

2023 Idea Lab Highlights

This year's Idea Lab examined the outlook for value-added investments, and the challenges of portfolio management in an environment beset by aggressive monetary policy tightening, high asset valuations, and shifting geopolitical tensions. While it is difficult to capture the breadth and depth of the discussions across the two-day forum, four areas were particularly noteworthy: the importance of diversification and a long time horizon to navigating today's turbulent markets, the opportunities arising from the commercialization of artificial intelligence, the value-added returns available today in the credit and mortgage markets, and the potential offered by disruptive businesses operating in the consumer sector. Additionally, Christopher Varelas, author of *How Money Became Dangerous: The Inside Story of Our Turbulent Relationship with Modern Finance* offered cogent observations on the world of finance. Finally, a special session reviewed Strategic's initiatives with Emerging Managers, and the intersection of these efforts with our work in the areas of diversity, equity, and inclusion.

Opportunities Amongst Regime Change

The Strategic team led the forum with a review of market dynamics and valuations, placing particular emphasis on the potential ramifications of rising real interest rates on the future returns of various asset classes. Uncertainty concerning the future returns of equities highlighted the importance of diversification in client portfolios, and the benefits of adding uncorrelated sources of excess returns like those provided by private markets and opportunistic investments. Additionally, dispersion in growth rates and market valuations across global economies were discussed as a potential source of return from tactical positioning.

Investing in Artificial Intelligence

Our first external speaker, a software engineer and venture capitalist with an insider's view of the artificial intelligence ("AI") sector, provided an overview of the current state of what has the potential to be an enormous opportunity set. He also reviewed the industries that could be first to be fundamentally disrupted by this technology (marketing and legal). He highlighted in particular the importance of investing with firms that have rigorous technical expertise in-house, given the priority that must be placed on assessing, at a granular level, the competitive advantages derived from proprietary intellectual property. This emphasis dovetails with Strategic's focus on investing with venture capital firms staffed appropriately for this type of forensic technical diligence.

Restoring Guardrails with Accountability

Our dinner keynote speaker, Christopher Varelas, shared insights gathered during his illustrious Wall Street career to highlight how, and why, the average individual has become disconnected from,

and distrustful of, the world of finance. He discussed his belief that increased financial innovation has led to increased complexity and fragility as "guardrails" have been removed in the interests of speed, scale, and efficiency. Mr. Varelas concluded with his views on how increased accountability and sound leadership in finance can help restore the public's understanding of, and engagement with, the financial sector.

Compelling Returns from Credit

A common theme cutting across several speakers was the emergence of significant opportunities in pockets of the credit markets. This is partly a consequence of the retraction of traditional bank lenders due to regulatory and other issues. Two external credit specialists reviewed the alpha potential available to firms with the underwriting and structuring expertise required to be a capital provider to corporations today. Unable to secure financing from traditional banking channels, corporations are willing to pay a premium to borrow from private firms offering a certainty of closing on financing deals in a timely manner. This discussion was complemented by a discussion of the opportunities in mortgage-related credit. In this corner of the structured credit market, firms that have made the requisite investments in human capital and systems have a competitive advantage in extracting compelling, uncorrelated returns. Taken together, these discussions helped participants understand why Strategic includes direct lending private credit strategies and opportunistic credit investments, in client portfolios.

Brands Can No Longer Be Neutral

Our final speaker, a specialist in analyzing consumer behavior, made the case that the era of broad, universal consumer brands that are neutral on matters of values and ethics, is likely behind us. Instead, companies are having to navigate, and take positions on, a broad array of complex issues, whether they want to or not. This has already led to some well-documented instances of disruption, creating opportunities for investors with the experience and acumen to identify the new consumer leaders: those successful brands that have a well-defined sense of their target consumer and the values that matter to them.

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