Lessons from 5 Decades of Investing & Running an $8bn+ Trust – With Rosalind M. Hewsenian, CIO of Helmsley Charitable Trust

Roz Hewsenian
People lump foundations and endowments together, but they're very different vehicles. David Swensen at Yale could borrow, the university could borrow. Foundations are not able to borrow easily. It's much more difficult for them to borrow money.

Intro Highlight
Welcome to the Money Maze Podcast. I'm Simon Brewer, and Will Campion and I have created this show to explore and unravel some of the mysteries surrounding the investment business. You can keep up to date by visiting moneymazepodcast.com, and please sign up to our newsletter to ensure you won't miss a release. If you enjoy this show, please subscribe and we'd love you to tell a friend or colleague about it. Thank you for listening.

Simon Brewer
Why does a teacher trained to help children with special needs decide to switch and earn an MBA, then work at Pepsi, become an investment consultant, ultimately advising one of the world's largest pension funds, and after learning the trade for more than three decades, become Chief Investment Officer at an $8 billion foundation? We'll, here to explain her decision-making, her approach to investing capital and today the philosophy, priorities and process being CIO of the Helmsley Foundation, we're delighted to welcome Roz Hewsenian. You're in New York, I'm in London. Roz, welcome to the Money Maze Podcast.

Roz Hewsenian
Thank you. It's a pleasure to be here.

Simon Brewer
I have to thank our mutual friend Arjun Raghavan, the CEO of Partners Capital, who made the introduction. He's been a guest on the show as well with a very interesting episode that was 18 months ago. I've just of course committed a cardinal sin. I've truncated your 35-year career into a sentence, which of course is a travesty. But I'm going to let you fill in some gaps. I would just like to take you back because as I listened to you talk in another podcast about your experience as a teacher, I thought to myself, first of all, why were you pulled to make the switch?

Roz Hewsenian
It has to do with demographics to begin with, and a very practical reason. I was born during the baby boom generation. As we were growing up, America was building schools and opening schools across the country. The generation behind us was much smaller. So when I graduated from college and began looking for teaching jobs, they were hard to come by because now the United States was reversing course. They were closing schools because they didn't need as many of them as they needed. I knew I needed to find something else to do and I wanted to go into a profession. So that left law or medicine or engineering. My dad was an engineer. I didn't really want to go in that direction. I can't stand the sight of blood, so that eliminated medicine. And law, lawyers were facing the same situation. There was a glut of them in the marketplace at the same time. So I decided to get an MBA and go into business. While I was in business school, I learned about pension fund investing becoming a very hot area. If you think about it, people's pensions are their future security. Teaching is a helping profession. I just found another way of entering a helping profession with my background and my skills. It served me well because oftentimes the boards that I worked with, even within FC, were not familiar with investment

strategies, investment approaches, and I found good use for my teaching skills. I was constantly teaching at the start of my business career. I'm still teaching as I'm in the September part of my career.

Simon Brewer
You made that very interesting jump from business school to Pepsi. I think there may have been one or two jobs before that. You've documented that Pepsi at the time was revolutionary because it adopted radical practices like installing showers in the office and having a crèche and all-day food. Now, were they a beacon of hope back then or did everybody view them as just being weird?

Roz Hewsenian
They were considered a progressive company for which to work. But once you got inside, you understood why they offered all of that support for staff. They worked their employees pretty hard. It was a tough culture in that regard. It was exhilarating when you're a young person because we were exposed to so much. We were learning so much that we didn't mind the intrusions into our personal lives. It was not uncommon to work six days a week, seven days a week, sometimes late into the night. But the exposure to the different aspects of business, being in late-night meetings with bosses and colleagues and taking in their pearls of wisdom that dropped out because you're not in daylight hours was a wonderful opportunity. I learned more from hearing someone talk about an experience that they had that was similar to what we were going through that helped shape me as the professional I'm today.

Simon Brewer
I went back to the records, 1975 was when they launched that great blind tasting Pepsi versus Cola, which of course helped them storm ahead.

Roz Hewsenian
That was still going on when I was at the company.

Simon Brewer
Let's talk about how a career that was going very well suddenly led you to become an investment consultant.

Roz Hewsenian
I was not planning on doing that. I was working at Dimensional Fund Advisors as the Vice President of Operations and client service reported in to me. I was working to help land a very big account for Dimensional Fund Advisors and getting it closed and getting it funded. I worked extensively with a consultant there, Allan Emkin, and he was truly impressed supposedly with how I handled the situation and he invited me to lunch. During the course of the lunch, he said to me, I'd like to give you an opportunity to come to work for me. He said, the one thing I can guarantee you is you'll see the entire investment industry, the full breadth of the investment industry. That was a very exciting time because new investments were being rolled out all the time. It was the beginning of high-yield debt, international investing, distressed debt investing, real estate investing, all of these were really being rolled out. And Wilshire was at the nexus between the managers bringing out these new products and investment opportunities, and the clients. And he was right, I got to see everything. That was extremely exciting and probably the best training you could have to become a CIO. I didn't get siloed in a particular asset class, which is so common for a lot of other candidates for CIO jobs.

Simon Brewer
But of course, this was also interesting because there had been the dominance of the NIFTY 50 which were omnipresent in portfolios, and I think I'm right in saying you were beginning to tilt and think about portfolios which would go broader and have these other assets. So I'd like just to ask you firstly what it was that you were

seeing that encouraged you on that path, and if in this world where The Magnificent Seven in the US seem to be omnipotent, whether you think there are echoes.

Roz Hewsenian
Rolf Banz from the University of Chicago published his paper on the benefit of international investing in 1981. The benefit of that for a young person early on in their career is that that effectively said the world is now your investment oyster, not just the United States. So that was a huge draw to recognise that I could potentially invest anywhere around the world. While Banz's paper pertained primarily to large-cap international equity, the underlying principles were the same. It could be applied to real estate, to debt, to the other asset classes that were actually available in other countries as well. We just needed a way of tapping into them. That's really what started it.

Simon Brewer
I want to jump forward now to the Helmsley Foundation because after your very successful career on the West Coast, you are lured to the Helmsley Foundation. I wonder if we just start by giving our listeners, many of them from around the world and outside of the US, how the Helmsley Foundation came into being and how such a foundation must act.

Roz Hewsenian
Harry and Leona Helmsley were very successful real estate developers in the city of New York and branched out to other parts of the country, primarily in hotels. But they owned a lot of trophy properties in the United States at the least of which were the Empire State Building, the Park Lane Hotel, the Palace Hotel on Madison Avenue, really important pieces, landmark pieces of real estate. When both of them passed away, they decided that the vast majority of their wealth was going to be left to a private foundation. Mrs Helmsley died in August of 2007, and fortunately, there was a liquid portion of her estate that moved into the trust. But lurking around the corner in 2008 was the financial crisis. Talk about a little bit of luck. Helmsley did not have an investment staff yet. They brought in an outside adviser to help them and they were largely liquid going through the financial crisis. As a result, Helmsley did not experience the losses that a lot of the other foundations had experienced primarily because the timing of when Mrs Helmsley died, the trust was being funded. The bulk of the assets was held in the trophy real estate properties. It takes a while to sell but you can't place an ad for the Empire State Building and expect to get offers immediately. It takes a while. [inaudible] The foundation was getting off the ground on all fronts, the program side and the investment side. The IRS requires you to start granting immediately, and so we were flying the plane as we were building it on all fronts within the trust. The benefit was Linda Strumpf, who had been the CIO at the Ford Foundation, came on board to chair the investment committee and she was also working to help build out the staff. She hired me first, and together, we hired a couple of other people. But what the trust had in both Linda and me were two very experienced industry professionals, experienced at building our teams, experienced at looking at investments, experienced at managing [inaudible]. And so we were able to build the plane while we were flying it.

Simon Brewer
Before we talk about the investment approach, as I went on your website and I saw the causes that you support, one of them is Crohn's disease. I happen to have a nephew who had colitis. I just wondered, some of these recipients are terrific causes, but are you involved and how does a foundation like that think about prioritising causes?

Roz Hewsenian
The answer to your first question is no, the investment department is not involved in setting the priorities for the grant-making. But we do get involved, and I'll explain that a little bit later. The establishment of the overarching

mission of healthcare and medical research was established by our trustees and came from their personal interests. The trustees are two of Mrs Helmsley's grandsons and her longtime legal counsel. The areas of healthcare which we support are two disease area, Crohn's and its subsidiary colitis, mostly Crohn's, but there's a lot of overlap between the two diseases, and Type 1 diabetes. Those are both born of the fact that two of our trustees have children with those diseases. Now, the interesting thing that links the two of them is that they're both autoimmune diseases, and so that led into a lot of research about the immune system, if you're ultimately going to find a cure for these diseases. One of the other trustees lived in a rural part of the United States and saw the need for healthcare accessibility, that where you live shouldn't determine the healthcare you get, and living in the upper Midwest of the United States where you could go to a rural hospital with an emergency and the only person on duty might be a registered nurse and that's it. So how do you deal with that? That's where the entire initiative about how do we support rural areas that need our help. And the use of technology, the use of providing equipment, online pharmacies, a lot of that support was the initial help provided by Helmsley. We recognised that the upper Midwest was not the only place that needed our help. We went to Israel; we went to Sub-Saharan Africa. We even recognised that the city of New York where the Helmsleys made their money had a tremendous need for healthcare and healthcare support. So those are place-based initiatives in addition to our disease areas. Again, born of the interest of the trustees. They're actively involved in the program.

Simon Brewer
Let's talk about the investing framework. You and I both know this investment industry and we know it has a penchant to put things in boxes, growth and value, etc, and nice and tidy. But I know you're a big opponent of that, which I'm sympathetic to. But just explain why you're an opponent and how you've approached thinking about the portfolio's construction.

Roz Hewsenian
There is a competitive answer to that and then there is a practical answer. The box approach to investing was created by the [inaudible] company. They were a competitor consulting firm to Wilshire Associates at the time. Their structure allowed them to duplicate their investment advice across a broad platform of clients using this one framework. Wilshire's approach was every client is unique and different. They have different problems, different demographics, different goals, different objectives, and they really needed something that would be unique for them. And so we assumed that putting things in boxes category not only is a competitive differentiation, but also because it forces you to fill a box if you have a box created, and it disallows you from making an investment if you don't have a box for it. And common sense just tells you that doesn't make sense. The other thing that occurred is that pension firms had already experienced what we call the crossover point where they were already liquidating their investments as the baby boomers were beginning to retire, and so cash flow was going negative. Their payouts were larger than their contributions as corporations were closing pension funds and governmental entities were not growing them as quickly as the retirees were retiring. We had working in the pension fund world a lot of experience with managing cash flow, and it was critically important that you do because you didn't dare miss pension payments. Fast forward to a foundation, if you were to not make your required payout under IRS regulations, the foundation could lose its tax-qualified status. So managing liquidity became absolutely critical. After the financial crisis, I went around and talked to some of my fellow CIOs because they went through the crisis as a foundation. I didn't at the time, and I wanted to ask them what the biggest issue they faced to approach them. They all said liquidity was a problem. I decided that if liquidity was the problem, liquidity is the risk that we had to manage. Because one can accept volatility as long as you don't have to transact. Volatility only works against you if you have to sell when the market is at its least attractive. So if we could manage the liquidity, we will always be able to meet our 5% payout regardless of the market environment and regardless of the volatility that the market might face. So we set up four liquidity tiers defined by under the worst circumstances, how quickly could you get your hands on the money. By explicitly recognising the liquidity risk, we were able to ensure with all of the vicissitudes in the market since 2010 when I joined

Helmsley that we were able to weather the storm. It really got put to the test in 2020 when everything shut down. Just because everything shut down didn't mean that the IRS was going to be giving you US foundations a pass on making their 5% payout. That was number one. Number two, our grantees needed us even more because they were stretched to the limits as a result of the pandemic. Our liquidity-driven approach allowed us to assure our trustees that not only did we have enough liquidity on hand to meet every obligation, but if they wanted to spend a little bit more, we had it. But more importantly, we had a reserve such that when it looked like this wasn't going to be the wholesale disaster that we thought it was because Zoom really took off, which by the way, we had invested in it, something like 28 cents on the dollar. So we bought it for 28 cents. When we ultimately sold our position, it covered- that sale from that one stock covered all of our grant-making and foundation expenses for one year. No amount of planning takes the place of dumb luck. We weren't planning on a pandemic, but it helped us realise a tremendous return on investment with our investment in Zoom. We then had a reserve that we picked up into the markets and did so pretty aggressively, and that's what helped Helmsley weather that storm.

Simon Brewer
I was reminded the other day by somebody that even the late and great David Swensen at Yale had to borrow against his illiquid positions after or during the great financial crisis. So your point is very well taken.

Roz Hewsenian
I want to point something out about that, Simon. This is the important thing. People lump foundations and endowments together, but they're very different vehicles. David Swensen at Yale could borrow, the university could borrow. Foundations are not able to borrow easily. It's much more difficult for them to borrow money, and as a result, by not managing liquidity, they didn't have that out, and that's what sent a lot of foundations into a crisis during the great financial crisis.

Simon Brewer
I’m right in saying you have actually got a standby letter of credit. Was that before or after the GFC?

Roz Hewsenian
That was after the GFC. We have a borrowing line. It's not designed to support investments or even to support the grants per se in terms of leveraging our portfolios so we could make more grants. Its use is to level out our grant-making payments from investments. Instead of being told by our finance department we needed 30 million from you this month, but oh, by the way, we need 50 million from you the next month, we only need 20 million from you the month after that, they use the line of credit to level out the payments. As a result, we're given a budget, it's divided by 12 and we just have to transfer to them equal instalments over 12 months of that payout. They use the line of credit to balance out the grant-making payments using under-utilisation in one month to pay off over-utilisation in a previous month of the line of credit.

Simon Brewer
Thank you for that clarification. I want to go back if I may to those four tranches you have which I think are safe, liquid, semi-liquid and illiquid with different weights. Could you just talk us through those, please?

Roz Hewsenian
Sure. Obviously, I didn't sit up nights trying to come up with cute names for the category. But I think it's instructive because each of those categories are tied to the time to receive proceeds. Safe, we can get our hands over money in a day. Liquid is anything longer than a day up to 60 days. Semi-liquid is 60 days to two years. Illiquid is beyond two years. This is taking into consideration not only the underlying liquidity of the investment

but any legal encumbrances that may encapsulate the investment. For example, we factor in under the worst of circumstances gates that might be opposed by a hedge fund and then we calculate the liquidity.

Simon Brewer
Could you just give us the weights that you apply to each of those four.

Roz Hewsenian
Those vary. The strategic plan right now calls for 35% in illiquid, 15% in semi-liquid, and then the balance of the liquid and illiquid is in liquid and safe.

Simon Brewer
Now, sitting on top of all of the activities, some of which we're going to dive into, is the investment committee. I sit and have sat on investment committees over the years. I don't want to say I've seen the good, the bad and the ugly, but I've seen better and less good. As you have seen many more than I have, what do you think is the most important function of an investment committee?

Roz Hewsenian
The most important function is to support the investment staff and ensure that there is appropriate supervision to ensure that policies and procedures are being upheld. Now, I'm making that distinction because I don't need my investment committee to second-guess my investment decisions. I need them to probe my degree of conviction and to ensure that through the documentation that we provided to them when we make a recommendation that we have followed our policies and procedures. Beyond that, what I'm looking for is experience in the investment world to give us their perspectives and their point of view as we give them our perspectives and our point of view. So it really becomes a masterclass in very experienced people talking about complex situations that the market and the economy are presenting to us. For example, at the last investor committee meeting, we had a big discussion about regime change. We've been in a declining or no interest rate environment for so long, very pro-growth, fiscal spending was reasonable, not truly accessible although that picked up during the Trump administration and then all hell broke loose during the Biden administration. Now we're in a different regime, higher interest rates and inflation. What are the implications of that? What do we have to do to the investment program? Now, the benefit of having some of the members on our investment committee and myself is that we actually had to manage through the hyperinflation of the '70s and that peak when interest rates reached their top and then began declining. So the benefit of the investment committee is bringing that wisdom and collective thought to the process. The investment staff at Helmsley have a lot of delegated authority. So we don't need our investment committee to approve everything that we do. They do approve our strategic plan. They do approve new managers for the first time. Again, that's to probe conviction and to ensure policies and procedures have been upheld. And they approve our policies and procedures before they go to our trustees for approval. After that, it is one of the richest discussions about the market and the economy you could have. On my committee are all investment generalists. As a result, nobody is talking your book. They're really talking about what is going on in the investment industry.

Simon Brewer
What do you expect them to have done before those meetings?

Roz Hewsenian
Two things. Read the agenda book that we sent out to them two weeks in advance so that there's plenty of time, and to be generally knowledgeable and well-read from other sources, at the very basic level, the Wall Street Journal and the Financial Times, but a panoply of research either to which they have access or their travels,

however they garner information. We want them to be well-versed in investments generally so they can have a perspective and a point of view so that they can challenge us and we can challenge them.

Simon Brewer

So that's the investment committee, let's talk about idea generation. Because if in reading your work on your website I understood it correctly is you have a chief strategy officer or a head of strategy that sits underneath you that is responsible for idea generation. I just wondered how that idea generation works, because in my mind was in all of us in the investment business are the frailties and the biases. So somebody may be so keen on technology they're not looking about the copper, there's going to be need to rebuild Ukraine, or that in the energy transition, nuclear may play a vital role. How do you think about that?

Roz Hewsenian

To begin with, the way that I manage the staff is in a very flat way. I believe that anybody could have a good idea and my job as the CIO is to recognise that. And while we do have a Director of Strategy and Research, and she's very good, and she's actually picked up some interesting trends that we've followed, but there have been times when we've gotten into our strategy meetings, everybody sits around at a table, titles and levels go out the door. We're just people who've read things. Sometimes, the most junior person can come up with an observation that we then all recognise has merit. Nine times out of 10, the junior person doesn't talk themselves out of the idea the way a more serious professional might when they weigh all the pros and cons because of those years of experience. So by having a flat organisational structure when we get into those meetings, idea generation comes from anywhere. Now, depending upon who generates the idea, if it's not the director of strategy research, we might transfer it to that person to do the work if we're busy doing other things. But otherwise, I generally get the person who came up with the idea the opportunity to work on it. They're highly motivated to do it. They'll learn a lot. But we typically assign a sponsor and a sceptic to an idea. The sponser champions it, the sceptic comes up with all the reasons why it shouldn't be done. In this regard, we avoid the silo of thinking that you can get when only one person is assigned to work on an idea and they fall in love with it.

Simon Brewer

As I looked at some of your earlier work, I think I'm right in saying that back in 2018, you were getting warmed up to investing in China. Now, the world has moved to a less harmonious place. When you have made an investment decision, you've gone to an area, how have you assessed that as the evidence, in this case, it's geopolitical, but as the evidence has shifted?

Roz Hewsenian

Investing in China was very interesting. Throughout my career, I've been extremely sceptical about investing in China. I didn't feel that foreigners were given the same gratitudes that mainland Chinese investors were given. I was always concerned about expropriation and other things that could go on. So unlike a lot of my peers, I approach China very cautiously. We actually have quite a small exposure to China compared to a lot of our peers. One of the members of our investment committee was very high on China and felt that we should have more exposure. We were concerned about that. So we went in investing in a hedge fund. The thinking behind that would be the shorting capability of the manager would mitigate some of the downside volatility. And the fact that it was a hedge fund, it would be liquid enough that we could get out if we wanted to. The other exposure that we have to China is through our money managers, our venture capital managers who put money in China as part of a program in which we're investing. So we never actually set out to have a China allocation per se. As a result, when our attitude shifted again away from China, we were able to liquidate our hedge fund. We did it not only for that reason but other reasons as well, and we had little exposure in our venture capital portfolio as a result. We had faced re-upping with our China based investments and we are heavily considering what to do with the fact that we're invested in Sequoia and Sequoia just broke into three pieces, one of which is based in China. That's under assessment right now.

Simon Brewer
Now, you use as I understand it 50 external managers, which for a $8 billion foundation is not that many. I'd like to just understand a little bit about what it takes for a new manager to get through the screening process and then we can talk afterwards about under what circumstances are they forced to leave the game.

Roz Hewsenian
One of the things that concerned me in my career was over-diversification at the manager level. I told the team that we would have a maximum of no more than 50 managers, choose wisely. We actually have 43. The thinking behind that is that you can get sufficient diversification and exposure, but that we should actively move out managers when we're no longer interested in the strategy. The way that managers get hired is we actually have quite a detailed process. We spend a lot of time covering an area, looking at everybody who's out there first to determine whether we actually want to go over into that area, and then second, are their managers who will meet our criteria. Now, our criteria are not cut and dried in black and white. It's really around do they have sufficient capacity to manage that particular area. Do they have the appropriate resources? Do they think logically and reasonably about work for their firm? Are the adaptive resources there to do it? Do they have market advantage in their market? Do they command respect so they can get the best investments? These are the kinds of criteria that we're looking at. We assign three people to work on managers at a time. There's a director of investments whose overall responsibility to ensure that policies and procedures are undertaken and to ensure that there's a good portfolio between where we're looking at our existing portfolio, and we have the aforementioned sponsor and sceptic. This keeps everybody honest. The sceptic's job is to find all the reasons why we wouldn't want to hire a particular manager and the sponsor's job is to champion the manager, particularly because they have found that manager. When they zero in on a manager they think looks interesting, they write up a one-pager that's circulated to the entire investment team. We have a strategy meeting where we talk about what is going on with that manager based on the one-pager. People ask their questions, express their concerns. We also send that one-pager to our investment committee. We want to know if any of them have had experience with that manager, good or bad, or if there's something in the write-up that might trigger their questions. The reason why that's important is that we want to make sure that those questions are addressed if we decide to bring the manager forward, so why not ask upfront? It usually takes 6 to 9 months from the time we've narrowed the panel to a group of managers that were considered to actually hire one and take it through the investment committee and get them approved. But the reason why we have the time to do it is that we're not monitoring 250 other managers. If you have too many managers, you can't see what's coming next.

Simon Brewer
Now, at times, for all sorts of reasons, valuation, change of direction, there are managers who no longer meet the criteria. Just explain a little bit, what are the amber lights or the red lights?

Roz Hewsenian
The most obvious is performance. We will not fire a manager who is underperforming as long as we can explain it, as long as the performance is consistent with what we underwrote at the time that we hired the manager. We expect managers will underperform for a while. That's not our concern. We go through and analyse underperformance to ensure that there's not some other reason. And there could be a whole host of other reasons why the manager is underperforming that could be amber or red lights, not the least of which are organisational issues going on within the firm. This is an interesting situation. I had met with the head of a money management firm. It was a boutique firm. It was independently owned. They touted the fact that it was owned by all their employees. I went in and I met with the founder and managing partner of the firm. During the

course of the meeting, all he wanted to talk about were his charitable endeavours now that he made all this money. He honestly thought that would impress me. It didn't. I realised he was losing his focus with respect to the firm. And when the guy at the top loses his focus, everybody loses their focus. That's an example of how lifecycle can play into how we make a determination about a manager. If the manager is performing consistent with our expectation but our themes or the market generally is shifting, we could make changes. For example, we have been in a super growth period for a long time. We had a lot of growth in our portfolio. We've begun to pivot the portfolio recognising we're not going to be in a hyper growth phase for a while. So we took our profits, we parted ways with some managers, we told them that we would act as a positive reference for them and that ours was an asset allocation decision not built with them in order to be able to pivot our portfolio.

Simon Brewer
Those are the shall I say clear cut exits. What did you learn from when you got it wrong?

Roz Hewsenian
Everybody buys right. The big thing you learn when something goes wrong is to act quickly. The first thing most people do is rationalise what they're saying. That's why we have a sceptic in addition to a sponsor because everybody has their blind side. Generally speaking, we've been surprised when there was a factor we hadn't considered. I'll give you an example. We hired a manager where again, it was a boutique firm. There was a founder. He was very charismatic. He was really good at what he did. Usually, people who start their own firms don't do well in a large, structured environment. Their brilliance is un-reassured and they have degrees of freedom and latitude, but they have to have a balance. Otherwise, if they're left to their own devices and unsupervised, then that could be a problem. So I always look for who is the balance, who could tell the vendor you're full of garbage, you can't do this, we really need to focus on this, somebody who's going to provide that balance. This is something that I miss with all my years of experience. There was a balance for this particular money manager. This founder was really good. They were in different offices and I did not ascribe enough importance to the fact that we're in different offices. And sure enough, because they were in different offices, the person who was the balance missed something, and we all got surprised.

Simon Brewer
As you look ahead Roz, in a world that is being disintermediated and possibly changed as much as at any time in the decades that you've been in this game, how different might it look in 10 years' time?

Roz Hewsenian
That's a really good question. I think that we're actually going to go back to sticking to our knitting. The industry grew out in broadened in a lot of different directions, a lot of different strategies. What we're seeing is pullback. We're seeing pullback from poor countries back into the United States. We're seeing pullback from hedge funds into other strategies. We're seeing a pullback in some of these specialty areas that can really cause a lot of damage in the short run if something goes wrong. I think there's going to be a sorting out in the industry and that's going to lead to returning to past disciplines about how to allocate, how to manage risk. Diversification probably will be less of an excuse to use and downright risk management will become even more important. We've had some major blow-ups since the ‘70s, the Arab oil embargo, the spike in interest rates, the tech bubble bursting, the GFC, the hedge fund blow up, the mutual fund trading scandal. We've had situations that have really set investments back on its heels. I'd like to think that going forward, we’ll pay far more attention to those risks in the way that the industry operates.

Simon Brewer
And a little less loving with the passive world?

Roz Hewsenian
No. I absolutely think passive will increase. That's part of the increased discipline. One of the things that I think is critically important for institutional investors is that we did a big analysis when I was at Wilshire about the cost and benefit of the incremental manager, how much diversification you get when you have two managers versus three managers versus four. In a particular asset category, once you have that third manager, you're done. Every manager after that will actually add more costs than diversification benefits, and that's something that has to be taken into consideration. So if you have a lot of money to invest and you can't hire that many managers in a category, passive may become the alternative.

Simon Brewer
As you leave the US where it's one of the more efficient markets and you go to developing markets, that's where you want to be active, not passive.

Roz Hewsenian
That's true. I would agree with that. But I would also say that once you leave the United States or the UK, you take on a lot more regulatory work, meaning that these markets aren't as well regulated as they are in the US and the UK, so you can have other kinds of problems. That said, people have to think thoughtfully about diversification. It's not number of managers. It's really where are you getting a different return stream from the ones you have. Let me give you an example. I gave this problem to my investment staff for a [inaudible] liquid portfolio, so we had a maturity issue there. The assignment was, we need something that has low or no correlation to the equity market but still could generate a return to meet our strategic return objectives. A member of my staff came in to me with the idea of buying life insurance policies. My first question to him was, how would it meet our two-year criteria? He said, we can buy very mature life insurance policy. We all did a lot of work on life settlements. Now, that's an example where we added a manager and our diversification benefit was huge. There was zero correlation to the market. By buying mature policies, meaning that the insured was retired later stages of their lives but needed money so that's why they were selling their policy, allowed us to fit within our liquidity structure. So it was a win-win across the board. Now, we made that investment in 2019. Five months later, the pandemic hit. We made over 30% of our money that first year when everything else was selling off. It was just a very creative idea.

Simon Brewer
Five rapid fire questions. Firstly, what's the chief irritation you have about the investment industry?

Roz Hewsenian
Greedy?

Simon Brewer
Number two, you said a very interesting thing in a transcript I read, which is you encourage your staff to when they're managing up to go for the little yeses so we avoid the big nos. I'd like you to explain that.

Roz Hewsenian
If we're bringing a major issue or change to a governing body that is dealing with issues across an entire platform, in our case, Helmsley, the last thing in the world you want them to do is say no, because they don't understand it. And they can say no and not give a reason. So I've always advised my team, let's give it to them in smaller pieces that they can understand and not overwhelm them. And out of that, trust will be developed because they understand that we're bringing something to them that they can wrap their head around and understand. It takes longer, but we've never been turned down for anything we brought to our trustees. Our investment committee is made up of investment professionals, our trustees are not, and so I can't just walk in

the door and assume prior knowledge. I have to walk in and frame it for them in a way that they can understand it with their non-investment backgrounds. If I give it to them in smaller chunks and just come more frequently, I have a better chance of succeeding, and it's worked perfectly.

Simon Brewer
Now, your career has spanned multiple decades since the 1970s. Who is the most compelling investor you've met or would like to meet yet?

Roz Hewsenian
Well, believe it or not, I never met David Swensen and I won't get that chance. I would have liked that. The most compelling investor I've ever met has been Howard Marks. Howard and I have gone through a lot in our career and I never fail to learn from Howard in any conversation I have with him on his approach to investing and the basis on which he founded Oaktree. I started investing with him when he was at Trust Company of the West. I remember when he started Oaktree and I was saying to him, 'It's not broken, why are you trying to fix it?' And he said to me, 'Just watch, Roz. It was broken, and I'm fixing it.' But he's been a huge contributor to this industry and I have a great deal of respect for him.

Simon Brewer
Yeah. I read his material religiously. We haven't had him on the show. But funnily enough, we would like to have him on the show. That's one for next year, perhaps. Two last questions. You've done a lot, but what is your unclimbed mountain?

Roz Hewsenian
I always have wanted to live in a foreign country for a while and there was never a good time or opportunity in my career to do so. But I think that would have added richly to my personal and professional experience if I could have done that.

Simon Brewer
There's this book that is called 'Just One Thing,' and we ask our guests often, if you could give one piece of advice, just one thing to a global audience, what would it be?

Roz Hewsenian
Develop a gut instinct and trust it. You can't analyse things to death. At the end of the day, it comes down to a judgment call and you check your gut.

Simon Brewer
Got it. Roz, we've covered a lot of ground. Thank you very much for your time today. I always take away one, two, or sometimes more conclusions. I've written down two things here particularly, which is for investment committee members, and there'll be many listening around the world, read the agenda well ahead of time and prepare. And secondly, that volatility only works against you if you have to sell, and that's really good advice.

Roz Hewsenian
Everybody looks to minimize volatility. No, just accept it and manage for what it represents.

Simon Brewer
Also, implicitly, there is nothing wrong before you get into the investment business with starting with a teaching qualification.

Roz Hewsenian
Nobody can stop you as fast as you can stop yourself.

Simon Brewer
Roz, you've obviously had a terrific career so far and we really appreciate sharing your thoughts and your wisdom with us on the Money Maze Podcast today.

Roz Hewsenian
Simon, thank you for having me. It's been my pleasure.

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