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EPISODE 120:

Inside Fixed Income Manager Research with Marquette Associates

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, investment consultants, and other industry leaders to help you sell in between the lines and better understand the investment sales ecosystem.

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Well, if anybody has been distributing fixed income products over the last 20 years, you are going to recognize our next guest's name. If not, I am very proud to be introducing you to Frank Valle of Marquette Associates. Frank, welcome to the show.

Frank Valle: Thank you for having me.

Robert Morier: Thanks for being here. It's wonderful to have you in Philadelphia. I know you've got some clients in the area. So, you get to do some other stuff other than talk to me and us on the podcast. So, thank you. We really appreciate it. Before we get started, I'm going to read your biography for our audience.

Frank Valle is the associate director of fixed income for Marquette Associates and has nearly 20 years of investment experience. He joined Marquette in 2022 and provides thought leadership on fixed income research and capital markets research. Frank is responsible for leading the due diligence of fixed income asset managers, providing guidance on product selection, and developing actionable views based on a macroeconomic and capital markets outlook.

He is a member of the firm's investment committee and traditional investment manager search committee. Prior to joining Marquette, Frank was an investment director covering

US investment grade credit for Aviva Investors Americas. Previously, he was a senior consultant in fixed income research at Aon, as well as a senior client advisory analyst. He began his career with LaSalle Futures Group. Frank holds a B.B. In finance from Western Illinois University and an MBA from the University of Chicago Booth School of Business. Frank is a CFA charter holder and a member of the CFA Institute and the CFA Society of Chicago. He also holds the charter alternative investment analyst designation and is a member of the CAIA Association. Most importantly, Frank and his four sons and wife call Chicago home, where Frank volunteers as a coach with the Beat the Streets Chicago-Oak Park team on their wrestling program. Frank, congratulations on all your success. Thank you for being here.

Frank Valle: You're welcome.

Robert Morier: It's really a pleasure. We have a lot of questions to ask you. It's always interesting to be able to talk fixed income. We tend to get stuck in private markets these days, just given the way that the markets have been behaving and the general direction that a lot of allocators have been going in. So, it's nice to take a step back. I spent a lot of time covering fixed income products over my career. So, it's really a pleasure. But we always like to start with the beginning. And for you, sports and athletics play a large part in the beginning of your life. Can you tell us about the importance of sports for you both in high school and college and how it's impacted your journey?

Frank Valle: Sure. I mean, I think sports has been a big part of my life growing up. I played a lot of sports. But the two that I really focused on in high school were football and wrestling. And then I took that to the next step and played college football. And I think being a high-level athlete is really beneficial as people transition into a career. And it's not just sports, but it's really any high level, whether it's music, art, sports, I think that transitions really well into a profession because there's a sense of dedication that you have to put in to being an athlete or being a high level musician or what have you, that then that transitions into being a high level employee because there's a sense of dedication that they take into their profession. And that's what I did. I took that same rigor and intensity that I had as an athlete and put it towards my career.

Robert Morier: How about your experience being part of a team? So now in your role at Marquette, you're looking at teams all day. You're evaluating teams. The way teams work together. The way they operate together. The way that execution decisions are ultimately made. How did your experience working or being on teams impact the way that you think about team dynamics today?

Frank Valle: I think there's really two things I think about. One is the communication. You have to be able to communicate both with your peers as well as people who are above you and below you. So, when you start out as a freshman on the college football team,

you're the lowest of the low where you have to carry bags and get coach's jackets and all random things.
And then when you're a senior and you're a captain, you're really that leader and really directing down. So, you have to develop good communication across the team. And then the second is just understanding the internal politics that go around. Any time that there's a group or a large group, there's some dynamics that maybe aren't explicit out there. But you have to understand that there are certain implicit rules that are around.

Robert Morier: And you were on the offensive line?

Frank Valle: I was on the offensive line. Started at guard for a couple of years. And enjoyed my time playing.

Robert Morier: Oh, good. Thank you for sharing all that. We appreciate it. So, tell us about investment consultancy because you've been in it now for nearly 20 years. So, you've had this opportunity to see fixed income evolve over that time period. How would you describe that evolution as it relates to the way that you are interacting with asset managers, covering fixed income, and thinking about the underwriting process?

Frank Valle: I think there's been two big evolutions that we've seen in the investment consulting industry. When I started in, I didn't really know what investment consulting was. And it wasn't something I think I was going out to say, hey, I want to be an investment consultant. It was a role that came open and I had gotten laid off from the Board of Trade. So, I had to find a new job. And I found one in investment consulting with Ennis Knupp & Associate.

So, the first evolution I really think is just the amount of consolidation that we've seen in the industry. So, I went from being part of Ennis Knupp & Associates to being part of Hewitt to being part of Aon. The same thing happened at Marquette. Marquette's made a few acquisitions through the years. And so, we've seen the number of investment consulting firms out there really shrink down.
The second big evolution I've seen is the growth of OCIO. We didn't have OCIO when I was at Ennis Knupp & Associates. It's a growing part of our business here at Marquette. So just the evolution of people who no longer want to take that responsibility and want to delegate it off to people is increasing. And I think that's a trend that we're going to see continue.
As far as fixed income manager research, I don't really think a whole lot has changed. I mean, I follow really the same guiding principles I started with when I started doing fixed income manager research in 2010. That really hasn't changed. Some of the products that are offered today are different and the industry continues to evolve. But the way that I evaluate those managers is really similar.

Robert Morier: So how did you draw the fixed income stick?

Frank Valle: So, I actually started as a general consultant. And I was doing well. And I'd gotten promoted a couple of times, but I was stagnating a little bit. And I had done some work, as in the major-minor program while I was at Aon. And I did manager research. And the folks on the research team were like, why don't you just come over here? We have an open spot on the fixed income team. We'd love to have you.
And so, I was like, that sounds like a great idea. So, I moved from general consulting to fixed income manager research. And never really looked back. And so that was in 2010. And I've stayed in fixed income ever since.

Robert Morier: And I think it's great. I usually encourage students, I teach private markets, but I usually encourage them to try to find a job in fixed income. Because to me it's the foundation and it's the first language. So, if you can learn that language, then you can take that and learn all of these other languages around it.
So, whether it's private markets, private credit, even long-only equities, a lot of it is founded in those macroeconomic principles that fixed income managers are employing. So, it sounds like it was a good opening for you.

Frank Valle: It was a great opening. And the nice thing about fixed income is nobody really wants to do it. So, the supply/demand dynamics are definitely in your favor as a fixed income person.

Robert Morier: OK, Frank, tell us why no one wants to do fixed income?

Frank Valle: I think people think that fixed income is boring, but it's not. I actually think fixed income is the most exciting asset class there is because unlike equities, we'll just throw an example out. If you want to buy AT&T, you can buy the AT&T stock. And that's really the only decision you have to make.
There's 50 plus AT&T CUSIPs out there on the fixed income side. There are so many more decisions you have to make in fixed income. You have to decide on credit qualities. You have to decide on sector weights. You have to decide on where you want to be on the curve. Overall duration. There's so many more decisions when you build a fixed income portfolio relative to some of the other asset classes. So, I just think it's a much more complex. And in my case, I find it a lot more interesting.

Robert Morier: That's interesting. How about the perception that there is less competition? Historically, when you think about those core managers, core plus managers, and I'm talking about from a manager research perspective, again, perception is that there's not this huge universe of managers that can come in, like the emerging managers that you see in private markets and public equities.

It tends to look, or at least historically it's looked a little bit like an oligopoly. So how do you think about the manager universe? So, you're sitting down at the table. You've got a blank sheet of paper. You're with a new OCIO client. What does the universe look like in terms of the opportunities that are out there?

Frank Valle: I think within fixed income, it's fairly broad. I think there's very high barriers to entry within fixed income. You really need to have a good infrastructure, which is expensive. So, in order to get a fixed income firm off the ground, you either A, need to have a strong backer who's willing to back you for a few years because you're probably going to lose money. Or if you're going to be a sole entrepreneur, you have to really be willing to risk it all to get this off the ground.
There's been a few out there. I think there's a manager that they really went from zero to being a fairly large manager because the owner was willing to risk it all. She was willing to risk everything that she had in order to make this thing grow. And it did.
I think that a lot of people end up getting stuck in the middle because they don't want to give up what they have. And that's the tough thing with fixed income, is you either have to have a backer or you have to be willing to risk it all. Otherwise, it's very hard to get in.

Robert Morier: That's true. Those fees come down quite a bit with the larger the mandate gets in fixed income.

Frank Valle: Yes. And fixed income fees have gotten compressed a little bit. I try not to beat managers up on fees, but we try to find a fair fee. And we see today, Core, Core Plus space 20 to 25 basis points. So, you got to have a fair asset size to make a good living.

Robert Morier: What are the key attributes that you're looking at? Not to continue down the Core, Core Plus road exclusively. But when you are again looking at the landscape and you're thinking about the attributes that make the most sense for your clients, make the most sense for Marquette, and make the most sense for you in terms of how you think philosophically, the way that a fixed income shop should be managed and run.

Frank Valle: Sure. So, I mean, I try to look at the same factors that I've really always looked at. And for me, it always starts with business. I want to make sure that is it a large enough business? Is it a growing business? Do they have a strong CEO?
From there, then I turn over and look really at the investment staff. Is it a large enough team? Within Core and Core Plus, it's very tough to manage with less than 10 or so people between the portfolio managers, traders, credit analysts, you probably need to secure a few securitized guys. So, it adds up pretty quickly.
And then try to understand, are they good? Because I think when you do credit research, credit research is really crediting research everywhere. It's really more about the assumptions. And who does the assumptions come from? The staff. So, is the staff a

quality staffs? Then you look at the investment process. Is it a repeatable process? Is it something that they can do year in and year out, or is this more of a trade?
So, we really want to see that repeatable process. And then does that process turn into the right risk? So, if you're like, oh, am I really a bottom-up security selector? When we look at the risk positions, do those risk positions match the investment process? And then does that carry through to attribution? And then the very last thing is really just look at the vehicle types. Are there a few different ones? How much are they going to charge? Do they have good client service?
Because at the end of the day, if I'm picking up the phone, am I getting you on the line? Or is it just going into a black hole and you get back to me in three days? All that stuff matters. It's really a fully integrated process and all those things really need to align.

Robert Morier: Can you expand on vehicles. What are the types of vehicles that you'll typically spend more time on, focus on more than others? I mean, whether it's a separate account or a commingled fund, a mutual fund, are there any preferences? And where do you see the direction of your clients going as it relates to vehicles?

Frank Valle: Sure. So, Marquette's very much a middle market investment consulting firm. So, we really need funds. Historically, it's been more mutual funds. I'm not as big on mutual funds because they tend to be expensive. I really like commingled options, where we can negotiate fees a little bit. And we can work with you and have some interaction like we would have on a separate account.
We maybe don't have control over guidelines like we do on a separate account, but I think that's fine because the guidelines that you put on the CIT match the investment process. So, I'm not hugely concerned about that, but I do like the flexibility of a commingled fund. And then for some of our larger clients because even though we are more middle market, we do have larger clients that invest in separate accounts. Those 50 million, 75 million and higher may want to do a separate account. So, we'll use those as well. And then it's also nice just to have a mutual fund because there are still clients that really like mutual funds.

Robert Morier: We were talking about Core and Core Plus. How about the satellites? So, when you're looking at the attributes of an emerging market debt manager, bank loans, corporate credit, do the attributes remain the same? Has that changed at all, or is that consistent as well?

Frank Valle: I mean, I think we really do a consistent process across asset class. We really look for those same things. It may change a little bit like when we are looking at high yield. It's really credit.
So, the credit research, the depth of research is a lot more important in high yield than maybe you would see in a Core or Core Plus mandate where look, if you're buying double-A credits, you're really not going to have to deal with a lot of problem children, whereas on the high yield side, you will. And you need to have a little bit more in depth and rigor in

your credit research. But that's really the only lever you have to pull is credit and high yield, whereas in Core or Core Plus you can do sectors, and you can do some duration trading, and you have a lot more levers.

Robert Morier: That makes sense. I appreciate you sharing that. So how do you distinguish between managers who are consistently generating alpha and those benefiting from favorable market conditions? So how do you balance that?

Frank Valle: That's actually a tough one because the oldest trick in the book, particularly in Core and Core Plus is just duration neutral, overweight credit, and you're going to outperform. You really want to be able to find those managers that look why they do maintain that yield advantage. Because just about every manager is always going to have a yield advantage. Do they do stuff beyond just maintaining the yield advantage? Do they have credit research? Can they rotate sectors? If it's just surely because they're out carrying it, the index may be not going to be the manager you want to have. They're going to outperform in most scenarios. And then as soon as you get some sort of a credit event, they're going to underperform by 100 basis points. And you're going to be like, oh man, maybe they weren't as good as we thought they were.

Robert Morier: That's fair. How about when you're constructing a portfolio for a client? When you're looking at something like outsourced CIO, you've got some choices. You can go to one of the majors that will give you the core satellite all in-house. Or you can hire a core manager and then build out the satellite allocations. Any preferences with you or Marquette, how you like to build that out?

Frank Valle: Sure. So, we do what was formerly known as core satellite. We've switched up the terminology a little bit and we call it Ag satellite going forward. So, when we do our strategic asset allocations, they'll get an allocation to Ag. And then they'll get some allocations to a collection of satellites. Historically those have been high yield, bank loans, emerging market debt. This year we're going to do some work in structured credit. So that's going to be our fourth satellite. And then on the Ag side, what we end up doing on the Ag side is really a preference on how much alpha you want out of your Ag allocation. So, if you are comfortable taking Ag plus 0, which I wouldn't recommend you do in the Ag space, you can go passive. If you want to do something a little bit more, you could go to an enhanced strategy. I get 50 basis points over with Core, about 100 for Core Plus, about 200 for a multisector. So, our goal is to really give the clients a preference anywhere between Ag plus 0 and 200. And then depending on how hard they want their Ag allocation to work, they can pick that whatever alpha target that they want to have along the spectrum.

Robert Morier: That makes sense. When did the memo go out, no more Core?

Frank Valle: I'm OK with Core. The passive one, we've done a few on passive. I don't know if it actually came out as an actual memo, but we've done a few charts on it where we've ranked the passive index within the universe over a five-year trailing period. Over any one particular period Ag may outperform in a given year, there may be some managers that underperform the Ag. But over a five-year period when we plotted out the data, passive is almost always in the bottom quartile, bottom decile over the last 20 years.

Robert Morier: And I appreciate that. Thank you for sharing. So, when you think about your underwriting process. If you wouldn't mind using structured credit since it's something that you're going to be looking at this year. When you start that process, the decision has been made. You're going to add structured credit to the satellites. I'm sure you know managers who are currently offering that approach. But what does that process look like in terms of your opening up the phone lines, if you wouldn't mind, from sourcing through the due diligence process and then ultimately to making the allocation? We'd appreciate it.

Frank Valle: Sure. So, I think the first step is to get an education piece out. So, James Torgerson who's my associate, he's been working pretty hard on getting together an intro piece just for our consultants and for our investment committee. Say look, this is what we're doing. Here's why we're doing it. And then he's going to go through and start looking at individual managers. I think the first step that I always encourage our researchers to do is to do some desktop research. Don't get sucked into this, a lot of work and getting RFPs and doing a bunch of meeting with managers and you're like, well, this isn't going to work. Try to do as much the easy lift of going through databases and trying to find which managers you want. And then just start working them through the funnel. So, you look at doing some desktop research. And then you maybe do some introductory calls with a few managers. And then maybe a follow up call. And then the fun really starts where you get into the heavy lift, where you do the RFP. And then once that comes in, we'll start running it through our phases. So, the way that Marquette reviews managers is we do something called phase reviews. So, it's a four-step process. The first two phases are more about the product. So, the first, phase 1 is a lot more qualitative in nature. Phase 2 is more quantitative. Phase 3 is operational. And then phase 4 brings it all together, which is an on-site review to really verify everything we've already learned through the first three phases.

Robert Morier: When you look at that qualitative review, what are some of the attributes that you're looking for? We talked a little bit about team and the approach, the people who were behind the investment process at these firms. But what are some of those qualitative attributes that are most important to you in Marquette?

Frank Valle: I mean, I think it just has to do a lot of the things that I already talked about. Is it a sustainable business? We have a large enough asset base to matter. Is it growing? Is the CEO somebody who has a good direction of the firm? Is the staff knowledgeable in their asset class. When we talk to them, do we agree with what they're saying? Do their portfolios look like the way that we think they should look? I'm going to go back to Core and Core Plus because I do a lot more in the investment grade space. Is it just simply being overweight credit or are they rotating through sectors? Do they have lots of ideas that they bring in? Are they able to generate excess returns beyond just being overweight credit? Do they have a risk policy in place? Are they taking the right risks? Are they taking them in the right sizes? I know I'm getting a little bit more into the quantitative metrics.

Robert Morier: We enjoy that. It's OK. That's going to be my next question anyway. So, continue on.

Frank Valle: So, then we get into a little bit more of the quantitative stuff. And that's really where they blend the two. You look at the process that they tell you, look, this is what we do. And then it transitions us over to the quantitative basis. And are those risks matching up with what you say? So, if you're like, oh, we're duration neutral. And you look over here and you're like, why are you a yearlong in duration? That's not what your process says. What we want to see if you say your duration neutral is that your duration is right on the benchmark, which is what we see most of the time. I think fixed income managers generally do have a good sense of risk management.
So, you look at them and they're really lined up with what they say. And you see their sectors. They're like, oh, we really like the sector rotate. And I know you see those candlestick charts. If you see big bands on there or oh, you really do like the sector rotate. So, does that really tie back into your process? And then are you good at it? I think that's the last bit is when you look at attribution, if you say, oh, we're really good at security selection and then you have a
goose egg on security selection, then you're like, I don't know about that.
But if you say that and we're like, oh, we generate 75 basis points year in and year out on security selection, oh then that's interesting. So that's really where a lot more of the quantitative metrics come into play.

Robert Morier: It never ceases to amaze me the importance of word congruity. So, saying what actually is happening because there's always this disconnects. It seems that not always, but when there are problems, it seems like it's a disconnect like what you just described, which is I think consistent and has been for the 20 plus years we've both been doing this. You're bringing back--

Frank Valle: I always joke around. I try to tell managers just say what you do. And then do what you say. That's all we really are looking for you to do.

Robert Morier: That's right. I tell the same thing to students. So, they got those lessons early on. But it's hard, especially when you're vying for a mandate. And it's important to the business. You want to grow the business. You're taking me back. I used to work at Julius Baer Investment Management. And we had a Core Plus strategy and selling high yield. And we were also part of an equity business. And we were trying to build out private markets. When you think about fixed income managers, the purists, the people who are only doing fixed income, they're only doing credit relative to the folks that are doing a lot of different things for good reason, equities and form fixed income, public market fixed income, informs private credit, all of those synergies that you would hope for, when you look at those two, do you personally have any preferences between the purist versus the, I don't want to call them a generalist because they're not really generalists, but they're willing to look at different asset classes depending on the opportunities that are available?

Frank Valle: I mean, I don't think I have a preference one way or the other. I don't know of a lot of managers who are just like, we're only doing fixed income anymore. I think you've seen a lot of people either buy equities or I think a big thing that I've seen a lot more recently is this multi-boutique structure where we may have just a fixed income boutique here, but there's another 10 boutiques that are doing all different things. And we're all under one roof technically. But sometimes we say they act like they're separate, but then they're really together. So, I think that's one of the things that I've noticed a lot more recently is there's been this push towards a multi-boutique structure. So, I think in general you've seen a lot fewer standalone entities as far as fixed income goes.

Robert Morier: No, that makes sense. In that multi-boutique structure, are you seeing a balance of active and passive opportunities?

Frank Valle: I think it's more active. I mean, I think in fixed income there's really the big three or four passive players that are out there. I mean, there's definitely more than that. But the amount of people who do passive and fixed income is definitely under 10.

Robert Morier: And what do you currently see as the inefficiencies in fixed income that really separate the active managers? What are they exploiting or taking advantage of that the passive market just is never going to be able to compete with?

Frank Valle: I mean, there's a lot of ways to look at risk within fixed income. And I think managers do a very good job of exploiting that, whereas a passive manager is going to take a stratified sampling approach and they're going to fill each of those buckets as it goes. In fixed income, some of the active managers a trade a lot of people like to do is they'll take some of those higher beta names and overweight them on the front end. So, you don't get a lot of spread duration. So, you don't get a lot of price fall, but you get a good uptick in yield without really a substantial increase in risk.

So, a lot of managers when you look at their risk metrics, they'll have a huge overweight to credit on a market value basis. But on a DTS basis or some other risk-based approach, it'll be a lot more neutral. And so, you end up earning a lot more yield with being about the same level of risk. And so that's just something a passive index couldn't do. I think that's why there is a good space for an enhanced index because I don't know if I would actually call that active management per se, but that's something you could do relatively cheaply and more of an enhanced way to pick up like 25 basis points, cover your fees, get a little bit of excess return. Things like that you could do.

Robert Morier: Are managers trying to fill that void right now?

Frank Valle: We are starting to see some people try to fill that void. Some of the passive players have those capabilities because they run quantitative-based hedge funds. So, they use some of those same tools and just do it more on tweaking their passive a little bit. So, you're seeing some passive managers do that. And then you're also seeing some active managers are taking some of the stuff that some of the tools they use in their active strategies and transitioning them over to have some a low-cost solution that will outperform the Ag without really increasing the fees much.

Robert Morier: Interesting. Thank you for sharing that. So how do you go about assessing a manager's credit underwriting process?

Frank Valle: Sure. So, I think this takes me back to football a little bit. We always used to say it's really not about the X's and O's. It's more about the Jimmy's and the Joes. The same thing with credit research. If you do credit research at firm A versus firm B versus firm C, it's basically the same.
But what's different is each of the managers or each of the analysts has to put their inputs in there. Because they have all the same information. They have all the same estimates. They have all the same information basically. It's how they use that information and what assumptions they apply in their models that come out to different results.

Robert Morier: How about their ability to manage liquidity risk?

Frank Valle: Sure. So, I think that's something that you really need to pay attention to when you invest, particularly in some of those less liquid asset classes like your high yield, like your dollar-based EM. I don't know if daily liquid vehicles are the best option there. For some of them they might be depending on the individual strategies, but I think you're probably better off in a less liquid vehicle.
At the end of the day, what you want to make sure you have is the demand on the assets has to match the liquidity. So, if there's some sort of an asset liability mismatch, that's where you really get into trouble. If you have assets that are a lot less liquid than the liquidity on the vehicle, then you get into the old-fashioned bank run scenario because of what you don't want to have happen. Because in some of these illiquid vehicles or illiquid strategies, when those demands, start hitting, the first thing they do is they sell the stuff

that's liquid. So, then that fund just becomes more and more illiquid. And that's where you say, look, is this better in an interval fund?
We at Marquette haven't used those yet. I can see that being something that we could use in the future. I actually think ETFs are a little bit interesting as well because most of the ETF trading actually takes place on the secondary market. So, the manager themselves just manages their portfolio. They don't really have to worry about liquidity because it's not an issue for them. If something gets out of line, somebody will create and redeem. But most of the trading takes place on the secondary market. So, they don't have to worry about the liquidity of the portfolio. So, I think that's something that's interesting. And I think we'll see more of strategies like that where we're really trying to avoid those situations where the fund is more liquid than the assets.

Robert Morier: Absolutely. How about governance? I don't want to talk politics. We don't talk politics on this show by any stretch. But if you do get into an environment where regulatory oversight is relatively diminished, it becomes just a little looser. How would you approach that? How will you approach that from a governance perspective with the managers that you're currently working with?

Frank Valle: I actually don't think it changes much. I mean, I would like to think that we don't rely on the government to make sure that our assets are safe. I mean, I think that's part of our job is to make sure that our assets are safe. So, I don't think it changes too much. Because I'm still going to look at the same factors that I've always looked at to make sure that the assets are doing what they're supposed to be doing, to make sure that they have the operations in place, to make sure that the money is segregated, and make sure that all the accounting and record keeping is done appropriately. So, I don't actually think it changes too much.

Robert Morier: So that operational leg in that four-part process remains the same?

Frank Valle: Yes, I think so.

Robert Morier: That makes a lot of sense. Thanks for sharing that, Frank. I appreciate it. Well, thinking about all of these approaches that you take across the asset classes. In a recent article, you co-authored The Debt and Deficit Dilemma. You discussed the US national debt surpassing $36 trillion. How does this debt level influence your outlook on the fixed income market?

Frank Valle: Sure. So, I think this is the old bond vigilante problem. As that deficit increases, the market should demand higher rates. I don't know if you see that this year. But if it continues down this route, I think particularly back-end rates, the market's going to demand higher rates for back-end treasuries. So, you'll see that curve really start steepening, which will put some pressure on the US government. I think you'll end up seeing the government, they have a treasury secretary who's very adept in markets. He'll just start issuing more short-term paper. So, I think there's this whole game of supply and demand. If it's going to cost you more, then we'll just issue short. So, I think they will fund the government the cheapest way possible.

Robert Morier: How about going overseas? When you think about European markets, when you think about emerging market debt, what are some of the risks and opportunities that you're seeing outside of the United States?

Frank Valle: Sure. That's an interesting one. Because historically, we haven't done a lot of non-US. I mean, the fixed income market is very much US dominated. Because unlike equities and some others, it really comes down to where is your debt issued. That's what market you're in. So, if you issue in the US, you're US. It doesn't matter that your Toyota. And based in Japan you issue dollar debt, your part of the US. So historically, most of our clients have been solely US-based. I think as you start seeing central banks diverge and this deglobalization happen, it creates opportunities to start looking more globally and look at different markets because you have desynchronization of interest rate cycles. And so that starts to make some of those markets a little bit more interesting.

Robert Morier: That makes sense. How about innovation and technology? Are you seeing any of your managers issuing white papers about how they're implementing artificial intelligence into their manager research, or I should say their investment approach?

Frank Valle: Not yet. Not yet wholesaling. I think people are starting to think about it. I think it's one of those things that's interesting. Bloomberg has a new module on there that's AI-based. It's definitely coming. I think people use it to some extent already. Even if it's just for notetaking or looking at big transcripts and pulling out keywords just to save some time. So, I think it's definitely used on the margins. And it's just going to become a bigger and bigger part of their research because it just creates a more efficient process.

Robert Morier: I have a question for you. I'm thinking about it from the classroom perspective. The value of assigning a student a paper has come down a lot. The value of bringing the student in the classroom with guests bringing case studies to life has come up quite a bit. Do you think the value of an RFP is going to go down as a result of AI potentially writing most of the answers versus being on site with those managers? And again, figuring out that word congruity.

Frank Valle: Sure. So, I mean, I think they will definitely use AI in terms of doing RFPs. I think there's still some sort of a human element involved in it. But I always think that being face to face with people is beneficial. I mean, finance has always been a relationship business. Somebody told me when I first got into the industry, look, you can teach somebody the X's and O’s of this in a year or two, but it's really about relationships. And that's what makes the finance world work. So, I think going forward that's going to be even more important because as we've shifted a lot of this stuff to AI, the relationship aspect is going to become even more important.

Robert Morier: I'd be remiss not to ask you about your perspective on the growth of private markets, private credit that is. Just your thoughts, Marquette's house views. It seems from my seat at least speaking to a lot of allocators, there's no shortage in, I should say there's no slowdown in private credit searches. But I'd be curious from your seat how you see the proliferation?

Frank Valle: Sure. So private credit actually sits outside of fixed income at Marquette. But I think the line between public fixed income and private fixed income gets blurrier and blurrier by the day. Essentially everything you can do in public fixed income; you can do on the private side.
And going back to what I mentioned just a few minutes ago, really the only difference between private credit and public credit is the origination. Is it a big syndication? Then it's public credit. Is it just one person or a small handful of people? Then it's private credit. But at the end of the day, you're really doing a lot of the same things.
And I think private credit is going to continue to grow. And Marquette, we've done a lot of direct lending, but I think private credit is much beyond that. Some of the asset-based financing stuff that's out there, some of the real estate debt that's out there, I think there's a lot more that eventually you'll see in the public or in the private markets. And as they continue to grow, that line is going to become even blurrier between the two. What does that line look like now.

Robert Morier: What does that phone call sound like? When the private credit folks give you a call on the traditional fixed income side, what questions are they typically asking you to glean your insight, getting out of that opaque, getting out of the blur and trying to create some clarity?

Frank Valle: Sure. So, I mean, right now I answer the phone like I try to always do, but I pass it over to Chad Schaefer, who covers our private credit offerings currently. And he takes it from there. But I think you're going to see more strategies that have both private and public aspects to them. We just underwrote a strategy earlier this year as part of our multi-asset credit offerings that could do up to 20% in private credit. So, I think you'll see more and more strategies like that. I had another manager who I was talking to the other day. They called it bespoke transactions. And I was like, is that just a fancy name for private credit? And they're like, we did some securitized paper, and we kept the pieces that we wanted, and we sold off the rest.

Robert Morier: Bespoke transactions. One thing I say, finance has always been incredibly clever about the way they repackage products over the time. So, thank you for sharing that. It's interesting insights. I really appreciate it. When you think about areas that Marquette is currently working on, you mentioned structured credit. We talked about enhanced indexes. Anything else currently that you're spending more time on? Asset managers tune into the show. They're always curious as to where you're spending your time. So potentially where they can be taking your time.

Frank Valle: Sure. So, on the satellite side, we've got structured credit. And then on the aggregate side, I know I mentioned the enhanced index. And then on the other end of the spectrum is those multisector mandates. Historically, we haven't done a ton there. So, think of Ag plus 150 to 250. We're starting to look at some in that space as well.

Robert Morier: That makes sense. How about forecasts? What's the general forecast for fixed income as it relates to Marquette's views that you're sharing with your clients, that education piece?

Frank Valle: Sure. So, I think fixed income is finally attractive. For the first time in a long time, I think we've seen people increase their fixed income allocations at the margin because getting 5% isn't the worst thing in the world. I think a lot of people would be really happy with a 5% return. It makes hitting those 7%, 8% bogeys easy. You don't have to get really creative with your fixed income allocations.
It was tough when the yield on fixed income was one and a half. It's a very different discussion when you're like, well, do we have to own any? And they're like, yes, you have to own some fixed income. There's more than just yield as a reason to own fixed income. But you don't need to get nearly as creative to get that return today.

Robert Morier: What have you learned from coaching your son relative to being coached all over those years?

Frank Valle: Sure. So, one thing that I try to do with my son relative to things that happened to me when I was growing up was, there's no reason to be mad after a match. There's zero. There's nothing I can do after a match that can change the outcome of that match. I'm probably one of the most intense coaches that we have. But as soon as the match is over, it's over. There's nothing I can say or do that will change that outcome. It then becomes, what did we learn from that match that we can now apply to our next match to have either a different outcome if we lost, or a better outcome if we won by one point? Let's find a way to win by 10. Or let's find a way to get a pin. What can we learn from that experience? So, I don't really want to dwell on the past, but really what can we learn and improve upon?

Robert Morier: And what were some of those lessons that your coaches taught you over the years
that have really stayed with you.

Frank Valle: Sure. So, I think really just valuing hard work and dedication. I think going back to what some of the very first questions you asked to be a high-level athlete, you really have to be dedicated. I mean, it's very difficult to be a good student, a good athlete, and have a good social life all at the same time, which means a lot of times I just didn't go out. So, you have to give up a lot because to be a high-level athlete or a high level anything. And I think that transitioned over to my career. I gave up a lot in my '20s and '30s to set me up to have good '40s and '50s and '60s. So, I think that's one of the things that I learned. Just mental toughness, I mentioned hard work, perseverance. There's a lot of ups and downs in athletics. Similar to life, nothing is ever as good as it seems. Nothing's ever as bad as it seems. Try to keep a level head. I just learned a lot from sports because I did it for a long time. I think I started playing competitive sports when I was five. And I did it to 23. So, it was a very large part of my formative years.

Robert Morier: That's why I ask. I appreciate you sharing all that. How about advice that you're giving to young professionals who are thinking about entering investment consulting? Anything specific
that you would share with them?

Frank Valle: As far as investment consulting, I would say try to get involved in a lot of projects. Because you get to learn a little bit about a lot of things. So, I started out as a generalist, which just by its very nature, I learned a lot about the investment consulting practice, things I didn't really want to do. I don't ever want to do a record keeping search ever again. But it's part of the gig. And so, you learn all those little aspects about it. Learn about performance reporting. And then decide, look, is that what I really want to do? Do I want to be a journalist? Or do I want to be something that's more specialized? And if you do want to be a more specialized, having all that little knowledge about all those other things tends to be beneficial.

Robert Morier: Last question. What makes a good teammate?

Frank Valle: Being a good teammate involves a few things. I think a lot of it is communication. I would say, in order to be a good teammate, you need to be able to take constructive criticism. You also need to be able to give it. So, I fully anticipate, if I'm talking about something and I'm being dumb, I really need James to be like, Frank, you're being an absolute knucklehead on this. And challenge me and be like, look, that's not right. And so, to be a good teammate, you really have to be willing to give that advice and understand that the team is really more important than any of the individuals.

Robert Morier: Frank, thank you very much. Thank you for sharing your insights. Thank you for sharing Marquette's approach to fixed income manager research. It's been very insightful. Congratulations on all your success. I wish you the best of luck with the boys.

And whatever career they go into, your advice and insights were very helpful. So, thank you.

Frank Valle: Thank you for having me again.

Robert Morier: If you want to learn more about Frank Valle and Marquette Associates, please visit their website at www.marquetteassociates.com. You can find this episode and past episodes on Spotify, Apple, Google, or your favorite podcast platform. We are also available on YouTube if you prefer to watch while you listen. If you'd like to catch up on past episodes, please check out our website at dakota.com.
Finally, if you like what you're seeing and hearing, please be sure to like, follow, share these episodes. We welcome your feedback as well. Frank, thank you again for joining us today. And to our audience, thank you for investing your time with Dakota.