TIP535: INSIGHTS FROM THE WORLD'S TOP MONEY MANAGERS W/ KRISTOF GLEICH

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TRANSCRIPT

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[00:00:00] Trey Lockerbie: My guest today is Kristof Gleich. Kristof is the President and CEO of Harbor Capital and is responsible for Harbor's 40 billion dollars of assets under management, invested in boutique managers from across the world. Prior to Harbor, Kristof was an Executive Director at Goldman Sachs and Managing Director at JP Morgan.

[00:00:20] Trey Lockerbie: In this episode, you will learn how Kristof would summarize Q1 of 2023, how working with a wide array of managers helps inform his worldview, what makes a great money manager, and how Kristof identifies one factor, frameworks, and innovations around behavior analytics. You will also learn why active ETFs are having a huge surge in popularity, as well as the life lessons that Kristof learned after spending over two hours with Bill Gross, also known as the Bond King, just a short time after his infamous exit at PIMCO. I gotta say, there are some really interesting developments and strategies happening in active ETFs, and I was happy to explore them in more detail. I think you'll get a lot out of this one.

[00:01:10] Trey Lockerbie: So without further ado, please enjoy my conversation with Kristof Gleich.

[00:01:15] Intro: You are listening to The Investor's Podcast, where we study the financial markets and read the books that influence self-made billionaires the most. We keep you informed and prepared for the unexpected.

[00:01:34] Trey Lockerbie: Welcome to the Investors Podcast. I'm your host, Trey Lockerbie, and like I said at the top, I have Kristof Goche here with me, and we are so excited to have you, Kristof.

[00:01:42] Kristof Gleich: Thanks for coming on, Trey. Thank you so much for having me. It's great to be here.

[00:01:49] Trey Lockerbie: Well, let's dig right into it. This market seems a little bit bipolar as of late.

[00:01:53] Trey Lockerbie: No one really seems to know what to do next. I mean, a lot of bears out there thinking we're going lower. Rates are just going to keep going up. A lot of bulls are saying, Hey, inflation has peaked. It's going to be a softer landing. I'm kind of curious, if you had to summarize Q1 of 2023, how would you go about doing that?

[00:02:09] Kristof Gleich: I think bipolar's a good start. Trey, what I would say is, uh, the headline is Team Soft Landing is winning. And that's what's happening in the markets at the moment. To understand what's happening so far this year, let's just go back a little bit further to October of

2022, when the S&P had its most recent bottom and then sort of understand where we were then.

[00:02:37] Kristof Gleich: We were in the midst of a historical interest rate hike last year. You know, the Fed has effectively gone from zero to near 5% in about 12 months, which is quite some hiking cycle. And so what did that mean last year? There was obviously a lot of volatility, and sentiment got very, very bearish.

[00:02:59] Kristof Gleich: And look, there are different ways that you could look at market sentiment positioning. One of my favorites and most simple is the Bank of America Merrill Lynch Fund Manager Survey. It comes out once a month, and they survey some of the largest fund managers across the world consistently with the same questions. It's good quality data, so you can look at the time series of responses and really learn a lot.

[00:03:28] Kristof Gleich: So what did the fund managers' survey of October tell us last year? It told us that sentiment and positioning were crisis level bearish. You can look at it a few different ways. If you looked at the amount of cash held on average, it was a kind of crisis point high. So you'd have to go back to sort of a 2008 or COVID environment to see it as high. If you looked at equity underweight versus overweights, equities were underweight as they have been in prior crises. And then finally, if you looked at the economic indicators of a recession and the percentage of people that thought we were already in a recession, it was a reading so high, uh, it's only ever corresponded to times that we've actually been in a recession.

[00:04:22] Kristof Gleich: So, what does that do? It sets the stage for markets to have this habit, this wonderful habit of causing the most amount of pain and the most amount of people. And when sentiment is that one-sided, it is not unusual to get just a relief rally. And I think that's where things began, and it began to gain momentum.

[00:04:46] Kristof Gleich: What happened? We began to get new data points on the economy that headline inflation was rolling over. And some of the more worrying indicators, like wage inflation, have actually been revised down [00:05:00] a little bit. And so we went from a very bearish sentiment and positioning, predicting a hard landing, and then we transitioned to sort of a softer landing. And there's more, I would say, optimism now, certainly in the equity markets, that we're going to have a soft landing.

[00:05:19] Trey Lockerbie: What's interesting about that last point is inflation is not going down to the degree that we need it to, and you have to assume that in order for it to get to where it needs to be a lot more pain does need to come.

[00:05:31] Trey Lockerbie: Right. So what are the bulls really standing behind knowing that there's probably something that needs to happen for the Fed to continue with their mandate?

[00:05:39] Kristof Gleich: Look, I think what the bulls are standing behind is, and you know what's been surprising to the upside this year has been how strong the economy has remained and how high nominal growth still is.

[00:05:55] Kristof Gleich: Ultimately, nominal growth drives nominal wages and I, there was a fear. The economy was headed for an abrupt hard landing. And the debate three or four months ago was about when the recession is going to hit. If it's not already here, is it going to be Q1 or Q2 of this year? Clearly it isn't going to be Q1 and it's unlikely going to be Q2 if at all this year.

[00:06:21] Kristof Gleich: So I think just again, that what the balls are kind of getting behind is that it wasn't nearly as bad as what was being priced in at the time. And as I said, some of the wage pressures that were running in the high fives at the time, wage inflation was running five and a half, 6%. And you actually had some downward revisions to historical data and suddenly it was running in the fours again.

[00:06:45] Kristof Gleich: So I think there was this there's this phrase that's been, I'm not sure if you've heard it, the immaculate disinflation, and I think the bull argument is that we were going to have this immaculate disinflation. You marry that up with the pessimism earlier. You set the stage for a pretty strong rally, which is what we've seen.

[00:07:02] Kristof Gleich: I think A, a soft landing inflation disappearing, going back to 2%. I think it's fanciful thinking, frankly. I mean, if inflation is here, we see it every day. We see it in the grocery store and you see it in the numbers. And whether it was last week's PCE data, European inflation came out this week.

[00:07:25] Kristof Gleich: Surprising to the upside, if you look at the employment payroll numbers, I think we have a sticky inflation problem and I. Going from a nine handle down to a six or a five is going to prove to be much easier than kind of going from here back to 2%. So I think we should get used to higher levels of stickier inflation and the volatility that's going to bring in markets.

[00:07:54] Kristof Gleich: And I think we're going to have shorter market cycles within that. And I think what we're experiencing at the moment is an upward trend. But I would caution you to believe that we're at the beginning of a, new multi-year bull market.

[00:08:09] Trey Lockerbie: You mentioned jobs and the economy being strong.

[00:08:12] Trey Lockerbie: One of the biggest surprises it seemed was this January report showing 517,000 jobs created and unemployment hit a 53 year low. So that just kinda leads us to believe more inflation, or at least like to your point, it will be stickier for an amount of time, as long as people are employed and have the money to spend on these goods and services to keep these prices up.

[00:08:33] Trey Lockerbie: My question is, beyond that, was there anything else that stood out to you as being uniquely surprising?

[00:08:39] Kristof Gleich: So, yes, there have been some things that have surprised me, and if I was going to pinpoint one, I would say it's the economy's ability so far to absorb this interest rate shock that we've had. And actually, the economy appears more resilient to interest rates than I think I thought, and probably what a lot of other people thought. I think if we'd sat down a year ago and said, okay, over the next 12 months, Base rates are going to effectively go, let's round up, you know, go from zero to five. Okay, we're at 4.75. What's going to happen 12 months out to the non-farm payroll number? You'd say it's going to be in the gutter, but it hasn't. We had one of the strongest monthly payrolls in recent history.

[00:09:32] Kristof Gleich: So there's an underlying resilience here still. And what sort of caution to me a little bit is how much of this is just a lag indicator. It's that because we haven't been, the last cycle wasn't a typical kind of binge credit cycle. Generally balance sheets, certainly household balance sheets post the financial crisis are in a much better shape.

[00:09:58] Kristof Gleich: The coming out of the GFC it was all about de-leveraging the household balance sheet that's effectively done, but we haven't now and so it makes it seem to be making the economy and the consumer more resilient to interest rates. . And so I think that's the thing that surprised me and why we are watching the incoming data very carefully.

[00:10:20] Kristof Gleich: So there's a phrase I heard recently, which I think really rings true today, is that we all, we hear it like you've gotta be data dependent. And that's generally always true, but I think especially so now. But in an era where we need to data the pendant, we don't have data that's very dependable, man.

[00:10:37] Kristof Gleich: You see this with a lot of revisions happening 2, 3, 4 months after the effect. And there's clearly an echo I think left over from Covid in this respect. There's an echo left over from the supply chain dynamics and what was ultimately transitory inflation. because let's be clear, some of the inflation that we've had is transitory.

[00:10:58] Kristof Gleich: And so trying to figure out and read through the noise of the data is really critical and it makes it even harder. So I think at the moment the markets are very hard to read. They're always hard to forecast, but they're incredibly hard to read at the moment. And so any predictions your listeners here should be taken with a decent dose of humility at the moment

[00:11:19] Trey Lockerbie: As far as data is concerned.

[00:11:21] Trey Lockerbie: I mean, the idea that our inflation numbers come from a bunch of folks imputing data manually basically out in the field from the BLS in 2023, it seems like, oh my god, how much room per error could there be? Something like that. Exactly. So your specialty is placing managers finding these synergies between the strategy and a person to actually manage that strategy.

[00:11:44] Trey Lockerbie: And you're dealing with different experts in different fields all day long. I'm kind of curious how that actually helps you inform your own views on the economy and the markets, especially when I know sometimes it can be an alphabet soup when you hear so many different opinions coming from in so many different directions.

[00:12:00] Trey Lockerbie: So how do you navigate that and filter through that to develop your own?

[00:12:04] Kristof Gleich: So firstly everybody talks about our own book to a certain degree. So if you're building a multi-asset portfolio we're in a fortunate position here at Harbor Capital. We work with managers from all over the world across public markets, equities, fixed income, and commodities.

[00:12:23] Kristof Gleich: So you hear a range of views and I would say over time you begin to get a sense of when a manager is particularly bullish or bearish versus his or her own style and what they're seeing. And I think it's a really helpful input into our overall process. We have our own proprietary models where we look at where we are in the market cycle, what's going on, what's the strength of the economy, where valuations are, but I think where it can be really helpful.

[00:12:55] Kristof Gleich: Around some of those more kind of opportunistic ideas or trades or shorter term investments as well, where people can come and they can pound the table and lay out their background experience set. They haven't seen something like this in pick can number 10 years, 20 years. And you've really gotta listen into those little nuggets and realize when they mean something versus when a manager is trying to talk about their own book and it can be a really valuable input.

[00:13:22] Trey Lockerbie: It's kind of reminding me of what Ray Dalio calls believability at Berkshire Hathaway. Just having these different experts who can opine on certain things and you almost using that merit-based system to develop your own thinking. Is that similar to how you would look at it?

[00:13:36] Kristof Gleich: Yeah, exactly.

[00:13:37] Kristof Gleich: I mean, he's a hard one Dalio to argue with in terms of the believability, but I think that's right. Another indicator is we can look at what the managers are doing. We have an incredible amount of data and as well as listening to them, we can see what they're doing. And on the margins, that can be a really strong signal.

[00:13:56] Kristof Gleich: So if you have a manager that is normally higher in quality, but on the margin they're buying cyclicality the bar for that manager to buy cyclicality is really high. And if they're going to be deviating towards that, you can use that data. Well, why is that? What are you finding cheap about cyclicality?

[00:14:14] Kristof Gleich: And you can sort of, sort of start to uncover a thesis there. Another one would be market cap going up and down in market cap. You can get a good read on what's happening there. And the other one is the regions occasionally you get US managers that can buy some international stocks and vice versa.

[00:14:31] Kristof Gleich: And if an international manager, despite optically cheap valuations is still buying us stocks, it's hard to make a compelling argument that you've gotta be leaning into international diversification when that's happening, or vice versa.

[00:14:48] Trey Lockerbie: So what I'm really intrigued about, and there's a lot actually throughout this conversation we're getting into, but one thing that stood out to me about what you've done or what you do is you create or have created a systematic way to recognize luck versus skill with these managers that you're placing.

[00:15:03] Trey Lockerbie: I imagine there's some quantitative element to this or something that we can really sink our teeth into here. So I'm excited to learn a little bit more about how you've developed that system and what went into it.

[00:15:14] Kristof Gleich: For sure. So I'll start at the top with investing the noise to signal ratio.

[00:15:24] Kristof Gleich: There's a lot of randomness, there's a lot of short term noise and. What we try to do is focus on what is ultimately signal and what is noise. And for that I studied science. You can figure out what are some apparatus that you can look at that can help you reduce that noise and if you like, focus in or zoom in or amplify that signal.

[00:15:48] Kristof Gleich: So that's sort of at a high level what we're dealing with that very high noise to signal ratio. Let me give you an example of a study that we did, which I think illustrates this point really well and I'll explain it in decal because it had some pretty cool conclusions. So we created something called the crystal ball portfolio.

[00:16:09] Kristof Gleich: Okay? This is a hypothetical portfolio. The results of this portfolio are impossible to achieve. So just from my compliance hat on, this is a thought experiment, but you can learn some practical tips from a thought experiment. So we created the crystal ball portfolio. Where for a period of 30 years, three zero, we picked with full hindsight as if we had a crystal ball, what are the 20% best performing managers going to do over the next five years?

[00:16:41] Kristof Gleich: And we held them hypothetically, right? We held a basket of at least 20% best performing managers. You held them for five years and at the end of that five year period, they're going to be the best performing ones because that's why you picked 'em. And then you reallocate your portfolio.

Kristof Gleich: And then create a chain link of those returns over a 30 year period. So it's the 30 year crystal ball p Bolio, reconstituted every five years, knowing ahead of time what the best managers are going to be. Okay. It is, like I said, an impossible ball, failure to achieve What on earth is the point of doing that.

[00:17:19] Kristof Gleich: Well, you couldn't look at it as if you like a very upper bound. Of what really good managers can do. So if you look at that portfolio over a 30 year time period, we did this in us. So our core growth and value, we mixed 'em all together. So you even get the benefit of picking the right style, which is pretty hard to do.

[00:17:39] Kristof Gleich: And this portfolio over the long run outperformed the s and p 500. Well, duh it should outperform it by a lock. You've got a Crystal bull and it outperforms the s and p 500 by about 400 basis points. It was 396 or 397 basis points per year. I can't remember the exact number, but let's just say 400 basis points per year, which is good.

[00:18:03] Kristof Gleich: And so if you can find a manager that you think can do 400 basis points a year, like buy that manager and hold it for the long run. But what was really interesting about this as well is what about did it underperform? You've got a crystal bull here, there's it underperforming, and the answer is yes, and probably more than you'd think.

[00:18:22] Kristof Gleich: It underperformed almost one year in four. So if you look at all the rolling 12 month windows over a 30 year period, almost one out of four of them is negative. And that surprised me. I had assumed it would've been a lower level of underperformance because you've gotta press bull. And then the last thing is the longest period of underperformance it had versus the index was almost five years.

[00:18:44] Kristof Gleich: So a really interesting exercise to go through. And for us it helps set expectations at the beginning and set realistic expectations at the beginning. And so, We have realistic expectations and, in terms of like, how do we systematize our process? Yes, there's a heavy degree of quantitative rigor that goes into it, but it's really marrying quantitative rigor and quantitative rigor.

[00:19:07] Kristof Gleich: So I'm lucky we have a team here of professional researchers that all they do day in and day out is research managers. They interview managers, they go looking around the world for managers, they stay on top of the managers that we're invested in, and it's their cooling. It's what they live and breed every single day.

[00:19:24] Kristof Gleich: What we also have is an excellent data team. Our industry, one thing our industry is not short of is data. And there's some really valuable information inside of that data, and you just need to have the right kind of tools to break it apart and see what kind of information is in there.

[00:19:40] Kristof Gleich: So let me be a bit more specific. We apply what we call our alpha edge framework. And one of the things that we look for and that we write down before we make any investment is what is the edge of the managers that we think we have? I'm surprised how few people do that, by the way. And I would advise everybody in investing, what is the edge that you think you have and what is the edge that you think the manager has that you're going to invest in?

[00:20:03] Kristof Gleich: And then quantitatively what we do is we have what we refer to as a factor framework. And what do I mean by factors? So whenever you make an investment, let's just keep it more sort of, more simple in, in equities, if you buy a company, you buy a stock, or if you buy an ETF, or you buy mutual fund, actively or passively is going to be a basket and aggregation of those stocks, there's going to be certain factor characteristics that they have.

[00:20:29] Kristof Gleich: They might be more leaning into value, they might be more leaning into quality. They might be leaning more into growth. They might be high beaters, low beaters. And what you find is you can use statistical techniques. To disaggregate a manager's portfolio into different factors, and there's normally about three or four that kind of explain the majority of their risk and return, frankly.

[00:20:52] Kristof Gleich: And so what we try to do is create a factor framework to understand almost what's the manager's DNA through factors [00:21:00] and what are their exposures to them through time? What are the expected returns on those factors over time? Do they mean do they persist? And then what's left over at the end is called the, in a model sense, the unexplained bit or what we would describe it as, the idiosyncratic bit or what our industry would describe that as the alpha bit.

[00:21:24] Kristof Gleich: So when we are looking at a prospective manager, we try to take that historical performance and we try to break it down into its component parts. We try to look at what's factor based. We build expectations over those factors. We try and look at what idiosyncratic and often or not more than a hundred percent of the returns of managers in general is factor-based, that actually the skill wear is actually negative.

[00:21:49] Kristof Gleich: It's kind of a bit depressing, but in our view, if you could find a manager that has a positive idiosyncratic alpha, that's the bit that's more due to skill. That's the more valuable piece that you should pay for. And I think one of the reasons that active management in the industry is in not great shape at the moment, is because it overcharges for what it provides and it really has been overcharging for factor-based exposures and charging as if it's been some kind of skill.

[00:22:17] Kristof Gleich: And so we're really, we really geek out on that as a research team and try to use all of the techniques that we can to measure that stuff as precisely as we can. And we just think by doing so, it skews your probability for success towards the right, which is what we're trying to do.

[00:22:35] Trey Lockerbie: When I was learning more about you, what was coming to mind was for me was Rick Rubin, the famous music producer who surprisinGleich claims that he knows nothing about music or even how to play instruments, and his skill is to essentially bring out the best and most authentic version of the artist he's working with.

[00:22:52] Trey Lockerbie: It's a counterintuitive example, but it highlights a different skill set. And even though I know that you know what you're doing when it comes to investing in markets, the question came up for me. Are there different skills that you believe you've developed over time to actually place these managers?

[00:23:06] Trey Lockerbie: That's pretty different from the actual act of investing itself.

[00:23:11] Kristof Gleich: I invest in managers across different asset classes. Like I said, fixed income, equities, commodities. If I had to build from scratch my own commodities portfolio, I wouldn't do a very good job at it. But yet I can pick a good commodities manager, so I think there's definitely a parallel there.

[00:23:29] Kristof Gleich: Why is that? So I studied physics as an undergrad. I'm not a physicist. If I had tried to be a physicist, I would've been a poor one, but it did give me a certain skill set and a dis, I think a different perspective that I've come to appreciate the more I've been in this industry. So I've been picking managers now for about 20 years, and the more I do it, the more I realize what I do is because of my free year bachelor of physics degree at Bristol University.

[00:23:58] Kristof Gleich: So it has taught me to have a not very open mind. I think in physics you have to be open-minded and you have to think about things from fast principles. And so I've always been questioning like why and trying to understand what people do from a first principles perspective. So I think that's certainly one element to it.

[00:24:17] Kristof Gleich: The other element I would say is I'm a pretty transparent person. and what I like to do with managers, with quite what quite a lot of people that do my job do when they go and sit with a manager and they understand and try and understand what a manager does, they just let the manager talk at them and they don't kind of react to anything that they kind of say.

[00:24:38] Kristof Gleich: And that might work well for some people. But what I found really helpful for me in picking managers is by being transparent back with them and kind of riffing with them, if I can steal that music analogy in the moment. When they're talking about a particular area of their portfolio or a thought process or a company that they're buying, they pull on that as a thread with them and it gets them to relax, I think, and open up as well.

[00:25:08] Kristof Gleich: And so creating, I think just a pretty open environment, a pretty relaxed atmosphere. I'm not a big fan of like, Hey, I'm interrogating a manager, like I'm the secret service. I want them to be the best version of themselves. And so I try to create a pretty relaxed atmosphere when I'm talking to these managers.

[00:25:26] Kristof Gleich: But I'm always listening and I'm always observing 24-7 how they're reacting to what they're saying to you, and trying to read the cues that they're presenting. And so, yeah, going back to the previous question, it's really a combination of things that are deeply tangible, like performance, track records, statistical techniques that you can kind of use to break apart and get information from, but then also a focus on the intangibles focusing on the people, their story.

[00:25:55] Kristof Gleich: How did they get to be across the table from where you are today? How, who did they learn how to invest from? What kind of biases does that give them? Doing that in a transparent way. And then I'd say the last thing is, you know it, when you see it, when you've been doing this enough, what good really looks like most managers, by definition are average, right?

[00:26:18] Kristof Gleich: There's only a few exceptional money managers. And so we need to have the discipline that most of the people that we meet with aren't we're not going to invest with them. So if I meet with a hundred managers, we might invest with one. It's a numbers game to a certain degree as well. But yeah, hopefully that gave you a sense of how I can sort of bring my own personality to this.

[00:26:38] Kristof Gleich: But it's a difficult question to give us sort of a concrete answer to, but a really good question.

[00:26:43] Trey Lockerbie: There's a saying, right, that everyone's a genius in a bull market. Is there something to that or is there any other way you maybe grade the managers as they're going through a difficult market .

[00:26:53] Kristof Gleich: And look, the temptations are always going to be there.

[00:26:55] Kristof Gleich: The trick is to kind of control it. And look, our managers are legally in charge of the day-to-day operations of the funds. So they get on with it and we keep a close eye on exactly what's happening inside our portfolios. I would say, as a general matter, I always remind myself of this, whatever I'm judging or looking at is with the benefit of hindsight.

[00:27:17] Kristof Gleich: And when that decision was being made, it was, it had no benefit of hindsight. It was being done with foresight. And Howard Marks Mo Tree has said this point many times in his memos, but he says, never judged a decision by its outcome. And you look at that and you think, what does that mean? Well, there's many.

[00:27:34] Kristof Gleich: When you make something or make a decision with imperfect information, which frankly is what investing's all about, cause you don't know what's going to happen in the future. No one had a crystal ball, by the way. Even if you've had a crystal ball, it's less valuable than you would've thought. You need to have a degree of humility and just always remember if you're looking at something after the fact, you have the benefit of hindsight and the person that made the decision didn't.

[00:27:55] Kristof Gleich: Right. So I kind of watch, rinse and repeat and tell myself and my team that all the time as well. And just going back to the framework, the factor framework, it's really important to do this stuff as well because it helps keep you grounded through times of volatility. Sometimes the volatility is a premium that the market's paying you like a paying premium, but unless you're willing to accept it, you're not going to earn good t returns from the market over the long run.

[00:28:21] Kristof Gleich: There's kind of, there's diversification aside, that really is the only free lunch that I've found in investing or in life. Actually, you just need to understand going into any investment that there's going to be periods of volatility. And the only guarantee I think we can. As an industry at some point will underperform for clients and we need to do as good a job as possible of navigating them through that volatility.

[00:28:45] Kristof Gleich: And so when you understand the factor footprint of your managers and what those have been over the longer run, how have they paid off or detracted over the long run? How are they doing today? It helps inform you to make less reactionary decisions. I think the one behavior in our industry that is really hard to fight against is overreacting to the short term because it gets emotional.

[00:29:12] Kristof Gleich: Like when you underperform or when you pick a manager who underperforms or invests one, you get angry when they're not doing well in the short run. But often, more often than not, basing an investment process on some kind of short-term performance indicator is a disaster. The 2020s as well are proving to be a very different decade.

[00:29:32] Kristof Gleich: The post-financial crisis period, the 2000 and tens. Was really tough for fundamentally oriented active managers. And so one more point I'd like to make is just how different the 2020s approving to be versus the post-financial crisis era of really the 2000 and tens and how that's presenting itself and manifesting itself to investors, into markets, to active managers.

[00:29:58] Kristof Gleich: If you look at the post-financial crisis era, we had a decade plus of zero interest rates, quantitative easing debt deleveraging, and you had a central banks across the world just flood the system with liquidity to prop it up and create the wealth effect through the wealth channel.

[00:30:16] Kristof Gleich: And that was a very it didn't, it almost didn't matter what you bought. Just buy risk assets, own them, buy bonds, you know you're going to make money from the duration, from the fullen interest rates buy equities. You are going to make money from the same thing, from a falling equity risk, premium from stable and sort of growing earnings as well.

[00:30:36] Kristof Gleich: And really what the 2020s have reminded us of and brought back is volatility and uncertainty. And it's really shattered that paradigm that we were in before. So we've got the return of volatility, we've got the retard of inflation, we've got the return of interest rates. Again, I think for the first time that I can remember in the US here, the treasury curve is out, is above 4% wherever you look, which would've seemed absurd to have said that just a year ago.

[00:31:04] Kristof Gleich: And you have this notion of two risks again and you have more idiosyncratic risk as well. It's less of a sort of an asset allocation or what's happening in certain factors and what's going to happen at these companies as they're dealing with the cost of capital, again, is not going to treat all companies equally or fairly.

[00:31:24] Kristof Gleich: And so, What that has meant in markets and inactive management particularly, that's my area of expertise is more managers have outperformed and if you look at the industry stats as well, they're much, much higher than they have been in 10 or 15 years now, which I think is an interesting trend to keep an eye on.

[00:31:43] Kristof Gleich: But I would just say that ultimately active management I think is a zero sum gain over the very, very long term. So, yeah. Interesting.

[00:31:51] Trey Lockerbie: Do you think that last point is because there's finally a cost of capital to, to work from, to a degree, right? That is to use a discount rate instead of that's not zero, right?

[00:32:00] Trey Lockerbie: Where the prices of assets can basically go to infinity. I mean, we're now in a world where we actually have discount rates that we can apply and therefore giving active managers potentially an edge.

[00:32:11] Kristof Gleich: Absolutely. I mean, what is capitalism without a discount rate? It's fundamental to the system on which it operates.

[00:32:18] Kristof Gleich: And I'm not going to criticize the Fed for what they did. I think they did a great job coming out of the depression. And so it's less of a judgment call, but it's so fundamental to the system that as that, as we reverse out of that era, there's going to be all sorts of secondary effects and consequences from that.

[00:32:37] Kristof Gleich: I read another quote and this one was from Seth Klarman Bow Post and he said zero interest rates are like sand at the beach. Gets everywhere. When you come back from the beach, you're like, how's sand getting in there? It wasn't even at the beach. And I think there's a degree of truth to that in investing with interest rates and I guess there's a lot of sand to clean up, right?

[00:32:58] Kristof Gleich: And you can never get it all. And so that cost of capital just works its way down the entire system. And if you think about being a CFO f in a company and a company's thinking about a new growth project or an investment and their cost of capital is effectively zero, quite zero. Because they, there's always a credit spread that you've gotta pay on that, but just near zero.

[00:33:21] Kristof Gleich: Or if you're suddenly looking at like seven or 8%, which it probably would do today with where interest rates are, it creates a real cost for that company. But it also creates an opportunity cost for that company as well. So that has to get factored in. Obviously a company's way it's financing itself.

[00:33:41] Kristof Gleich: Mar margins can disappear and turn to losses when you start to have to fund yourself, but at much, much higher rate. And so that's if you like the real economy effect. And then if you look at the market, the secondary market or the primary market, you look at investors if they're demanding less on their return and that bleeds through to like equities, it distorts the whole incentive structure of the market as well is if you are not having to earn a strong cash flow, if it's everything's manana, man, then incentive structures, reinforced behaviors.

[00:34:17] Kristof Gleich: So you're going to get people and market participants chasing projects that necessarily they wouldn't do. And I think that's something that you need to think about as well, that signal or those markets then send back to those kinds of corporate behaviors. And so that's all going to take time to unravel.

[00:34:33] Kristof Gleich: I mentioned how surprised I've been about the resilience of the economy in the face of higher interest rates and how they've managed to absorb that. I wouldn't declare that as a final victory yet. I think it's an ongoing process and I think that's happening at the company level as well. But ultimately, companies that are run with more discipline, with more fiscal prudence, with better balance sheets, with higher quality are going to benefit in that type of environment.

[00:34:59] Kristof Gleich: And I would say that's where active managers spend more of their time. So I definitely think that is a really important factor to watch how that impacts individual stock returns over the coming few years.

[00:35:13] Trey Lockerbie: Well, speaking of factors we've talked a lot about your factor framework and I know that you've been recently working more on behavioral analytics as well through with the FinTech firm to break down active managers into behavioral or decision alpha instead of just portfolio alpha, which I think is really interesting as well.

[00:35:31] Trey Lockerbie: And I know everyone listening to this would love to learn how to make better decisions. So I'd love to learn a little bit more about the research you are discovering through this process.

[00:35:40] Kristof Gleich: We've partnered with a FinTech firm called Essentia Analytics run by Claire Fin Levy, who's a former portfolio manager herself.

[00:35:50] Kristof Gleich: And we've, this is newer for us and if you think about some of the things that I've said about focusing on managers that have an edge, one of the traits that we look for above all else is continuous improvement. And if we look for managers we think managers need to continue to invest in themselves and improve, or at least seek to improve year after year.

[00:36:10] Kristof Gleich: because investing's a really competitive industry. And if you don't do that, you're going to go backwards. So we hold ourselves to the same standard. So we're continuing investing in ourselves. And if you look at the evolution of assessing performance, disaggregating luck from skill, and I look at the evolution of this industry over probably a 30 year period, we've gone from looking at just returns, like naked returns.

[00:36:31] Kristof Gleich: If they're high, there's skill. If they're low, they're stupid. I suppose that's kind of like the most rudimentary scale. And then as our development of markets changed attribution came along and we started to disaggregate returns into things like allocation decisions and stock selection decisions.

[00:36:50] Kristof Gleich: And it was the next step, the next rung on the ladder of our understanding and then came along. And what I spent about 10 years ago developing was this factor framework that we talked about earlier. I was like, okay, there's something more than just stock selection and allocation. Understanding factor biases.

[00:37:05] Kristof Gleich: Stripping those out was left over caught at alpha. And then I think the continuation of this area now I'm really excited about is behavioral decision analytics. And it's looking at what decisions the managers have made and how that has impacted their performance through a different lens, through a different dimension.

[00:37:25] Kristof Gleich: I'll give an example of where this is really helpful. So if you speak to, and if your listeners have heard this and investing in the past, We'll do Corly calls with all of our investors and we'll speak to our investors. And they might say something along the lines of, oh, I added to stock X, Y, Z on weakness because there was no news and we are still convicted in the stock, the thesis, long term thesis intact.

[00:37:52] Kristof Gleich: And for whatever reason Mr. Or Mrs. Market decided to sell it off. And we wanted to add to our opposition. They're like, okay sounds credible. Okay, how do I like to test it? If you hear those types of things frequently, what Accenture Analytics allows us to do is to look at, at a portfolio level, like what stocks did a manager buy?

[00:38:13] Kristof Gleich: So let's just say it's at 30 stock. What stocks did you buy? Obviously matters, but you can use print and attribution and stuff like that. That's not the most helpful. But then, okay, when did you buy that? What was your position size? How did you build that position size? How did you exit? When did you exit and did you sell all at once or did you gradually kind of sell?

[00:38:35] Kristof Gleich: There's tons of different decisions going into this portfolio and some managers do a better job of making these consciously and some of them do it subconsciously and they have a bit of a feel for it. And so what Accenture has allowed us to do is just be a bit more scientific with understanding some of those biases.

[00:38:51] Kristof Gleich: And so then what we can do is we can go back to our managers, because again we have all of this data on them and we can say to them, you know how you'll often tweak a position size, I'll tinker with a position size. We've looked at every stock you've held on every day over the last 10 years. And if you know by tweaking with those positions, you've destroyed 35 basis points of alpha or you've created 20 BA and you can start to quantify those behaviors and then managers can understand.

[00:39:23] Kristof Gleich: What they're good at, where they're adding value and where they're destroying value. And you see some on, in, in general, managers are bad at exit timing in our industry. But what a lot of them do is they start to sell the position early and then the stock can kind of unravel a little bit and then they kind of exit the position and they're ultimately late with their exit position.

[00:39:45] Kristof Gleich: But when you can see that they've started to reduce a position earlier, there was obviously a signal that they looked. That was meaningful enough for them to start to reduce the position size, but for whatever reason, they didn't go the whole way and start to sell it. And so you can start to present this information back to them.

[00:40:04] Kristof Gleich: They can reflect upon it and then use it in a way to improve their investment process. I'm a real big believer in this continuous improvement. It is critical to do one of my bugbears of our industry is this notion of consistency through time. And that consistency equals no innovation, no improvement.

[00:40:27] Kristof Gleich: And what in what other industry is that? Okay, so like an atypical consultant. So I've heard, I've never been one, I've got nothing against them. I'm repeating this somewhere secondhand. But what I've heard is that the archetype consultant kind of may go through a checklist and one of those things will be, have you made any changes in the last year?

[00:40:46] Kristof Gleich: And changes generally thought of as bad. And I'm like, well, imagine if I pulled out an iPhone from 15 years ago and held it up and said that technology you've had, like it hasn't changed for the last 15 [00:41:00] years. We learn about the world, we learn about ourselves, we learn about the markets every day.

[00:41:04] Kristof Gleich: And the art of a great manager is not to reject that, to compound that knowledge into improvement. And it, for us as allocators and investors, it's us to almost, from a governance perspective as a fiduciary, hold managers accountable to that. And so I couldn't. Disagree with the king of the industry convention more stronGleich on this point.

[00:41:26] Kristof Gleich: That's why when we are looking at our managers, we are always asking them, how have you improved your process in the last 12 months? And some of them, when you ask this question, will grab their shirt or their neck and they'll squam uncomfortably because they're not sure what they're supposed to say.

[00:41:42] Kristof Gleich: Well, just always tell the truth. And then B, you should be striving to improve every year. And that's, so that's what we spend a lot of time on when we're working with our managers.

[00:41:52] Trey Lockerbie: It's like that Churchill quote, right When the facts change, I changed my opinion. I don't know what it is about human beings.

[00:41:58] Trey Lockerbie: We're just such linear thinkers that, I mean, there's nothing in our day-to-day lives that is up into the right all the time. And yet that's how our brains just expect, we expect that out of almost everything. It's just, it's a little bit ironic when you're talking about decisions and quantifying them, et cetera.

[00:42:13] Trey Lockerbie: What was coming to my mind, I'm kind of curious to get your feedback on it. It's just the, where the intuitiveness and the, and making decisions from your gut might play into all of this. Right. I'm reminded of the George Soros book where he states I rely a great deal on animal instincts. When I was actively running the fund, I suffered from backache and I used to, I used the onset of acute pain as a signal that there was something wrong in my portfolio.

[00:42:38] Trey Lockerbie: And whether that's true or not remains is, could be debated. But I'm just kind of curious about where that factors in when we're getting too intellectual about analyzing someone. Where does that play into the mix?

[00:42:48] Kristof Gleich: So it's a great quote and I, I've heard that as well. The back pain of the portfolio is not set up right.

[00:42:54] Kristof Gleich: There's very few investors that can do what he does very well. I think Stan Druckenmiller is another. That has this amazing ability to synthesize the moment of or the fears of the day and position around that and kind of cool the markets. There's another one who I invested with in the past, Alistair Hibbett at BlackRock, who I believe is still running a hugely successful hedge fund franchise now.

[00:43:21] Kristof Gleich: And they have this ability that can feel like gut feel and it is, I think a little bit having a feel for the markets, but most investors are better served by having a discipline process that they stick to and they adhere to, and they improve over time. No, I'm not saying those folks don't, I'm sure they have a process as well, but they just have that innate ability as well to read the markets.

[00:43:43] Kristof Gleich: I think one thing that you need in investing is you need conviction. This is not a role if you suffer from analysis paralysis and markets are not a good place to hang out because you can find anything. Something to kind of confirm your own behavioral bias that you may have. And so when I invest with managers and when I ask my team to make recommendations about investing or divesting from managers, it has to be done from a place of conviction.

[00:44:10] Kristof Gleich: And I think there's, that, there's that bridge between looking at all of the numbers, the analysis and being as rigorous as possible and as scientific as possible. But I am definitely not shy about saying this. There's a gut feel to it. And that gut feel is based on, it's not guesswork. It's, I think it's almost an algorithm happening in your mind where you've pattern recognition, where you've seen certain things before.

[00:44:35] Kristof Gleich: You mentioned human beings are really linear thinkers. Some of that pattern recognition is non-linear thinking. And it's like, okay, where have I seen something similar? And, ultimately you have to make a decision. And you have to invest with conviction whether you are buying individual securities, ETFs, active products, passive products. It's a key part of any successful investment process.

[00:44:57] Trey Lockerbie: I know you've also recently partnered with C Worldwide, which is a Copenhagen based firm, and they have been running, they've been running this very concentrated strategy of only 30 companies at a time in their portfolio for, I mean, decades now to incredibly successfully, I think they're beating their bitch fart by over 6%.

[00:45:15] Trey Lockerbie: And c e o Beau Newtson describes their ideal companies as those who have a, what he calls a permanent right to win. And I don't know if that's an original quote from him or he took it somewhere, but that was the first time I'd heard of it. And I'm kind of when I hear that, I quickly think of brand and pricing power and all these other things that might go into a permanent right to win if you use that framework to apply to managers as you're placing them.

[00:45:39] Trey Lockerbie: Could you come up with an idea of what is an example of a manager who has a permanent right to win? It kind of akins back to what we were talking about with these characteristics of great managers because I think for those of us listening, we're all trying to be our own managers to some degree or we're looking for a great manager for us.

[00:45:55] Trey Lockerbie: And I think just knowing what to look for is really kind of evergreen here. So wondering what a permanent right to win might look like.

[00:46:03] Kristof Gleich: So yeah, it's, I think it was his phrase originally. I certainly haven't seen it before as a permanent right. To win. And you're right. When you think about it as businesses and investing in equities, brand and pricing power, sustainable growth kind of really shines through as those have gotta be some of the characteristics.

[00:46:19] Kristof Gleich: So how do you translate to managers? First thing I would say is if a manager thinks they have a permanent right to win, by definition they don't. It's those managers that have that in. Paranoia, I think stands the best chance of having a permanent right to win. So I'll go through a few of the things that we would look for that I think would be suggested while superior longer term performance over the long run.

[00:46:42] Kristof Gleich: And we've talked about some of these along the way, but well, let's just hit them. So number one is an edge, a manager has to have a discernible edge, but they can do better than the market. And that edge needs to be repeatable. That doesn't mean every year in terms of performance, but a repeatable edge that they're trying to exploit.

[00:46:59] Kristof Gleich: And there has to be some kind of moat around that edge that is just not going to be like I shared or vanguard away eventually. And so just spend time on asking. And as an investor, if you're an individual investor or a professional investor, I challenge you all for your investments to write down what that edge is.

[00:47:16] Kristof Gleich: And if you can't, probably means the manager doesn't have one. So that would be the first thing I would say. The second thing is, again, I, it comes down to this culture. So we look at I talked about the tangibles performance and breaking apart factors and idiosyncratic returns, all really important.

[00:47:33] Kristof Gleich: I also talked about intangibles, but I think what gives a manager the permanent right to win is world class intangibles. What does that mean? Culture, I think culture's ultimately a function of the people, but I think culture can pass down from generations to generations. So I'd say culture is even more important than people, even though it's a byproduct of it.

[00:47:51] Kristof Gleich: That makes sense. And so what we look for from a culture perspective is our tagline that we look for a culture of continuous improvement. We write it down, we look for evidence, we ask the managers about it. And we, as I said, demand that of ourselves. Can we find a manager who's going to continue to improve, is going to continue to compound their own learnings and their knowledge over time?

[00:48:14] Kristof Gleich: If the answer is, You probably don't want to invest with that manager because whatever it is that they're doing now, if it's working, it's probably going to erode away. Competition competitive capital is ultimately going to erode that edge away. And so yeah, we spend a lot of time thinking about that as well.

[00:48:29] Kristof Gleich: Other things from a culture perspective, I think are really important. We would prefer a team-based culture than an individual sort of star PM approach. There are some star PMs, we've voted quite a few of them throughout this recording, but then what they probably all say is they've got a great team behind them as well.

[00:48:45] Kristof Gleich: And so we want to see cultures that generally have teams of experts, that have cultures of debate. One of the cultural traits that we look for is the phrase culture of psychological safety. And what does that mean? Essentially means creating a working environment where people are comfortable speaking up their mind, what they think about something, suggesting a radically different idea.

[00:49:05] Kristof Gleich: Going back to your point, we're all linear thinkers. Well, if you encourage a culture of psychological safety, you want to engender a culture when non-linear thinking can kind of come into it as well, where you can really question the status quo and convention. And I think that's really important.

[00:49:20] Kristof Gleich: And then really for that long term durable success and edge, permanent right to wing managers have gotta have a succession plan. No one's figured out how to live forever. I guess Elon Musk's probably the best person that's got a good chance of that with everything he's got going on.

[00:49:36] Kristof Gleich: But until he figures out a way to live forever, portfolio managers are going to have to figure out a way of replacing them eventually. And so we like to work with firms that have clear succession plans in place for an idea, for a succession plan. And we want firms. Will implement a succession plan, not over months or years, but over decades.

[00:49:57] Kristof Gleich: We have one of our managers at the moment I won't say which one, but they've had a 20 year succession plan in place that's effectively been successfully implemented. Think about that for a second. They've been focused on a succession plan as long as I've had a career pretty much to date.

[00:50:12] Kristof Gleich: And if you do those things and then you reward people for their work and watch, rinse, and repeat that year after year, those are some of the ingredients. What I will say, everything I just rattled off there is extraordinarily hard to find and very few people do any, if most of that.

[00:50:31] Kristof Gleich: But those are the key ingredients.

[00:50:34] Trey Lockerbie: The HAPY/HAPI ETF, you have two of them, HAPY and HAPI . You've partnered with Dan Arielli on this who's a world renowned behavioral economist. He's the author of Predictably Irrational and he's a professor at Duke. And what's interesting about this, I think.

[00:50:49] Trey Lockerbie: Everyone understands this idea of ESG and this, it's, I don't know if it came out of a McKinsey paper at one point or so, or Harvard, but it was this idea that companies with great corporate culture actually do succeed. And so it kind of sparked this whole movement around ESG and trying to find companies beyond obviously the environmental concerns and other things.

[00:51:09] Trey Lockerbie: But now you've somehow taken this cultural aspect and quantified it or created a factor out of it called the human capital factor. So I'd love to learn a little bit more about what goes into this factor and how you came about developing it with Dan.

[00:51:25] Kristof Gleich: Yeah, this has really been a fascinating project for a couple of years that we've been working on with Dan Arielli, a very interesting author, researcher, and thinker of our times.

[00:51:36] Kristof Gleich: E S G has become a bit of a buzz phrase, and now it's more likely got a bad reputation. So let me describe. What the factor is and what the hypothesis is behind it and why we've backed it, and why we've invested in it, and why clients are investing in it. So business leaders across the world in different industries and different cultures will say the following statement, our most important asset is what our people.

[00:52:02] Kristof Gleich: And I think they say it generally because they believe it, and I think it's because it's true. And if you look at investing and you look at accounting, people are not recorded on the balance sheet as an asset, right? They go through the income statement. There's a cost every single year. There's been a lot of academic work done.

[00:52:20] Kristof Gleich: On the value of intangible assets as investors right there, there's been so much ink built on value doesn't work anymore because price, the book has unperformed. Well, yeah, price, the book isn't valued. That's the problem with that approach. But if you start to take a value factor and adjust for some of the more intangibles that are really important for businesses like brand like r and d or human capital, are you going to get a fuller picture of value?

[00:52:47] Kristof Gleich: And there's been, again, a lot of work done on r and d and the value of brands. So I won't go into that. But what there hasn't been much research around yet, because it's so hard to measure, is human capital, the value of human capital. But my hypothesis would be if you think human capital is important and you don't think it's recorded as an asset on a balance sheet, and it should be, and you can figure out a way to quantify it as an investor that's going to give you incremental information that's going to be valuable to potentially generating strong returns.

[00:53:19] Kristof Gleich: So as you know, that at a 30,000 foot level, that's kind of what you have to believe. And listeners don't believe it. It's absolutely fine. But I I believe that it is very stronGleich. And then it's like, well, how do you measure it? And the old adage of like, measure what matters, not what's easy comes to mind.

[00:53:36] Kristof Gleich: And I think that's why there's been so little work done on this. So I wouldn't have a hope of being able to measure this myself. But we found and partnered with Dan Arielli at Duke University. He mentioned him, he's the James B. Duke professor of Psychology and Behavioral Economics. And he has spent his life studying and experimenting on people, why we make decisions the way that we do, why we're all a little bit less rational and would care to admit.

[00:54:03] Kristof Gleich: And he's done that with a focus on understanding what motivates us in the workplace. And he's consulted with fortune 500 companies that have come to him and said, How do we improve the efficiency or the output of our workers? And then he'll run various tests of here's the A group, here's the B group, here's the C group.

[00:54:22] Kristof Gleich: Actually what things Improved motivation and improved output. And now about six years ago, he set up a firm called Irrational Capital, one of my favorite research bombs and rational capital in terms of the names that I've come up with. And he set out to empirically measure this statistically in aggregate for public companies.

[00:54:41] Kristof Gleich: And so what he's done with again, comes down to data. And I think data and technology's been kind of a recurring theme today. And there's things that you can just measure now today that you couldn't have measured 10 years ago. And this is definitely a good example of that. So through a combination of proprietary data and public data and think kind of sentiment data from Glassdoor on the public data, they're able to measure, if you like, the sentiment and engagement and motivation for employees at publicly listed companies.

[00:55:13] Kristof Gleich: Which is really important because you need to kind of have an idea of what actually matters from a motivation perspective. And so designing the factors, actually designing the things that you want to measure that you think were important to then aggregate into a factor that represents. The human capital factor businesses with great corporate cultures that ultimately we think are going to help form over the future.

[00:55:36] Kristof Gleich: Like there's a lot of work that goes into that. And I'll give you a good example. If I said to you, does compensation matter in motivation? The answer is that you would normally get would be like, well, yeah, of course it does. That's a stupid question. But it matters in a different way than you might think.

[00:55:54] Kristof Gleich: And what they've actually found out is it's not the level of compensation that matters, it's the perception of fairness with compensation. If people feel like they're being compensated fairly, that is the more motivating factor than actually the level that people are being paid. And so you can take that if you like the little nugget and with data you can kind of create a sub factor and then you can identify there's about 30 to 40 of these and then you can aggregate 'em all together to create a human capital factor score.

[00:56:25] Kristof Gleich: Give one more example, because we talked about it earlier. Psychological safety. There's a reason that we look for that in managers because we know through the data, through Dan, but that's really important to producing outcomes that generally businesses that have employee bases with a high degree of psychological safety do better over the long run.

[00:56:44] Kristof Gleich: And so we partnered with a rational capital who does, if you like, do the measuring. And then what we've done is we've launched an ETF that tracks these human capital indices and we have two and we've filed for a third with, that's doing this in a small cap that will be out in [00:57:00] April. And we think it's a new investment factor.

[00:57:02] Kristof Gleich: The most simplified definition or description I'd give is imagine in instead of taking an x-ray you could take an MRI scan of kind of corporate culture and you could kind of look into with great precision what people are feeling and thinking about how, where they work. That's just really good information and we've made it investible and it's resonating in the marketplace.

[00:57:25] Kristof Gleich: It resonates with me as a former kind of scientist and scientific thinker. And it's definitely forward looking. And I do see that if you can do that well, there would be a clear alpha edge that means that you could produce better outcomes in the market if you do it with discipline and world class execution, which we believe we've got.

[00:57:43] Kristof Gleich: But it's a fascinating subject matter.

[00:57:46] Trey Lockerbie: Well, we've highlighted, like you said, a lot of amazing managers throughout this conversation, and you've just had this incredible career where you've been able to interact with a lot of the most talented people in this industry. And I know at one point you were actually [00:58:00] able to spend over two hours with Bill Gross, right after his infamous exit from pimco.

[00:58:05] Trey Lockerbie: And I'm really curious to know a little bit more about those couple of hours you spent with Bill and what you took away from it. So as we're kind of wrapping up here, I thought it'd be fun to kind of just see if you could share your time over those two hours with Bill Gross, what impact it made on you early on and maybe what you saw on a great manager like Bill, if we're talking about idiosyncratic, right?

[00:58:23] Trey Lockerbie: What did you see from him that you maybe have seen in others or that was unique to him? Anything you want to share about that would be really interesting to us.

[00:58:30] Kristof Gleich: There's so many lessons in this. So I was, I lived in London at the time and I remember coming out of a manager meeting in London. It was a Friday afternoon, and someone said, bill Gross has left pimco.

[00:58:41] Kristof Gleich: And I thought, I looked at my watch to see if it was April to see if it was April 1st and an April fool joke. But it wasn't, it was September. And so my initial reaction to that was dumbfounded like the world. And then they said, and he is joining Janice Henderson. And I was like, what? And so he was a big shock at the time.

[00:58:59] Kristof Gleich: It was Friday afternoon in London and a busy weekend later with many strings. Paul, on Tuesday morning at 7:00 AM I was meeting Bill in his new office stepping out of the elevator. And he had his tie draped around and I, it was his first meeting on his first day at his new employer. And so it was business wise, really just a day late.

[00:59:26] Kristof Gleich: Later after he'd left Pimco he was in a very reflective mood. And we got to spend, it was me and a colleague, my former colleague, Ted Dimick at the time, and we got to spend two hours unplugged with him, talking to him about what happened at pimco, what he's looking to do now. And he was in a very lucid, philosophical, kind of clear-minded framework and talked openly.

[00:59:52] Kristof Gleich: And I won't go into all of the ink that's been spilled at pimco, but my biggest takeaway was a funny one. It was like, at the end of the [01:00:00] day, we're all just people. Like even Bill Gross and Bill, I left that meeting feeling sorry for him. Because what he told us shocked me. What he told us was all the years up he was at Pinco.

[01:00:15] Kristof Gleich: Surrounded by these amazing colleagues and there's some brilliant people at Pimco, brilliant thinkers and investors in fixed income. But he'd never leveraged them. He'd never used them, he'd never created this network with them and he'd never built meaningful relationships with them. And he'd always been a bit of a loner there.

[01:00:33] Kristof Gleich: And he said it was only really in his last six months where he began to get to know some of these people. And here he was talking to us in this office building 200 yards or so away from PIMCO's office. He was there on his own. There were some wires hanging from the ceiling. There was a box of donuts and a coffee box on the desk.

[01:00:53] Kristof Gleich: And there was a guy in the background setting up the Bloomberg terminal. And he was all alone. And I just felt really sorry for him that despite everything he'd done in his job, it kind of, it ended up like nothing. He was surrounded by no one. And actually what happened in time was those people. That team he had around him was a big part of the fuel of the success of pimco and he just wasn't able to appreciate it or make the most of it.

[01:01:18] Kristof Gleich: And yeah, so I just sort of made a promise to myself that I wouldn't want to fall into that mistake myself. Even a really successful multi-billionaire investor like that can and kind of end up with deep regrets and end up alone. And then obviously at Janice Henderson it didn't work out and he ended up leaving a few years later.

[01:01:39] Kristof Gleich: And PIMCO has still gone on and done very well. But it was probably the highlight of my career. Because it was the story, the thing that was happening in the markets around the world, and I dunno if you remember, but you know, people thought, is this going to bring down fixed income markets?

[01:01:55] Kristof Gleich: This is the liquidity event that we've all been fearful of. And it was just really unique. And then I was able to go and see PIMCO for two or three hours straight after that. So I came out of that morning, it was a long day, but that sort of triangulation between what was going on at pimco, what Bill had said, what was happening in the markets, what journalists were staying, and really just having that kind of bus ro front row seat to that moment in time was yeah, it was really special.

[01:02:20] Trey Lockerbie: I really appreciate you sharing that with us because. While we're all here interested in learning about how to be a great investor, how to understand the markets better, and all these things, I mean, we really also want to learn how to live a great life. And what you shared just then is a reminder that the money and the success and the performance, et cetera is not everything and probably far from it.

[01:02:41] Trey Lockerbie: So I, I really appreciate you sharing that. And it is a really interesting reminder. It's always even more, it's a little bit harder when it comes from someone like that, like a multi-billionaire who you can glean these kinda lessons from. So, before we let you go, Kristof, and thank you so much for everything you shared today.

[01:02:56] Trey Lockerbie: This has been just such a fun and really fascinating conversation. I'd like to give you an opportunity to hand off to the listeners where they can learn more about you. We talked about a couple of the ETFs, but there are more, I mean, the Wall Street Journal just listed the dividend growth leaders et t f as the best active dividend ETF.

[01:03:12] Trey Lockerbie: So I'm putting a plug in there for you because I just want, I want people to understand and have these resources. So please direct them wherever you want them to go to learn more about you or to Harbor

[01:03:22] Kristof Gleich: Thanks. Yeah, thank you, Trey. It's a real pleasure to join you. Thank you so much for inviting me. I hope your listeners enjoyed most of what they heard, or at least learned a nugget or two, something that's going to be helpful for them. If people want to find out more, the best thing to do is just go to our website, which is harborcapital.com, and that's Harbor with no "u" spelled the American way, which my English friends always tease me about as a "u" in England. So, harborcapital.com. You can also follow us on LinkedIn. I'm on Twitter with the handle @GleichKristof. And look, I hope people go and have a click and explore and like what they see.

[01:04:11] Trey Lockerbie: Well, thank you so much again, Kristof. I hope we can do it again sometime soon.

[01:04:14] Kristof Gleich: Thank you.

[01:04:16] Trey Lockerbie: All right, everybody, that's all we had for you this week. If you're loving the show, don't forget to follow us on your favorite podcast app. And if you'd be so kind, please leave us a review. It really helps the show. If you want to reach out directly, you can find me on Twitter @TreyLockerbie. And don't forget to check out all of the amazing resources we've built for you at theinvestorspodcast.com. You can also simply Google TIP Finance, and it should pop right up. And with that, we'll see you again next time.

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