That mile or so square mile in downtown Detroit is phenomenal. There's just different venues there to see plays at the Fox Theater and concerts and also then all the sporting events and a bunch of different places that are just fantastic eateries and all that. So that's what I would say about Michigan. So one of the places there, and I started working at a pizzeria in high school. So I will say Buddy's Pizza there, I will give a shout out to that. It's a great, fantastic place. It's kind of a thicker pizza with just phenomenal crust. And I think there's that pizza guy

that goes around and does stuff, and I think it's rated pretty high. Yeah, it's rated pretty high. Look, I met my wife in Austin many years ago when we were in grad school and now live in the DFW area, as you said. We've been down here about 10 years. We love it. A lot of energy and growth happening down here, and I think that's attractive. It's great to be around that. Dallas and Fort Worth are both great cities, but very different. Dallas is more of that financial hub. And I think outside of Manhattan, I think Dallas is really the second city. And you can maybe check that, Rob. But it certainly has a lot of that. And Fort Worth is called Cowtown and very proud of its roots. And so we love bringing, when visitors come, we'll go to both places, but if I had to say one place to get that Texas vibe, I would definitely say the stockyards in Fort Worth where you can see real cowboys, guns in their holsters, and real cattle longhorns. So it is just a really unique kind of visit there, and it's fantastic.

Robert Morier: Thank you so much, Paul. Thank you so much for all of this time and your answers around your thoughts on the market today as well as the background on American Beacon. It's very helpful for us. I've learned a lot. I've known you, as I said before, and the firm, for a long time. I was actually remembering that when I first started at Goldman Sachs Asset Management, 2007, 2008, they were one of our clients. Those were my first meetings with you folks. And then I've gotten to you very well over the years as well. So I want to thank you for taking time with me today, for sharing everything you did with our audience, and I wish you nothing but continued success, Paul. Thank you so much.

Paul Cavazos: Well, thank you very much. And yeah, it was a pleasure doing this with you, Rob. So appreciate it.

Robert Morier: If you'd like to learn more about Paul and American Beacon, please visit their website at www.americanbeaconfunds.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 for more content, please visit us at dakota.com. Paul, thank you again for being here. And to our audience, thank you for investing your time with Dakota.