

# 2022 Idea Lab Highlights

This year's Idea Lab considered the challenges and opportunities of managing portfolios in the present period of high inflation, rising interest rates and recession risks, a strongly appreciating U.S. dollar, high debt burdens, and elevated market volatility. While it is impossible to do justice to the breadth and depth of the discussions across the two-day forum, four areas were particularly noteworthy: the risks lurking in current market dynamics, the opportunities created by the return to fundamentals in liquid and private markets, the indispensable role of a sound operational infrastructure, and the sage insights on governance of Charles D. Ellis, former chairperson of the Yale Investment Committee and author of *Winning the Loser's Game*. Additionally, special sessions reviewed Strategic's initiatives in the areas of diversity, equity, and inclusion and environmental, social, and governance investing and introduced Michelle McCloskey, our new Executive Chairperson.

## Portfolio Construction Amid Uncertainty

The Strategic team set the stage with a discussion of current market dynamics, focusing on the potential ramifications of the increasingly aggressive measures taken by major central banks to quell stubbornly high inflation. Although the macro backdrop is highly uncertain and inhospitable, the return to fundamentals is helping those, like Strategic, who have been focused on generating alpha by exploiting the wide dispersion of valuations within and across markets. Strategic's tactical positioning, which has included being less exposed to rates and overvalued equities, while favoring diversifying strategies provided by hedge funds and private markets, has exploited these opportunities, and added value to client portfolios.

The theme of heightened uncertainty was echoed by guest speaker Anatole Kaletsky. In his view, tightening by central banks to contain inflation was likely to tip the global economy into recession and reveal pockets of fragility in financial markets, similar to that just experienced in the U.K. gilt market.

## Opportunities Emerging Across Markets

A common theme cutting across the numerous investment managers who spoke at Idea Lab was the emergence of bottom-up investment opportunities despite the unsettled macro backdrop. The hedge fund panel highlighted the benefits of a micro focus on company fundamentals. With markets returning to fundamentals, the ability to exploit pricing anomalies by shorting richly valued securities while also minimizing beta has proven especially advantageous. The panels on private markets explored two ends of the spectrum. After boom times and massive inflows, venture capital funds are adjusting to the correction in public markets and a significant reduction in new funding. On the other end of the spectrum, discerning deep value buyout strategies are finding opportunities at good prices as liquidity declines and leverage becomes more costly. A similar return to fundamentals is

also evident in the public equity markets, opening up opportunities to add value through careful security selection and portfolio construction despite the painful drop in the broad market.

## The Importance of Time Away

Our dinner keynote speaker, Doris Kearns Goodwin, shared anecdotes from the lives of "her guys," or the transformational presidents whose lives she has chronicled: Theodore and Franklin D. Roosevelt, Lyndon B. Johnson, and Abraham Lincoln. A common thread across these lives was excellence in leadership that grew from personal challenges. Ms. Kearns Goodwin closed her remarks with a challenge to adopt another characteristic common to these presidents and find time to relax, refuel, and recharge, something that these leaders intuitively understood as necessary to achieving one's best.

## Unsung Heroes of Portfolio Management

Despite constituting the essential backbone of portfolio management, the professionals managing the operations, trading, and control infrastructure are the unsung heroes of investment management. To allow clients to take a look under the hood of the middle and back office, our operational professionals demonstrated more insights around their role in adding value through timely rebalancing, ensuring orderly trade settlement and proper accounting, and helping clients meet the demands of auditors.

## Good Governance and Investment Returns

We concluded with an interactive workshop on governance best practices led by investing luminary Charles D. Ellis and Strategic's own Nikki Kraus, author of *Endowment Management for Higher Education*. The workshop covered the composition of the ideal committee, structuring orientation sessions for new members, and succession planning. Mr. Ellis cautioned against blindly following the "Yale Model" of investment success. Arguing that each endowment was unique, he advocated instead that each investment committee should tailor its investment strategy to fit the institution's unique circumstances and objectives.

We hope that this overview of highlights of Idea Lab 2022 encourages you to join us next year. We were thrilled to host the event in-person for the first time since 2019 and look forward to welcoming you to our offices again in 2023.

**Note:** Opinions expressed herein are current as of the date appearing in this material and are subject to change at the sole discretion of Strategic. This document is not intended as a source of any specific investment recommendations.