Q & A with Phil Huber

OSAM CEO Patrick O'Shaughnessy recently sat down for an in-depth discussion on Canvas with Phil Huber, Chief Investment Officer at Huber Financial. Huber was an early Canvas partner and understands the power of customized portfolio management. In a recent article he included the following Q & A with Patrick.

This Q & A serves as a valuable resource for how we think of the Canvas Platform.

Phil: You've described Canvas as the first operating system for investing. Can you elaborate?

Patrick: An operating system gives its users enormous leverage by helping users accomplish a set of valuable tasks with ease and efficiency.

While there are many software and technology solutions that help advisors run their businesses, Canvas is the first system that allows them to design and implement truly customized strategies, all managed through easy-to-use web-based software.

Just as every advisor uses some sort of client-relationship management (CRM) system, we believe every advisor will eventually use a system like Canvas to manage the investing portion of their business. Canvas will become the investing hub for its users—the place where they design and update strategies, generate performance reports, learn about investing frontiers and more.

Phil: Deep customization lies at the heart of Canvas. What are the various levers, or dimensions that investors can tailor to deliver a truly unique, personalized experience?

Patrick: The specific dimensions that advisors and allocators can control on day one are:

1. Asset allocation
2. Factor exposures
3. Direct indexing
4. Tax-loss harvesting and tax transition
5. Position level controls (stocks, industries, sectors, or managing around single stock exposures)
6. Environmental, Social, and Governance (ESG) and Socially Responsible Investing (SRI) screens
7. Fixed income exposures (credit, duration)

More specific information is available at canvas.osam.com.

Some Examples:

Customized Index: A specific investor wanted to own the S&P 500 but disliked five companies in the index. Canvas allowed us to start with all of the companies in the S&P 500, remove the five companies the client did not want to own and create a customized strategy. ("S&P 495").

Minimize Concentrated Stock Risk: We designed another strategy for an investor who owns a large position in a technology stock and wanted a portfolio which both 1) reduces the risks associated with that stock and 2) also reduces their concentration in that stock over time, with minimal tax consequences.

An ESG Portfolio: In another design, we built a balanced equity and fixed income portfolio with an allocation to the value factor and an ESG overlay which removed companies with poor climate change and data privacy profiles.

Every one of the above strategies can be built in minutes in the Canvas Strategy Builder.

Phil: I'm a big fan of OSAM's "learn, build, share, repeat" mantra. Could you describe the development of Canvas internally through the lens of those four steps?

Patrick: OSAM's "learn, build, share, repeat" philosophy comes to life through our software development. From now on, we will deploy what we believe to be our best investing research into Canvas, which will put our research to work for our clients.

In each new cycle (which we call "Blank Canvas") we will perform new investing research, build the useful findings into Canvas, automatically share those new elements or options with Canvas users, and then do it all again. Learn, build, share, repeat.

Phil: Direct indexing might not be a household term for most investors, but versions of it have existed for decades. Why is there such a buzz around direct indexing today?

Patrick: When you directly own the underlying positions in a strategy within your own separate account, it opens three interesting possibilities. I use the word strategy rather than index on purpose, because most Canvas users build a blend of active factors, broad equity market exposure and/or fixed income. You can think of direct indexing as one tube of red paint, whereas Canvas gives you the whole palette of colors to work with.

Back to the three benefits. When you own the individual stocks in your strategy, you can:

1. Engage in tax-loss harvesting, which can be used by the end investor to offset gains elsewhere—reducing the investor's tax bill. In the average year since 1963, 31% of the stocks in the Russell 1000 traded at a loss—a large opportunity set for harvesting tax losses for the client's benefit.
2. You can manage around pre-existing portfolio positions—especially large single stock exposures. Because each stock comes with its own risk profile, it is important to have complete flexibility when building the client's unique, personalized strategy. This isn't something you can do with a portfolio of ETFs and/or Mutual Funds.
3. You can remove or favor stocks in categories that are important to the end investor, within reason. This includes granular ESG and SRI issues, single stocks, industries or sectors.

Phil: What makes Canvas different from other offerings from firms like Parametric and Aperio Group?

Patrick: Parametric and Aperio Group are two great firms, but we are building something different.

OSAM's strengths are quantitative investing research and software. No one else has built software that allows you to both design and implement strategies like Canvas does (OSAM executes all the trading and reporting, too). Canvas offers flexibility unlike anything the investment community has seen before, which means that every investor can get a personalized strategy that fits like a glove.

We believe that in the future, every advisor will use software like Canvas to access and manage all types of strategies, not just one like direct indexing.

Phil: Why is OSAM uniquely suited to develop a platform like this? And what has transpired that has allowed you to bring Canvas to market today rather than 5-10 years ago?

Patrick: Twelve years ago, we made a strategic decision to invest in our research and technology infrastructure. Today, we have what we believe to be the best such platform in the business. Over those 12 years, we built a full engineering team, which in turn developed software to handle every part of the money management process, from research and trading, to portfolio and risk management, to performance reporting and compliance. These systems are extremely powerful and took a long time to build and perfect. The Canvas software is new, but it plugs into all the technology OSAM has built over the years. Our legacy as a separate account manager (with thousands of accounts managed) also puts us in position to maintain distinct rule sets across any number of separate client accounts.

Phil: How should advisors who use Canvas think about implementing it for new and existing clients? What are some use cases where the platform makes sense for one investor, and other instances where it is not applicable?

Patrick: To get started, Canvas is well suited for clients with one or more of the following:

- Single stock risk exposures
- Tax sensitivity
- Granular ESG and other portfolio preferences
- A desire for active factor exposures as pure indexes have gotten more expensive

You can think of canvas as a collection of what we believe to be the best systematic strategies and controls available today. By definition, anything non-systematic falls outside its scope for now.

While there are certainly things outside the scope of Canvas' current functionality, we feel it is the best way for advisors to build core strategies for just about any client. We believe in focused partnership (with 10 or so adviser firms to begin) to ensure Canvas is as valuable as possible. But eventually, we want it to be useful to every advisor.