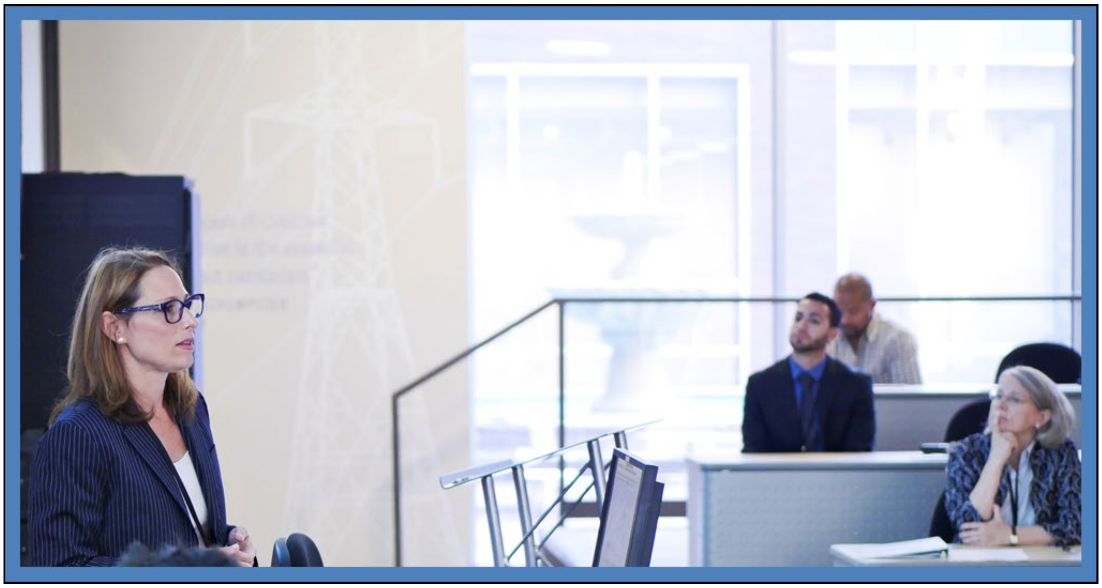
Interview with Jodie Gunzberg, CFA

Managing Director and Chief Institutional Investment Strategist, Morgan Stanley Wealth Management; and Member of both the J.P. Morgan Center for Commodities' Advisory Council at the University of Colorado Denver Business School and the *GCARD*'s Editorial Advisory Board



Jodie Gunzberg, CFA, Managing Director and Chief Institutional Investment Strategist at Morgan Stanley Wealth Management, presented on Chinese commodity demand during a session at the J.P. Morgan Center for Commodities' (JPMCC's) inaugural international commodities symposium. The panel session was moderated by Hilary Till, the *GCARD*'s Contributing Editor and Solich Scholar at the JPMCC.

In this issue of the *GCARD*, we are delighted to interview Jodie Gunzberg, CFA. Gunzberg is the Managing Director and Chief Institutional Investment Strategist for Morgan Stanley Wealth Management. Previously Gunzberg was the Managing Director and Head of U.S. Equities at S&P Dow Jones Indices (S&P DJI). She had originally joined S&P DJI as the Director of Commodities product management.

Gunzberg is a founding member of the *GCARD*'s Editorial Advisory Board and recently joined the JPMCC's Advisory Council. She has contributed as an author to the *GCARD* and participated as a panel member on Chinese commodity demand during a session at the J.P. Morgan Center for Commodities' inaugural international commodities symposium.

In addition to her impressive track record of professional achievement, Gunzberg has retained a deep passion for education, whether it concerns early-childhood tutoring, university-level mentoring, or professional development for young finance professionals. Specifically, she is a Science, Technology, Engineering, and Mathematics (STEM) volunteer at an elementary school as well as serving on the Advisory Board for Hofstra University's Department of Finance; she is also a Chartered Financial Analyst (CFA) Institute Curriculum Consultant. Even though her professional responsibilities span asset classes, Gunzberg holds a strong interest in the many nuances of the commodity markets. In this interview, we ask Gunzberg about advice on career development, and we also explore both commodity- and education-based themes with her as well.

Interview

You have been an investment professional for over 20 years. How has your career evolved across asset classes?

I can describe my career of moving across asset classes as an accelerated course in managing risk through market crises. My first role on the buy-side was as a fixed-income analyst in the late 1990s when bonds posted some of their worst ever returns after the economies in Asia, Russia and Argentina struggled. We needed to quickly automate and adjust our screens with flexible parameters as extreme cases were becoming the new normal, and we had to build out the risk management and scenario testing capabilities as we were experiencing a risky scenario in real-time. Our edge came from using test versions of new technology to feed the latest data into customized models and adjust the portfolios accordingly to stated goals.

Speaking of technology, through this, I watched my colleagues on the equity side flourish during the tech bubble, and felt excited about the potential upside. So, in April 2001, I joined Driehaus Capital Management, an aggressive growth equity firm at the time. While the equity math was not as complex as the bond math, the quantitative models based on fuzzy logic were interesting, and the precipitous stock market drop made the stock picking and portfolio management fascinating but required a new layer of risk management. We had to get creative with portfolio strategies and structures so launched two hedge funds (long/short equity and equity-market neutral) at the start of 2003, just as equities were making a comeback. My timing was wrong again, but in the process, I learned technology enabled far fewer resources to generate quantitative portfolios that were competitive with similar fundamental strategies.

Next, I attended business school and built various hedge fund risk management systems while I studied, then went on to incorporate alternative investments into asset allocation models at Ibbotson, later acquired by Morningstar. While at Ibbotson and Morningstar, we built a family of commodity indices to fill the asset class in the models. Commodities immediately captivated my attention from the structural nature of the contracts as with bonds, but with the volatility and return potential of equities. Plus tangible goods are easy to understand and are relatable as resources that people need every day.

I followed my passion and joined S&P Dow Jones Indices as the Director of Commodities in 2010, and I learned more than I ever imagined about indexing and navigating difficult markets. The perfect commodities storm ensued as demand slowed from the Global Financial Crisis, and as Saudi Arabia's oil supply cuts became impotent in lifting prices after inventories built from U.S. fracking. My time specializing in commodities was through its worst decade, once again, driving the need for innovation and risk management to stay competitive in indexing. Subsequently, many strategies were born to manage risk including dynamic rolling, market-neutral alpha strategies, managed futures and real assets. Once I realized the power of indexing, I moved back into consulting to bring efficient choices across asset classes to investors. Then the global pandemic, a tragedy of epic proportions, hit the markets. I felt right at home as my career has centered around navigating through difficult markets. Though I may have done better financially with better timing, I learned tremendous lessons at an accelerated pace about staying focused on long-term goals while managing risk to get through short-term volatility and drawdowns.

What are some of the major changes that you have experienced in the investment industry, and what are some of the challenges, including with Environmental, Social, and Governance (ESG) investing?

The greatest advancement I have experienced is in the development of technology and data availability that enabled more sophisticated systematic strategies to capture returns traditionally generated by fundamental analysis. The growth in standardized data and contracts, coupled with product innovations from derivatives to Exchange-Traded Funds (ETFs), has allowed investors to access strategies at a lower cost with more transparency and liquidity. That said, the evolution has been quicker in some areas than others. For example, the development in commodity indices, and the structured products based on them, drove explosive growth in assets-under-management-tracking in the decade from 2000-2010, gaining nearly $400 billion, according to Barclays. This was driven by the story at the time about how commodities provided diversification and inflation protection while the growth in the futures market promoted liquidity and standardization, setting a higher bar for quality and enabling production to continue with less risk through insurance, while stabilizing prices for consumers. As commodity markets tumbled from demand declines and supply innovations, the demand for ESG has increased exponentially.

According to the Morgan Stanley Institute for Sustainable Investing, 85% of active individual investors and 95% of millennial active investors describe themselves as interested in sustainable investing. Also, 95% of asset owners are either already integrating ESG criteria or are actively considering the integration of ESG criteria within their investment process, and among asset owners integrating ESG criteria, 73% have begun doing so in the last 4 years, with 45% doing so in the last 2 years. There are a range of motivations driving this demand, including risk management, mission alignment, return potential, evolving policies and regulations, and constituent and stakeholder demand. The returns have been increasingly attractive post the Global Financial Crisis and the COVID-19 Crash, which serve as proof that the risk management employed in ESG strategies is working. Now the challenge remains with the variability in definitions, data integrity, and methodologies underlying scores, rankings and calculations of data providers for selecting, constructing and evaluating these investments.

You have served in many advisory capacities in the investment and education space. What are some ways that you see commodities' education influencing careers and the commodities industry?

Commodities education comes in many different forms. On the most basic level, while everyone – not just investors – knows what a commodity is, very few understand the vocabulary. For example, most, if not every kid knows what corn is. They have the basic understanding of knowing it is grown and eaten. If commodities businesses are framed as constituting the industry that feeds and fuels life, it may be a more relatable and tangible field that will generate career interest for students. Also, describing the parts of the industry across the supply chain in basic terms about how natural resources are brought from the earth to the consumer may draw more interest. Linking skills to various parts of the supply chain, whether in growing, mining or drilling to transportation, processing, marketing and sales – or to overall financing, can guide students towards the areas that suit their strengths and passion. Helping students realize the value that they can bring to the supply chain or in the investment programs that fund a commodity business, or in helping investors hedge inflation, diversify or generate higher returns will influence their career choices for making an impact.

Jodie Gunzberg, CFA, former board member of the CFA Society in New York, celebrated founder, Benjamin Graham's birthday by ringing the NASDAQ Stock Market Closing Bell. Gunzberg is currently an Editorial Advisory Board member of the *GCARD* and, in addition, serves on the JPMCC's Advisory Council.

What, in your opinion, are some of the pressing issues currently in the commodity markets, and how do you see educational programs helping to address them?

The pressing issues we see in commodities today involve supply and demand issues that are highly driven by technological improvements, de-globalization, demographics, fiscal stimulus programs, and ESG. Also, other new innovations like cryptocurrencies and standardizations like diamonds bring current issues into well-established economics and finance. So breaking down each of the forces into how the supply/demand balance forms the spot market price, then explaining how that drives inventory excess or shortage to form investment opportunities by using various investment vehicles may prepare students for opportunities that arise in real-life roles in the industry. However, commodity-market education needs to be placed in the context of broader investments first to explain why these details matter. This includes education on defining asset classes and then commodities as an asset class. Next, how to get returns that represent the asset class is vital and that can include discussions about the physical markets, equities and futures or other products. Breaking down the fundamental sources of returns is key to determine how the current pressing issues influence these components including returns from collateral, convenience yield, supply shocks, the insurance premium and rebalancing. It all boils down to the basics and pinning each real-life event from weather to war or just everyday eating and driving to the sources of return in how we can address the applications.

What advice would you give those students and young professionals interesting in pursuing a career that touches on the commodity markets?

Think about how commodity markets improve our world by enabling more efficient food and energy access. While technical skills of math, programming, economics, finance and operations may be required, many other interesting fields of studies are applicable such as history, social sciences or psychology. Study something different and interesting that you can take with you for unique perspectives on the ways the world works and how different cultures contribute to the production and consumption of commodities. If possible start more generally, then with more experience, specialize in an area you find interesting and fulfilling.

Thank you, Jodie, for this opportunity to interview you!