You’re About to See the Real AI Winners Stand Up

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SUMMARY

The discussion revolves around the impact of Canadian wildfires on air quality, the evolution of American Century Investments under CEO Jonathan Thomas, and the company's unique ownership structure that directs profits to medical research. The conversation also touches on the American Century celebrity golf tournament, the changing landscape of asset management, and the promising developments in AI and its implications for various sectors.

- *Canadian wildfires are causing poor air quality, reminiscent of pollution levels from the 1980s.*
- *Jonathan Thomas has been CEO of American Century Investments since 2007, emphasizing the company's purpose-driven model that supports cancer research.*
- *The American Century celebrity golf tournament has grown significantly, attracting major celebrities and generating substantial media attention.*
- *The asset management industry is shifting from direct consumer relationships to a focus on platforms and advisors, with technology playing a crucial role in this evolution.*
- *Avantis Investors, a subsidiary of American Century, has quickly gained traction by offering low-cost, diversified ETFs that outperform benchmarks.*
- *The Sters Institute for Medical Research, funded by American Century, focuses on foundational research to uncover cures for diseases by studying organisms that naturally avoid ailments.*
- *The conversation highlights the potential of AI to enhance productivity across various sectors, including healthcare and finance.*
- *Jonathan Thomas shares a personal anecdote about attending the wedding of Taylor Swift and Travis Kelce, emphasizing the unique and memorable experience.*

This can't be good breathing this in, right? >> Oh, it's got to be awful. >> So, it's like carcinogens in the air. >> Yeah. I mean, it's Canadian wildfires, right? >> What's up, Sean? >> What's up, John? >> Is this going to be a regular thing now? Do you think >> a little bit a couple years ago? >> I was going to say we've had it for a few years now. I think >> I read something that the air quality today is same air quality happens 60 times a year in the 80s.

>> Really? >> In New York. >> Does that sound right? I don't remember. I don't remember this other than recently. I don't remember. This is >> What do I know? >> They could keep their >> from people smoking. >> Well, I think it was from the >> so much. >> I think it was from all the factories and whatnot. >> Yeah, you guys are young. You didn't get on airplanes where people had lit cigarettes in the cabin.

>> I kind of wish I was a part of that. >> No, you don't. >> And then you're in the non-smoking section. It was

one foot away with no circulation. >> Yeah. No smoking at this seat. Yeah, at this scene you can. >> We were very We were very scientific. I have science questions for you today. Are you ready? Are you ready for those? >> Depending how deep they are, sure. >> Well, yeah. I mean, I'm not going to ask you to run an experiment, but I I was reading I was reading up on Star Wars and >> Star Wars. Yep.

>> I I mean, I'm fascinated by this. So, >> it's it's really a unique story. >> Yeah, it's I think it's one of the coolest things and I I can't wait to ask you all my questions. do you come to New York a lot? >> Yeah, I probably get here half dozen times a year. >> Okay. >> You know, every other month or so. >> Tell me about the golf tournament. >> The golf tournament. So, yeah, we just had that last week. The funny thing is that when people see me wearing an American Century shirt, I always want them to say, "Oh, you know, >> oh, like that golf tournament?"

>> No, I want them to say, "I got all my money with you, everything." But the first thing they say is, "I love your golf tournament." And >> so when did it when did it when did it start? How long has that been running? >> So, it was originally started by Isuzu 37 years ago. It was kind of a hot dog and potato chip event. we took it over 27 years ago. >> Okay. >> And when I first joined the company, I thought, "Oh my gosh, you know, a celebrity golf tournament made for TV."

You know, I went to it. We didn't have a lot of people there. We had we actually hired people to stand in South Lake Tahoe and give out tickets to try to get people to show up >> because nobody knew what it was. Right. Right. >> Yeah. You fast forward now till this year, last several years, we've actually sold out on Thursday, Friday, Saturday, we have people tunneling in. They bring shovels and have and they there's a fence around the place and because they're sold out, they would tunnel in.

And so now we have to put security around the perimeter at night so they don't do that. And we've had, you know, 85,000 people show up, you know, 5 million viewers, 4 billion social media impressions, 17 billion press hits. It's turned into a gigantic. >> Why do people want to be there so badly? You guys, you get great golfers. >> We get about 12 great golfers. And then we have 78 really fun people. Celebrities. >> Yeah. Celebrity. Well, the celebrities are also the golfers. There's about a dozen that can win it. but there's another 78 folks that are legends in whatever they did. they're best in their field. And they the the environment there is very intimate.

like you know, you can go up and talk to anybody in a way that you can't do in a in a bigger place. The city is very space constrained and so it just works out perfectly. And then the weather's I don't know if there's a better place in July for weather. It's beautiful. >> Where where is it? Where do you hold it? >> Lake Tahoe. >> Okay. >> Yeah. >> All right. And it's always been there.

>> It's been there forever. >> Okay. Y >> who So give us an example of some of the celebrities that played this year. >> Oh my gosh. Well, probably the guys that stole the show this year were the hockey guys from the USA Olympic hockey team. So we had the Kachchuck brothers who by the way just got joined on the same team and the Panthers. Matt Baldy. He's the guy who scored the first goal, who flipped the puck up on his stick over the defender, caught it with his stick, and then scored the goal. so the hockey guys are a big deal. Steph Curry was

there.

>> I mean, it is >> Tony Romo, I think, always goes. >> Tony was there again this year. He's a real player as well. He's always in the hunting on the leaderboard. So, it's u it's literally mega stars from every walk of life. Is that your favorite annual event for for American Century that you get to be part of? >> It's really our only major branding event that we do. we pour almost all of our discretionary marketing budget into it.

>> Okay. >> But when you look at, you know, kind of our size and then our brand awareness and there's another thing called luxury awareness, we punch way above our weight. And well, maybe everyone may not know exactly what we do, but they all know the name American Century because of the tournament. So, it's been a great brand. >> Mission mission accomplished. >> Yeah, that's how I feel about it. Yeah, >> that's that's really cool. I was checking my spam folder. I didn't see my invite to this one.

>> Oh, >> maybe it went to a different address. I don't >> You know what, Josh? Why don't we just throw our own thing? Like, when is Rholtz going to have our own tournament that we can sponsor? >> I don't know if we have the budget for that. What what network carries it on TV? It's on a It's a three-day no cut tournament. On Friday, it's Peacock and Saturday, Sunday, it's mainstream NBC. >> That is that is unbelievable.

>> Yeah, it's crazy. Really? >> You I mean, I was going to say you you could not buy that level of attention. You have to have earned it. And you guys have obviously had a fun event for so long that it's become an institution. >> Yeah. actually you would probably you know all kidding aside outside of your spam folder you would enjoy it because what what happens is obviously we have all these celebrities there but and I'd like to think people come for American Century or the celebrities but I would say the number one reason people come >> it's an industry event all sorts of people that you know and that more importantly know you are there and I think you would find it very very helpful from a networking perspective so >> all right let's Let's figure it out.

Maybe we'll I might enjoy Let's figure I would love to do it. And I I haven't been to Lake Tahoe in a million years. So, I there's a lot of reasons why I would love to be there. >> Mark your I think it's July 6th or 7th next year. Mark your calendar. >> Okay. You got you got to you got to deal. I got to check with the boss at home. But, >> we all do. >> If I get the green light. All right. That sounds great. How we looking everybody? Good. Nicole, you going to click us up?

>> Here we go. this is going to be a great show. >> >> It feels like there are two types of investing platforms right now. You've got the legacy brokerages that look like they were designed in 1997 and then you've got the new wave that looked at investing and thought, you know what this needs? Sports betting. Neither seems like a great place to build your wealth. So that's where Public comes in. It's the modern investing platform for those who take it seriously. Stocks, options, bonds, crypto, they have it all.

And the energy they're not spending on building a casino. It's going into AI. Public is the only investing platform where you can create agents that can monitor the market, manage your cash, and execute your trades. Just enter a prompt, approve the workflow, and put your agent to work. Go to pub.com/compound to get started. That's publicub.com/compound. Paid for by public investing. Full disclosures in podcast description.

251. I could feel it. This is going to be a good one. Ladies and gentlemen, we're now rocking with the best investing podcast in America, or so I'm told. I'm really excited for this one. I've been thinking about this all summer. We have a very special guest. first time guest. His name is Jonathan Thomas. Jonathan has served as CEO and president of American Century Investments since 2007. That's a long tenure in that seat. We'll talk about it. Jonathan has chaired its board since 2025. American Century is a Kansas City-based asset manager with over 300 billion in assets whose ownership structure directs much of its profits to the Sters Institute for Medical Research. He was previously the global COO of Morgan Stanley's investment management division where he also served as president of Morgan Stanley Trust Company and chief risk officer for investment management. Jonathan, welcome to the show.

>> Thank you. Glad to be here. >> So, when I hear Jonathan Thomas, I think Jonathan Taylor Thomas Yes. >> of Home Improvement, but you're a different person. That's not also you. >> I wouldn't mind if that was me, but no. Sorry to hopefully I didn't surprise you. >> All right. Well, I also want to introduce making his first appearance on the Compounded Friends, but viewers viewers know him, viewers love him. Sean Russo is an investment analyst at Rholtz supporting the investment committee advisors and the compound channel. Well, Sean co-authors the best stocks in the market column with me focused on stocks that have the best uptrends in the market. Sean, how long have you been with us?

>> Four and a half years. >> Four and a half years. Welcome. >> Sean is in Michael Batnik seat. Michael is on assignment elsewhere. We cannot disclose. >> Filling in for the balds. >> We cannot disclo. Where is he by the way? I don't even know. All right. >> Gallivanting. >> All right. Michael's on vacation with his family. All right. guys, this is going to be a lot of fun. Let's start here. Tell the audience who have only seen the golf tournament, what is American Century Investments?

>> Okay. Yes, the Golf Tour. We can talk about that, too. >> So, American Century, we're just under $350 billion asset manager. We're privately held. we are purposedriven and we're a pure play organization. So those three factors are really important to an informed client of ours because you think about privately held. We're not subject to the >> not a public company. >> Correct. Right. We're not we don't have that quarterly earnings pressure which allows us to invest and reinvest for the long term. Pure play means we don't have kind of the conflicts and constraints that you might see from an organization that's part of a larger bank or insurance corporation. And then purpose- driven as you mentioned earlier we have a very unique capital structure which ends up directing over 40% of our dividends each and every year to the Sters Institute for Medical Research which supports over 500 scientists that look for cures for cancer and other gene-based diseases. It provides a level of inspiration to our employees that's almost hard to articulate. they, you know, obviously we have a tremendous sense of fiduciary duty to begin with, but then knowing that by winning business, retaining business, delighting our clients, we're going to have a positive impact on mankind. The last thing I'd say is we do we have three brands that we're affiliated with. We have American Century Investments, we have Avantis Investors, and then we have Income America, and all of those are tied to the company.

>> Okay. So, we're going to do the Star stuff later in the show because I have so many questions and I'm excited to talk about it. let's talk about you. You go Fidelity, Bank of America, Morgan Stanley, and then landed American Century in 200 2005. You become the CEO two years later. Let's start right there. Did you know that you were walking into a situation where you could potentially be the CEO of the whole thing? >> Yeah, that was I've never really chased the CEO title to tell you the truth. you know, I've always been throughout my whole working life, somewhere in my 30s, I figured out that what we do, all of us in this room, is we help people. And I started thinking about what I do, not as work, but as helping others. And that has really inspired me and motivated me throughout my career. I was out here in New York, as you mentioned earlier, with Morgan Stanley. I'm from the Midwest originally. My wife is from the Midwest originally and when American Century Investments originally called us. I thought it might be great to get back to the Midwest roots. it was absolutely a strong possibility that I could become CEO, but I did start off there as CFO.

>> Okay. Sean's from the Midwest as well. >> Where in the Midwest are you from? >> Kansas City. >> Okay. >> And yourself? >> I'm from Denver. So you must be a Chiefs fan. >> yeah, I am. >> We can cut it here. >> End end of the show, right? what did you learn working on operations and risk that gave you a unique perspective stepping into that CEO seat at a large asset manager? Because strikes me that probably a lot of CEOs maybe start off more management or money raising like sort of like they're in a rain maker position first. They build a name for themselves. So you kind of came from this more operations and risk side at least to start with. No, that's >> how did that set you apart from other people sitting in the seat and why was that important for your ability to lead the organization?

>> Yeah, great question. so investment management, investment performance is the core of every asset manager. We need to provide superior long-term riskadjusted returns and the portfolio managers who do that, they spend all of their time focusing on optimizing a portfolio, optimizing riskadjusted returns. The path I took was absolutely different. you're right about that Josh, but it was different in a way that was very accretive. I was always more or less in a chief operating officer role. And when you think about that, when you're in that role, you are making all sorts of trade-offs between talent, technology, regulation, capital allocations, etc., etc., across a wide group of functional areas. And that capital allocation and those tradeoffs is actually exactly what a CEO does.

You're constantly focused on, you know, where can I invest, where can I underinvest, what what matters to the client. And so I think that broad range of functions that I've overseen for the bulk of my career really helped me with that balancing act. >> Yeah. Because it's because it's all trade-offs. It is. >> If you want to do more of something, everybody has the same amount of hours in the day. You're going to do less of something else.

>> That's entirely right. >> And the timing of these things is also critical. So, >> yes. >> Okay. All right. I wanted to ask you just in general because you you've now seen almost three decades in that in that role. Has the job of running an asset manager changed materially in all of that time? either because of market forces or what investors want or the availability of technology like what are the big changes that you've seen in in your time?

>> Yeah, it's a it's a huge question. I'll answer multiple dimensions of it. >> You have 30 seconds. No. >> Okay.

So, I've been I've been doing this for 40 years over 40 years actually. And you know back in the 80s and 90s I >> was going to say you were on Wall Street in the 80s when Wall Street was Wall Street. Those are your formative years. >> Yes. when they made movies about it or when they later made movies about it.

Yes. >> so >> in the 80s and 90s the asset managers own the client relationship. Almost everybody had a direct to an asset manager relationship. >> So the consumer was like my money's with Fidelity and they felt like they knew Peter Lynch and that was like there didn't there could be somebody in between but there didn't have to be. >> That's correct. Okay. Yeah. And and and often though what they actually did they had money with the big three back then were actually the Fidelity Mellan Fund, American Centuries Altra and the Janice 20 Fund. Y >> and so what they actually had was three relationships. They got three statements and you had this market rally that went from 87 basically to 2000. Everybody thought they were geniuses. They went to cocktail parties. One guy said he had an 80% the return. The next guy said he had 104 and so they'd switch. Your your horse in that race was Ken Hebner in that era or was that later?

>> That was later. Got it. >> So then come along the 2000s and the tech bubble burst and all of a sudden all those individual direct investors realized they needed professional help. And so there was a massive pivot away from the direct to consumer relationship to advisors. and we as an asset manager had to shift our focus too to support advisors in the industry and help you help your clients. And so that was a massive pivot for us.

>> Yeah. >> And then you know if you kind of look at right where we are now I think there might be a very very early signs of yet another pivot taking place and that is pivot to platforms. So, so first the asset manager owned the relationship, then the advisor owned the relationship and we had to pivot to support the adviser. And now increasingly you see platforms owning those relationships whether retirement platforms or AI assisted financial assistance and so it's just shifting and you know I don't know how far that will go. I think it probably ends poorly because that trust that's such so important in our business and the relationships that you know you build with your clients and at the end of the day the advice is important but it's the behavioral side that's so critical with you know retail clients that they need somebody to come to when the markets go down and explain this is not a time to abandon your investment but rather a time to probably really look at things as being unsafe.

The second part of your questions was about technology and markets. you know, markets change and markets determine winners on a year-to-year basis. and obvious but the whole industry there's idio idiosyncratic risk, but for the most part, the in the industry moves in unison when markets go up and down, right? The thing that differentiates asset managers over a longer period of time is technology and whether it's the proper or improper use of technology determines the winners over longer periods of time as opposed to the markets which has a shorter term orientation. So, one of the one of the big things about this platform moment that you're describing and I totally agree with you, you you now see situations where the whole game becomes about distribution and taking existing investment strategies and fitting them into technological methods of delivering them that go obviously go beyond the open-end mutual fund. So like one very obvious example is a lot of firms are converting active strategies into ETFs and then taking it a step further now that we have a lot of advisers using custom indexing. Yep.

>> You see a lot of asset management firms saying, well, how can we take our secret sauce and turn it over to a technology platform that will enable advisors to not allocate to a fund, but allocate to the holdings of a fund individually and then layer on tax loss harvesting and do things where we're helping convert concentrated positions into more diversity. you know, this this is a lot of a lot of this is about how does our brand translate to this next set of platforms that are gaining popularity.

>> Yeah. So, we're in the early stages of that. you're right. I mean, there's been a huge amount of press and hype around this ETF share class. there are firms that have successfully converted existing funds into active ETFs who've had some momentum. A lot of that though ultimately results in some fair level of cannibalism. And you know what we've done with Avantis is and by the way you start off with distribution. I'll come back to Avantis in a second. The other thing that that's changed over the long period of time they've been in this industry 20 30 years ago 80% 75% of the asset managers had positive net investment. Today it's totally flipped. It's about 75% 80% or negative. There's only >> does that mean flows? Is that another >> flows? Yeah. So purchases less redemptions whether you're positive or not. That's right. and that's completely flipped. So distribution has become very very important and the space has gotten very crowded with Avantis.

>> well before we go to Avantis I think you made a really important point. >> I remember reading magazine articles about the mutual fund business in the late 90s and it really was a feast. Everybody saw flows. Everyone was making money and if you wanted to see more flows just buy more commercial time on NBC, CBS like during the final four tournament or whatever and it was like magic. It would just work. >> So many things have happened that we don't have time to get into but like one of the big ones is the attention span of the American public has been so fractured. It's not even clear how you get attention for a brand. you used to be able to write one or two checks and now you might have to engage in 700 a thousand different media platforms to get that same to get that same bang for your buck. The other thing, and maybe this is a little bit more of a of a profound shift, is that one of the things technology does by its nature is it consolidates the winners and losers.

like the winners become cons. and I bring this up because yesterday Black Rockck reported earnings. This is the largest asset manager on Earth. >> Yes, >> they reported a 20% gain in AUM year-over-year for this quarter. And it's almost like, well, how is that even possible? I do think it's this sort of paro principle on steroids. And I I don't know what the answer is, but there are brands like Avantis that come along. >> Yep. >> That aren't Black Rockck, but they catch fire anyway. So, you can still win. And I think what the audience would love to hear from you is what is that playbook to start a brand and have it become one of the hottest brands in terms of new money coming in almost overnight? How did you guys do it? And maybe tell us what Avantis is in the process.

>> Sure. Another long long question with a try to >> I'm very good at those. >> Yeah, I'm trying to keep it all straight in my head. So, yeah. So, Black Rockck is massive. Vanguard's m massive, State Street, but one of the things that and and the 20% year-over-year improvement is massive. But you got to remember if you look over the last five years, the including 20, what was it 2022 when the market was down 18%. On average, the markets are up 16%. So you got a 16% market capital.

>> Big tailwind. >> Yeah. Huge tailwind. And then there's flows on top of that. >> You know, I think the black

rocks and the vanguards of the world have developed kind of a reputation for being safe. I think there was actually a misunderstanding for a long time that indexing was safe. because everyone said they don't take any risk. What many people didn't understand is that's risk in the form of deviation from a benchmark as opposed to >> say for advisors if I recommend Vanguard or or Eyesshares to a client I'm not going to have enough deviation where the client says what the hell are you doing in a bull market cuz I'll be neck and neck with that bull market right that's the safety is for the intermediary correct not for the end user the end user is going to have the volatility of the market so this be you're 100% right this became more about career safety for the people recommending the funds.

>> Yeah. And what's happened with Avantis, I think there's two things that have really driven it. One, going back to your business, if you have a client and they look in their portfolio and it's all Vanguard and Black Rockck, I think it somewhat begs the question, how >> what do I need you for? >> Yeah. How hard are you working for me? you know, Vontas kind of splits the difference between active and passive investing. They are lowcost, highly diversified.

building blocks that allow people give them the opportunity to outperform the benchmark. And to put that into real numbers, the whole thing launched in 2019, so we don't have any 10-year records, but of the products that we have that have five-year records. there were five of them. >> They're all ETFs, by the way. >> All well, we had when we originally launched, we had ETFs and mutual funds side by side priced exactly the same. >> Okay. though the flows have been 90% into the ETFs and >> that's what the advisers want to use.

>> Yeah. Well, they're they're cheap. They're liquidicient. Yeah. And if I don't know who you clear through, but Schwab was the first the other thing that people don't talk about on ETFs on the adoption. They talk about intraday liquidity. They talk about low price and they talk about tax efficiency. The other thing that changed it in this country as much as anything else that doesn't get the press, Schwab, if you remember, which is interesting because they're publicly traded, was the first one to offer free ETF trading, no commission ETF trading. Yes.

>> And that was a gigantic talent for the business. >> We had it at TD. >> Oh, you did have it at TD. Okay. >> And but you but you're right. That's a that's a huge adoption vehicle to tell people we're not going to charge your clients or you anything for you to allocate to ETFs and here's the menu. Here are the ETFs that are available for no commission. It was huge. >> Yeah. And Fidelity followed almost immediately. It was probably a week or two behind. So for all the advisors who clear through them, it just changed the game immediately.

>> 100%. So anyways, going back to Avantis, so of the five that have been in the market since 2019, the average fee on those is 26 pips. The average looks more like passive than active. >> Correct. And in fact, if you look at their passive equivalent indexes because in the morning star category, the average of that fee is 19. So you're paying seven more bips for the opportunity to outperform. And for the products that we launched, those first five, on average, we've outperformed the bench by 280 bips. So you're spending seven bits.

>> That's remarkable. >> That's annually to get an extra 280. And then on top of that, those first five, every one

of them now is over $10 billion and we of assets and we actually have 10 over a billion. And one of the reasons that's growing so fast, and this is something that's fairly unique to what we're doing, whether it's large cap growth, small cap value, emerging markets, we use the same exact investing philosophy across every single asset class. So if you like a particular product, call it US large cap growth, and you like the philosophy and you like the approach, you're going to like the other ones as well. the whole suite makes sense.

>> Correct. And for the advisor, I think it becomes super easy to explain to their client. They don't if you have seven positions, you don't have to learn seven different investment philosoph philosophies. You only have to use one. And I so when you throw in you know all the benefits of ETFs plus free trading low cost the outperformance the look in the portfolio where it's not just Vanguard and and Black Rockck and then you look at the opportunity not just the opportunity the realization of the outperformance it's a real really compelling case and then the story being consistent across every asset class because that's another thing that's very very hard for asset managers going back many years everybody bought the hot ones. And that resulted in a portfolio of from an asset manager's perspective where you got your client has one product and under Avantis one of the things that's accelerated the growth so much is that when people buy us they tend to buy three or four positions once they buy >> right so the adviser right the adviser learns the advantist philosophy and says okay actually this makes sense to me >> y >> and I can make it make sense to my client. So then it's like, well, if we're doing large cap value the Avantis way, we don't think the market is materially different at the small cap level, right?

>> Like we if we think this philosophy makes sense here, why wouldn't we also do the same thing here? And that's how you really win with advisors. You become a go-to for multiple tools in the toolbox, >> right? And multiple positions. It makes their life easier. It shows that they've done some spade work to get there. And then on top of that, I have to say there's a massive tailwind in the industry. So, ET active ETFs, this year, this is probably a month or so data, but it's roughly, correct, 40% of the yeartoate ETF flows have gone into active ETFs. Yeah.

>> the the category has grown over 50% over the last five years and the whole space. So it's not just Avantis, it's the category. When we entered the space in 2018 with American Century ETFs, there was $50 billion in it. It had one or two% of the ETF space. Today there's it's approaching 11 billion, pardon me, $2 trillion and 11% market share. So the adoption not just of Avantis, but of active ETFs has been huge. And what's fascinating about that is for years, you know this, both of you guys know this, everyone said active is dead. Nobody's buying active anymore.

And it what it really turned out to be is it was the other attributes, the fees, the building blocks, transparency. Yeah. So, I've given Kathy Wood credit for kicking the door down and having the first mainstream popular active ETF. Not as an endorsement of how she invests, >> but >> she built I mean this is pandemic era. >> We we sort of had a bubble in you know lowquality high growth exponential tech stories. She built her brand in that era, but she was the first one to have a $50 billion aum actively managed ETF shop. I mean it's it hasn't gone well in in the last couple of years, but she really sort of was a pioneer for that type of product. And then I think a lot of other asset managers looked at that and said, "Okay, we we now think there actually is an audience for people that want ETFs but want stockpicking in those ETFs and want something different than just another benchmark product.

>> Yeah. she was a pioneer and and that the asset she gathered there on that momentum and techoriented style of investing was super super impressive. The other tailwind we didn't talk about, there was a rule, I might not get this right, I think it was called 6C11 or something like that. It came out in 2019. It's more commonly known as the ETF rule. And up until that rule came out, in order to do an active ETF, you had to get SEC exemptive exemptive relief >> one by one. Yeah.

>> So, the ability to get that relief, the uncertainty, the time to market was huge. And when they came out with that rule change, that also was a massive tailwind to the space. >> there was a there was a philosophy out there that the portfolio managers who were managing active funds really really cared about the secrecy and the ability to wait 45 days before filing whatever their trades were for the quarter. >> That ended up not being true. or maybe some of them care. But now all of these active ETFs for the most part are not hiding what they traded. In fact, they're proud of it. It's fully transparent. It's on everyone's website.

You can download it that night. What funds traded what. And the world didn't come to an end. >> Yeah. >> Like it's sort of like everyone now is just like, "Okay, cool. They bought this. They sold that." >> How could How could you be an adviser and have one of those hidden ETFs and not even like be able to attribute? >> And that's why they want, right? That's That's why they weren't popular. Yeah. >> Yeah. It's to be real honest with you guys, our first attempt in the ETF space was actually the semi-transparent active space. And we use the word semi in this industry a lot when it really means not at all.

>> like semiquid funds. >> Well, that's what I was talking about. Yeah. Yeah. Semi-transparency sound just sounds like it's not going to be transparent, >> right? And it wasn't. But we started with that and one of my management philosophies is you got to take risk, right? If you don't take risk, you don't take it. You don't really gain a competitive advantage. But if it doesn't work, you have to fail fast. You can't become emotionally wed to the idea. So the first ones we rolled out largely because of our portfolio managers concerned that there'd be free riding and front front runnable too.

It that's a fair concern. >> We rolled those out and there was just no uptake. And so we fa we recognized the market didn't want it that wasn't on wasn't hedgible and we pivoted very quickly to the fully transparent and that's how we got off and running. >> So congratulations Avantis hit $150 billion in AUM. It took you guys 6 and a half years and might be a record. I don't know of another asset management fund that's or company that's sprung up in the last couple of years that's been able to do that. Why are your f you know not making a forward-looking statement? Why do you think your funds have been outperforming? What is it that you guys are doing that other fund families in the peer group are not doing? And how sustainable are these edges going going forward?

>> Yeah. So you're you're absolutely right. Far more asset managers are going away than are coming. There's not a lot of new launches lately. >> No, it's it's miraculous, but you guys did it. And you know, if I had to kind of pull it apart, I go, you know, part of it is the team. You know, we started this denovo. It was wasn't an acquisition. >>

I had breakfast with Eduardo, Eduardo probably a million years ago approximately.

>> Okay. >> we went to Myelino before it was closed and then reopened. I think I had the frittata. Okay. >> I don't remember much. I don't remember that much of what was said, but I remember talking factor investing with Eduardo before the launch of Avantis. So, I've been doing, as I said earlier, I've been doing this for over 40 years. Eduardo is one of the most virtuous, smartest, client centric person I've ever worked with. He's just unbelievable. And that those attributes, even though they sound very fluffy, are real tangible differentiators in how that business is run. his focus on delighting clients and and and really exceeding expectations is strong. But so the big thing is that you know it's a why do people like it? It's low fee as we talked about. It's ETF so it has all of those advantages. it's highly diversified and so you don't have the volatility that comes along with you know the active management. The other thing that's changed you asked a question earlier Josh about what's changed over the years. At one point there was, you know, large portfolios and everybody wanted small portfolios.

My what I mean by that small number of names, but that created a kind of a worst to first path. And now people want to just kind of beat the bench. And I think what people don't understand is even if you're in an index fund, each index fund is run differently as well. You can get very very different returns based on you know s things as simple as equal or market cap weighted but what >> more variety on the value side too correct like what constitutes a value index could you could have radically different results. Yeah, some of the things that are in value now would blow people's mind. Yeah.

>> But I think what really happened was is Eduardo kind of pulled this and his whole leadership team pulled this apart and said what's going to create greater expected returns in the future. So it's less about predicting and more about relying on what we call financial science and academically driven research that drives the portfolios and it's a huge differentiator. There are not many of us in the entire industry doing this. Now, there's a lot of copycats trying to come in right now because of the momentum we have, but it's it's going to be tough to beat the performance and then the scale that we have right now.

>> There's there's so many funds DFA, Schwab, Fidelity, like how do you differentiate yourselves because everyone has their own small cut value and factor like how do you differentiate yourselves from the competitors like DFA? >> So, DFA is a good one. So, you know, they are a shop that at first, you know, it was a cult-like following. I, you know, you guys are probably aware you, in order to sell DFA, you actually had to be approved to sell it.

>> We We got into the cult. >> Oh, you did? Okay. Yeah. >> But no, but you're right. They they did not, >> to their credit, and I always admired this about them, and we're the same way with our clients, you could not just walk in the door and say, "Give me a dimensional fund." you had to prove to them that you were a serious adviser that was not going to have clients who are mass selling in a market downturn for example and I I always admire and we our our welcome indoor is not that wide either like you have to have a financial plan to invest with us we don't just take checks from people because they like me on TV so I I I like that aspect of what they did >> yeah and you know they're a very worthy competitor and probably of everybody in the industry, they're the most like us.

Yeah. >> you know, we really focused when we compete with them head-on, we really focus on fees, obviously performance. And you know, the other thing we have is, you know, they're what nearly a trillion dollars probably now 8 8 900 billion. We're 150 billion. So our agility and nimleness and client centricity is just much easier to execute. And you know, we can really rally around that that cult that they build, you know, was disrupted because when you sell just mutual funds, which was what they used to do, you can really control who buys it. Soon as they launched ETFs, you're on >> tomorrow. It's up to the market.

>> Correct. Yeah, you got it >> right. And and you know, at a certain the cannibalization argument also is is real where you say, "All right, we've got this 40 act mutual fund. It's been around for 30 years. Everybody who's in it likes it, everyone's happy. but the future buyer, the future allocator is a financial adviser who may be building an all ETF model portfolio and th this that firm hypothetical firm may ramp from a 100 million under management to 5 billion. We're not going to compete for any of that. Like we're not going to be there at all. So at a certain point, you have to just say, "All right, we got to figure out this ETF share class. We have to be okay with assets migrating from the 40 act fund into that rapper."

>> Yes, >> we may make less on it because ETFs on average were cheaper than and this is just like we we have to decide. We're either going to do it or we're not. >> A lot of firms at this point have now done it. Many of them probably wish that they bit the bullet 10 years earlier than they did. Yeah, it's I talked earlier about the stats on how the market's grown, right? It was one or two% when we got into it. It's 11% now.

>> Yeah. >> And you know, the other thing it's done, Josh, is it's completely disrupted. This is so cool and energizing to me >> for a long time. I'll call it the hierarchy in the mutual fund space was pretty established. Now, the reality of it is the order really didn't change much over the last 20 years. The distance changed a lot from Black Rockck and Vanguard and Fidelity. They became much larger, but the order more or less stayed the same. Moving to ETFs, all of a sudden it was a jump ball. And you know here we sit you know we're somewhere around the 20th largest asset manager but if you look in the ETF space because we were early because we focused we started it from scratch so we could really dial it into exactly what clients and advisers wanted. You know we're now the fourth largest active ETF issuer in the country. and if you look at all ETFs, including all the passive ones that are out there, we're either 12th or 13th. So, in a business that we've been in since 1958 on the fund side, we're somewhere around 20 for the ETF side, we're, you know, top 10 almost top 10 overall and top five in terms of active ETF issues. So, it's been exhilarating to have this pivot take place and the opportunity to have a jailbreak candidly. Yeah.

>> for all of us who've been in that hierarchy for so long. >> Yeah. 20 could go to 10. >> Yes. >> It could absolutely happen. You're also in a very specific lane. You're not competing in the thematic ETFs, the single stock ETFs, the leveraged ETFs. You guys are doing something that's very specific. And it's it's not like you're you it's not like you're firing up the spaghetti cannon to see what you know, it seems like a much more disciplined levered ETFs.

>> No, we don't. And we look at them, you know, when we see all of our competitors launching, you know, single stock levered and, you know, trip all the >> Not that there's anything wrong with those products, but

what you guys are doing is very much specific to an investment philosophy versus what do I think we can get somebody to buy next month. >> Yeah, it's for us it's core portfolio holdings that are truly in the client's best interest and all of everything we've built on the ETF side. One of the other big differences between funds and ETFs is when when funds get too big, in order to continue to generate alpha, we they have to get closed. And that's extremely disruptive as well to the adviser who now has to if they have it in a model, they have to reallocate or find something else. The ETFs, we've built them so that they can scale perpetually. So even like a small cap stock, because of the number of names we have in there, we can continue to scale.

So that's been another huge advantage to ETFs in general, but specifically the way we've built the Avantis. >> Before we move off Avantis itself, y >> I do have to tell you, you have a hall of fame wholesaler at your firm, Carolyn Gainner, >> one of the one of my favorite humans that I've ever met and just an absolute rock star. I hope she's the CEO after you. I I want to ask you how do the other children feel in the family when Avantis is getting this much attention, this much positive momentum, all the money is flowing in. like how do how do the other verticals within American Century kind of cope cope with that level of attention?

>> Yeah. Well, we've talked about Avantis because we have 40 some odd products there and the assets have grown very big. But we actually also have our first ETFs were actually, >> if you remember this term, this is from 2018, smart beta, another rule before my time. >> We don't we don't use that term anymore. >> No, no, that that that's a that was an 8-year-old term. Those were our first ones. They were on the American country side. And then I told you we did the non-transparent or semi-transparent activives. That didn't work. But eventually we've launched a bunch of American Century ETFs as well. Yeah.

>> And those are also gathering assets and are in positive net investment. The problem that every >> you love all your children equally. >> Yes. But mutual funds for us and our competitors remain in huge negative outflow and so that's hard for us. But the ETFs no matter what brand they are are all growing for us. >> Okay. That's awesome. I want to do some market stuff with you. >> Let's talk stocks. >> Let's talk Let's talk stocks. Let's talk let's talk earning. We'll start with earnings growth. analysts are now expecting 23.2% year-over-year earnings growth for the S&P in the quarter that we are just now getting the earliest reports. The financials reported knocked it out of the park.

and we're pointing out here excluding the mag 7 earnings are still expected to grow 20.9%. So it's not just hypers scalar stuff. 10 of 11 sectors will grow earnings this quarter. And yes, the biggest contribution will come from tech. >> Daniel, can you chart one short, >> which is 65%. >> I mean, that's just nuts. 65% growth year-over-year >> for Oh, for >> for technology. >> Yeah, it's crazy. >> So, I guess my first question would be from a from a top- down standpoint, you'd have to agree this is one of the great bull markets that you've ever seen. I've ever seen.

>> Yeah. So, if you go back to 0809, we had a little blip in the first quarter of 16. That was rough. >> 2022 was bad, but other than that, it's been 17 great years. Yeah, absolutely. >> And >> would you like to predict the end of it or or no? Have we all given up on even thinking about when this ends or what what do you think? >> I mean, if you kind of look at the three things that I really think about, you got the economy, right? We have done

everything possible in the last year or two to disrupt the economy, right? We we created a war. we implemented tariffs. we got a new Fed chairman who nobody can quite pin down what he where he where he's actually going to go.

>> Iffy labor market. >> very iffy labor market and a lot of uncertainty around what AI is going to do ultimately to that labor market. If you read the Centrini report, you think it's doom and gloom, which is just fascinating, that whole thing. >> But at the end of the day, the economy is proving to be very resilient. There's >> accelerating. >> It is. Yeah. There's no signs whatsoever of any sort of imminent correction. Inflation, while elevated, is kind of in line with expectations. And then the most recent read we'd had was what three and a half% versus a a call a whisper number of 38 and 42 the previous month.

It was the biggest single month drop in six years. And you know obviously very attributable to to the oil shock and the temp what's turned out to be the temporary ceasefire. And then finally the consumer. you know, the consumer, especially on the high end, continues to earn and continues to spend. So, you know, as we look to the back half of the year and even beyond that, you know, we kind of see a steady as she goes environment. and you know, there's a lot of questions that we I'm sure you'll talk about ask me about AI and I have some real interesting views on that, but you know, that's going to be a very big determinant of where all this ends up.

>> Our colleague Ben Carlson tweeted this. I thought it was funny. He said, "Is this the most normal year possible for markets? The US stock market's up 11%. GDP is in the 2 to 3% 2 to 3% range. Inflation sits at 3 and a half% and the 10-year Treasury yield is yielding 4 and a.5%." >> Yeah. So funny. All all those headlines and like everything about all of the most important stats is like fairly within the normal range.

>> Part of that though is this broadening out of the winners and losers. You guys, you talked about Meg 7 a second ago. You know what's happening now is and we're at the very early stage of this for a while. I'll call it the creators. The creators and the enablers of AI were just soaring and now what's starting to happen is the adopters are starting to couldn't agree more >> to receive the benefit from it. So that that concentration of the creators at the beginning drove the market like crazy. Now the adopters are getting the benefit. And I think ultimately the the winners and losers will be determined by who adopt it and who's who's deploying it correctly. But it is a I think it has a lot of legs and you know I'm sure you in fact I was sitting out in your lobby. By the way, your office has a great vibe. It feels like a family in here. You can feel the trust and the >> everybody's under 30.

>> Yeah, I noticed that too. >> I'm the old I'm the old man here. Well, until I showed up. >> Gladly. Gladly. >> thank you for saying that. I appreciate that. >> Yeah. but any rate, the I forgot what I was on. But but yeah, the I think the adopters and if you look at the S&P, I just looked at this last week for I was doing something in the press. 24 year to year-to- date market highs this year, 57 the year before, 57 the year before that, zero in 22 and 23 and 21 had 70 market highs.

And everybody gets nervous around market highs thinking, oh, you know, I'm going to come in at the top tick. But if you look back over those last five years, it's more indicative of an ongoing bull market than it is sort of any sort of an imminent recession or or pullback. >> So glad you said that. The new meme going around now is that it actually it's an earnings bubble. It's not a they can't say it's a stock bubble because the biggest most visible growth stocks in the market have shrinking multiples this year. Yes.

>> In a bubble. It goes the other way. >> Yes. >> We're paying more for earnings in a bubble. >> So, so what the the the bears have pivoted to is Oh, no. No. We're not saying the stock's in a bubble now. We're actually saying profitability is and maybe they'll be right. I don't want to mock >> Daniel. Can you show a chart, too? >> Yeah. I don't want to mock people just for having that opinion because it sort of does look unsustainable when you when you look at earnings growth through this prism. Sean, what's what are we looking at here?

>> This some This is from Chart Kid. So, Pix did something really interesting. You're looking in in the dark blue, you're looking at actual EPS and in the in the light blue, it's the previous year's estimate, okay, >> of what that earnings would be. And so, generally outside of recessions, analysts nail it. They nail earnings unless it's 2001, 2002, 20209, and then 2020. So, for the most part, analysts are actually right. >> The verticality is the thing that bothers me of the the next year's estimates.

>> Yeah. And it is funny though, right? I mean, if you look back at the previous bubbles using that word, I'm looking at you have them marked on your chart here, which makes it super handy. >> Yeah. >> you know, the 2001 one, you know what's really funny about that? Nobody I haven't really seen this in the press, but that was driven by the internet, right? Everybody thought the internet's going to change everything and it's all going to be different.

>> Another capex bubble. >> A huge capex bubble. And if you remember, the poster child back then for a bubble company was actually Pets.com. That was the poster child for a bad idea driven by the internet. >> and really the internet took a long time to really crystallize its full effect. I'd go as far as to say it wasn't until the pandemic in 2020 where the where the effect of the internet that was imagined in 2000 really was fully realized when everybody had to go remote and nobody went to the stores etc. 089 there was a lot of contributing factors but we know the the lending and the mortgage was a big part of it. 2020 was really a one quarter thing, but I think when you look at this, we've never had And actually, what's funny about going back to pets.com, thinking about that, what's the big animal thing right now?

>> Chewy. >> Chewy. It's the same dog. >> The idea was good. We weren't ready for it. >> That's correct. So, Chewy is doing very well. It's new. and it's the same exact concept of pets.com. Its timing was just better. And the full realization of the internet came. So when I look at this chart, I think the concept of an earnings bubble, I've heard that as well. I love the things that Wall Street comes up with. I like the word chipwreck that was flashed around a couple weeks ago. I like that.

But the earnings bubble, earnings, as you say, the the multiples are coming down while the earnings are going up for some of the big ones at least. >> Can you do chart seven, Daniel? >> And I think a big part of that is going back to the adopters of AI as opposed to just the creators. So, here's a really great example right in all of our faces. This is the biggest stock in the world. This is Nvidia >> and the growth rate obviously has been extraordinary, but the stock price is no longer reacting to earnings upside to higher guidance to analyst upgrades. It's getting cheaper and cheaper and cheaper even as there's really no deceleration. There's no there are no there are no negatives in any earning.

>> So what the market is basically saying is >> we're bored with Nvidia. We get it. We get it. They own AI. They own the GPU. I also think there's a story in here about competition coming in the form of you know application specific integrated circuits and the chips of the hyperscalers and whatever else models large language models that use less GPU whatever it is this is not a bubble this would be a bubble if Nvidia's multiple had gone from 30 to 90 times earnings didn't happen this is a discount to the market >> it's a huge discount and like I I and I agree. I think competition is a big part of it. I mean, they were the first ones out of the gate to really own I'll call it the eight >> 90% market share and now they're not going to.

>> Yeah. Right. >> Yeah. But I don't you know at the end of the day you know there's always a horse race and the leaders switch quite a bit. You know the government's invest in investment in Intel fascinates me too. But you know I think Nvidia is going to be a player for a very very long time. and when I see this and other charts like it, I think there's just a concern, a not yet to be realized concern that the spending that's going on there might end a little bit sooner than people had originally predicted. But if the >> So that's where the earnings bubble comes from. The companies are over earning relative to what happens when this capex normalizes.

>> That's exactly right. Yeah. Yeah. >> Which is a very re reasonable thing to be worried about. >> Can I ask something? I I keep hearing about the circular investing and the >> lack of free cash flow and everything. Let's just say Amazon and Google and Microsoft and all the big spenders stop spending. Doesn't that just shoot free cash flow right back up for them? But that's not the worry. The worry is I start a Neocloud. I say I am building a data center. I have money from Saudi Arabia and maybe the Norwegians and everybody private equity Apollo's in blah. So, I'm gonna build this data center and I'm going to start my own NeoCloud.

Jensen Wang calls and says, "I heard the news. I think it's great. We would like to sell you GPUs." Y >> and by the way, we will financially backs stop those purchases. You don't have the capital yet. We know you're good for it because we see that you have all this backing and therefore Nvidia is going to book that chip sale to me and I'm either using money that indirectly comes from them or I'm backstopping that to raise money from someone else.

Take that example times a thousand and everybody's lending andor equity investing in everyone else's projects and the concern is when the music stops all these people go for the chairs and a lot of people going to be left without a chair because some of those funding commitments are going to vanish as though they were a vapor. Am I explaining that right? >> No, I think that's exactly right. But I mean >> not saying that will happen. I'm saying this is the thing that will make this actually an earnings bubble, right?

because these earnings will go away, >> right? And people confuse the economy and the market a lot, right? So the economy can be doing one thing, the market can be doing another. Economy, as we were just talking about, it's doing very, very well. But, you know, a stock price and the valuation is the discounted value of its future earnings. So, if you kind of look at this chart, there was an expectation that AI was really going to go. it got some traction, multiples got super high and now I think there's a view that as more competitors come in and more capabilities are built out. I mean 18 right you're 18 is below the S&P multiple right now >> 18 18 times for Nvidia.

>> Yeah. >> Yeah. Pe people are acting as though it's been disrupted already >> right. Yeah. But it's just it's just the going forward expectation. But I keep coming back to what I said earlier. If the adopters realize the expected benefit productivity because productivity is what drives margin, profits, GDP, the economy, everything. if they realize those productivity benefits that I think are out there, this this will tick back up because people realize >> So, I love that you said that and I said I said something very similar earlier this year in response to what happens when capex plans start to moderate and all this earnings growth. What's the h is there a handoff where we don't have to automatically just have a bare market like we don't just automatically have to have a 2022 another year of efficiency and I think that's the I don't know if it's going to work that is the handoff where the S&P 493 start to out earn five Daniel >> because of all these investments they're making in AI start to result in higher earnings and more productivity like that is the way the market gets out of this hyper concentration amongst seven giant stocks. What are we looking at, Sean?

>> So, this is as of yesterday. We're looking at the S&P 500 in points on the far left and then the contribution to the points change year to date. The Mag 7's in gray and the other 493 is in I I guess that's black or dark blue. So, the 493 is absolutely trouncing the Mag 7 so far this year. >> Yeah. >> Yeah. Well, this goes back to the broadening out for the first time in I don't know how long 50 some odd percent of the S&P is up over 10%. Right? It used to be a huge disparity, right? We the S&P was doing great because of very concentrated in technology and that broadening out is now happening and you see it across small cap, you see it across emerging market. It's really it's it's live and it's real. do you worry about bubbles in pockets of the market like semiconductors, memory stocks? are there are there areas where you guys maybe think maybe look at portfolios top down? Maybe we ought to do something about concentration here or is that not really an issue for you based on the way that you manage money and how the strategies work? So, you brought up Jensen Wang earlier and have you guys heard his thing about the the AI cake >> maybe.

>> Okay. He talks about the AI is a cake and he says it has five layers to >> What a what a salesman. >> Oh, he's fantastic >> cuz I'll buy cake. >> Yeah, me too. Talk to me about cake and I'm all in. Yeah. he talks about the cake and you know because we use the word AI but there are really five distinctive levels to it. There's the base level which is really the the ground, the cooling, the electricity. You've got the chip level, right? The Nvidia of the world. You got the infrastructure level which are the data centers themselves.

you have the model level which are the LLMs and then sitting on top of all of that is the app level where the actual values created from an investing point of view you know down on the bottom of the cake those first two levels the base level and the infrastructure level require or base and chip require massive investment lot tons of capital as you go up that cake it requires less and less capital. But when we talk about AI investing, you got to figure out which level of the cake you're in. Okay? Because it's not just the word is used so broadly and there's so much underneath it. What level of the cake are you in? And is that position that they currently hold sustainable, expandable, and defensible? And I think >> on a stockby stock basis, >> on a stockby stock basis, >> very hard to do.

>> It is. But but we use the words AI so broadly and it's there's just so much more to it than that. >> It's nuts to me how many sectors it affects. Industrials, utilities, energy, like almost every single sector maybe except for financials and healthcare. >> I mean, we wrote about Caterpillar and that's been such an AI story. I mean, who would ever think that? So, I like this idea that where the puck is going is that healthc care and financials arguably have companies that could be among the biggest beneficiaries of AI as users, as adopters. Like what? Think about insurance underwriting. Think about drug discovery.

>> Like if if AI lives up to the the promise, I was going to say hype, but I don't view it as hype. Yeah, it's not >> Listen up to the promise. You could have 500 companies in finan in in in the financial sector and the healthcare sector say something on an earnings call like we credit the beat to these investments we made a year ago in in updating our our workflows and and processes to the AI era. And I think that's a really great way for the story to go.

>> Yeah. going to that last level of the cake, the apps and stuff, that is where the drug discovery comes from, the fan financial and services and >> so we there yet? >> Oh my gosh. So, you know, over at the Star Wars Institute, they're using a tremendous amount of AI and really advancing. >> You're paying for it. So, >> yeah, that's true. That's correct. Really advancing medical research. And, you know, you see it in financial services. Our portfolio managers are using it to do research. I I don't think it's going to come anytime soon where you're going to remove completely human judgment from the process. I still think human judgment prevails at the end of the day. But all the things that feed into that ultimate decision are going to be fed by AI. And I agree with you. I don't think it's hype. I think it's promise. The other thing that's not every you know that Centrini report I mentioned earlier, if you read that, it's fascinating. It came out right before the Iran war started and it got like 11 million views over a weekend. It and the markets started going down because everybody freaked out over it.

The thing that wasn't in there that's really interesting is you say, "Okay, how are what's going to happen to the labor market?" And in a completely unplanned but realistic way, we may be at peak population right now. And if you >> anyway anyway, rightardless, right? And if we're at peak, everybody's around the world for the most part is having fewer children. So it it almost feel of course it's not a master plan. Feels like a master plan, but if the if population if we're at peak population and it continues to go down and productivity goes up, you're threading a needle, but it could create the perfect outcome.

>> It may have arrived right on time. When you look at the demography, the Koreans are are are not having children. they have negative population growth. The Chinese are not far behind. >> Japan the same. >> Yeah. >> Europe is after that. and and of course we will not be impervious to it. We've got immigrant populations that have come in over the last 50 years that have kept our population growth above the average of the developed world, but that's not forever. We're going to run out of people that that are going to come here. so I I agree with you. And then I think about you got 68 million boomers still alive. Somebody's got to take care of somebody's got to take care of them physically nurses. Like we're going to need all of the robotics and the AI we can get. So I'm not negative on it. we might have a little air pocket in the next 5 years for white collar employment, but

that's that's a whole other subject.

>> Josh, I don't like that you said there's 68 million of us cuz I'm one of them still alive. Make it you make it sound like I'm >> I'm an ex I'm an ex NEO. So I will definitely have a robot nurse take care of me. All right. I want to talk about Sters. So this is I think this is one of the coolest stories in our industry. Jim Sters Jr. >> founded American Century Investments as you mentioned in 1958 >> in Kansas City. So very non-traditional way to start an asset management firm in a place. Okay. he had $100,000 in capital, 24 investors, and two mutual funds.

>> All right. He was a mutual fund salesperson himself for Wadell and Reed. >> He was Well, you've done your research. >> I have. >> it's Claude. Don't get too excited. No, but I wanted to better understand the story. And then in the '9s, the the Stour family has some cancer stuff happening and it sort of like it sort of like becomes the you said purpose- driven. >> Yes. >> Sort of becomes this animating thing of like, well, what can we really do about this? So, bring us up to speed on the story and then we'll talk about the institute itself.

>> Okay. So, everything you said is exactly right. So, I'll just pick up. So they got he and his wife both ended up with cancer in the late 90s. They went to treatment. They could not believe how barbaric it still was and how it had not yet evolved since the 50s or 60s. >> Hardcore chemo and yeah it's it's tough radiation and everything else. >> And they decided they wanted to do something to help people that was bigger than money. And you know most people just donate their money. So they did a couple things that were fascinating.

one, they gave away almost all of their net worth while they were alive. That's a bold thing to do. And not only did they give it away, they did it to create the Sters Institute for Medical Research. And I agree, America. Kansas City is an odd place for an asset manager. >> Well, not these days, but back then. >> Well, yeah. I mean, the the wealth and RA, right? We now have creative >> biggest RAAS in the country are all in Kansas, and I'm still trying to get We're gonna get to the bottom of that.

>> Okay. Creative and mariner and all. >> They're all there. >> Yeah. It's crazy what's how that's turned into. But at any rate, he decided to give it all away and he took an old hospital in Kansas City that largely been abandoned, rebuilt it to be the institute, gave his donation to it, and then I call it the gift that keeps on giving. And then as a result, we just keep directing our dividends there, over 40% of them each year. It's about 2.2 or 2.3 billion over the last >> That is incredible.

>> It's crazy. And it's >> And you sit on the you personally sit on the board of both entities. >> I'm the chair of both companies. Correct. >> Okay. Yeah. Got it. Do you ever as an as an executive in the asset management industry say, "Man, we could really reinvest those dividends into this business if if if we could or do you not think about it that way?" >> I don't I actually believe, you know, we're in, as you point out, we're in Kansas City. It is a differentiating objective for us. When I I don't go to a whole bunch of finals, I go to the big ones. But when I'm in a big final and you let's say you guys are firemen or cops or doctors or lawyers, whoever the investment committee is, and they've had a presentation for >> What's a final? Oh, like an institutional final, right? Yeah.

Institutional pitch. And we're up against two other big competitors. >> Are you the closer? They fly you in for those >> big ones. Okay. The last thing I always say is, by the way, if you choose us, know that 40% of the dividends that we generate will go to fund medical research to create a better world for you, your kids, and and you know, American Centuries kind of sits at the intersection of health and wealth, the place where everybody needs help.

>> How do they say who says that? >> I know how they say you nailed that. >> It's it it's really compelling. So, I don't think people do it. very few people invest with us just because of that. But when you're talking to somebody and they can't decide, you know, if we've gotten to the finals or if we're in in in your company and we're one of the last three picks and they're choosing between and they know the American Century story, it's a tiebreaker quite often.

>> That's cool. Yeah. I love I love that that's the case. I want to ask you a little bit about the science. >> Yeah. >> So you guys are funding $2 billionish. Yes. which is a lot of money. And what I love about what I love about the Sters's idea of research, similar to the way that you talked about not being a public company, not having a gun to your head about earnings, you know, do we beat the street by a penny or not each quarter. They're not chasing a drug that they could commercialize, you know, in in 15 months. They're doing these sorts of long-term research that the pharma guys probably aren't doing because it's such a long tale before anything comes out of it. It's still necessary. And a lot of the stuff I read about what you guys are doing is regenerative ideas.

So tell us a little bit about some of your wacky science experiments and and what the idea is behind them. >> Yeah. So, one of the things, I think a good way to start this, when people think about scientists, they typically think about chemicals and compounds and types. Labs. Yeah. >> we're taking a very, very different approach to it. for the most part, we focus on organisms that have evolved, >> animals, >> animals that have evolved over millions of years that should have some sort of ailment, cancer, diabetes, neurogen, degenerative diseases, >> baldness.

>> Oh, yeah. We have 20 different labs focused on 20 different things. And, we focus on the animals that have avoided that. So, two things. One, we're not >> He's going to combine the animals with people. Yeah. >> What in Kansas? >> That's kind of where we're getting to. Yeah. so one, it's not a bunch of chemicals. We're studying nature and how evolution has gotten rid of these diseases that they should have. And then the other thing that happens in science, almost everybody studies what went wrong. We study what went right >> in evolution.

>> Correct. Why does this animal not have diabetes? It should absolutely have diabetes. This animal should absolutely have osteoporosis, but it doesn't. And so what we're doing is we're looking at a very molecular level of what proteins or DNA structure do they have that differentiates and is that applicable to humans? And we mentioned earlier pharma doesn't pursue it. We do what's called foundational research. In a way, it's a little like Avantis. I look at Avantis as building blocks for people's portfolios and then they can have their satellite holdings but the core of the portfolio should be Avantis. Same thing here we're doing foundational research that we make available to the world for free so that everybody else can build upon it. And then the other thing that we do that's very unique most of everybody who does makes a discovery loves to tell the world about it and

publish a paper but we also talk about our failures. Well if we have a hypothesis that doesn't pan out. We actually publish that as well. Why do we do that is even though we're competing with all these other organizations for new scientific knowledge, we don't want people, we don't want the world to waste resources replicating a hypothesis that we've tested and learn that it did not work. So we publish both our successes for people to build upon >> and our failures. Don't do this. We did it already. It doesn't work. Here's our method. Here's how we know it doesn't work.

>> Yeah. >> That's really cool. That's it's so it's altruism within altruism. It's like altruism squared. >> Yes. >> Here are some of the things that have come out of your your organization's research and labs. plenarian flatworms. We you guys precisely identified a subset of stem cells that can regenerate an entire organism from a single cell. I don't know how that's applicable to me. Do I eat the flatworm or tell tell us what the importance of that research?

Sounds like a big deal was made out of it when you did it. >> Yeah. So, there's all sorts of organisms in the world that if you cut them in half, cut off their arm, cut off their head head, arms, legs, they completely regenerate. Yeah. >> they grow a new one. organs as well. Humans can't do that. But understanding how these organisms can lose an organ, lose a limb, you can reduce something down to just like you cut a lizard's tail off and it grows a new tail.

>> Yeah. And there's all sorts of them that do that. So we we're looking at it for the sake of organ regeneration. for the sake of helping people regenerate with all these organisms or animals throughout the world can do it. Why can't humans? And we have made tons of discovery. There's a guy that we have called Alejandro Alvarado Sanchez who or Sanchez Alvarado who is the lead scientist there and he is internationally recognized is the lead thought leader in the space of regeneration. He's over at the institute.

>> I'm I would imagine there are commercial companies coming to you guys and saying we want to try to do something like we want to try to do something with some of your research. Is it for sale? Is it for collaboration? And how do you think about that? >> again, it's a 501c3 and so what we really trying to do is we're really just trying to make the world a better place, create scientific knowledge that others can build upon. But we have also sold some stuff. a recent example is one of our guys figured out how at the time osteoporosis, the decaying of of bones. there was no way to stop it and the best drugs out there only slowed it. I believe we learned this from fish. We found this fish. I think it was an African killerish or something that learned how to regenerate.

>> Is it gapilta fish? No, >> no, no. Killer fish. Killer fish. Yeah. No, different. So I cuz I eat those once a year. >> No. and we discovered how to do that and we ended up selling it to Amgen and Amgen now uses it and so it they have a drug that not only slows but can reverse osteoporosis. >> Oh, that is so cool. >> Yes. the last one I I'll mention, I read about this. You had a study in conjunction with the University of Georgia where you guys uncovered more than 300 potential drug development targets for a lethal fungus. What was that about? Do you remember offh hand?

>> I don't remember that one. So I don't know where you found that one. But we do have from a collaboration

point of view, we have hundreds of collaborations going on with all the biggest organizations. MSK, Memorial Slam Ketting, MD Anderson, all the major hospitals. I think that's one of the coolest things I've ever heard. I I love it. I love I love the whole mechanism of funding it with the asset management firm and then the fact that you're sitting a stride both organizations is really cool. It shows a real commitment.

It's it's it's reminiscent to me of like the Hershey family and and how they took care of their community and I think it's great. Last thing we're going to ask you before we let you escape and I can't let you escape before I get the answer to this. You were at the Taylor Swift Travis Kelce wedding. >> That's true. >> Did you officiate the wedding? What are you doing there? >> Well, that's I wondered that as well when we got the Actually, it's a funny story. If you have a few minutes, >> I got I got all the time in the world for this.

>> Okay. So, I don't know. It's February or March. I got this text that said, "This is from Taylor and Travis. I promise it's not spam." >> No way. >> And I deleted it. >> Well, that's that's what I would have done. >> Yeah. 100%. Yeah. now I know Travis fairly well. and you know, a couple days later it comes in again, you know, from Taylor and Travis. I promise this isn't spam. And it just kept coming in and eventually I blocked the number.

>> how many other people did that? >> Well, that's that's where the next part of the story. About a few weeks, maybe a month at most before the wedding. So, if the original one came out in February, this was in June, my phone rings. It's Travis. He goes, "Hey JT, you're not you're like one of the only people that hasn't responded to the wedding invitation. What's going on?" >> Which was a text message. >> Yeah. Right. Yeah. Which you I would have never imagined. And and I said, "Well, Travis, I didn't get an invitation." He goes, "Jonathan, we send you text messages like every two or three days and you're not responding."

And I said, "Oh my god, I deleted it." and not only did I delete it, I blocked it. And he said, "Well, you know, go ahead and fix it. You're invited." And I said, "Well, Travis, why would you send a text message for a wedding and not a not an invitation?" He said, "Look, everybody in this party is like you. They're never in one place. They're in a bunch of different places. And the work it would take to figure out where you're when you're going to be where is way too much. We had everybody's cell phone numbers. We have very few people.

>> Also, the invitation with the address and the time that goes right on the internet if you print it out. >> Well, I'll get to that in a second, too. All right. >> So, anyways, he calls me up. He tells me why haven't I responded. >> Wait, I just want to point out my Gen Z walked in for this story. >> Okay. >> You just made you made it just I don't know how you did it miraculously.

>> You got a slap. All right, continue. >> So, so then I I said, "Okay." And then I said, "What number is it from?" and he tells me the area code. He couldn't remember the rest of it. So, I'd never looked at my blocked numbers before in my life. So, I took me a half an hour to figure out to do it. I had, you know, like you guys, I've blocked thousand, probably tens of thousands of numbers and I had hundreds from that code. So, I call him back. I said, "Travis, I I I have no idea which one it's from." And he said, "Give me your wife's number." So, I told I gave him Cindy, my wife's number, Cindy. and then she's been getting all the updates. And when you first get the wedding invitation, which was a text, the first thing you do is there's multiffactor authentication, right?

>> So you go through that process a couple times. >> Then you got a non-disclosure agreement. >> Oh wow. >> sent to you kind of via docuign. We both had to sign that. After that, you then actually got the invitation itself, digital invitation watermarked. So, it says in >> you can't forward it to somebody. >> It says Jonathan and Cindy Thomas in the background. So, if you took a shot, screenshotted it, shared, everybody would know who it was.

>> I won't get into the details of the NDA, but it was it had teeth. Let's just put it that way. >> and then throughout the process, so the first one just came out, you invited to the wedding. Then it came out July 3rd in New York. Then it came out July 3rd Manhattan. And it wasn't until 4 in the morning on the day of the wedding where we got the exact location >> that it's that it's Madison Square Garden. Yes.

>> Okay. So I don't want you to break your NDA. Can you just tell me did you have fun? >> It was amazing. I Cindy have fun. >> Everybody had fun. I will tell you this. >> >> careful >> Taylor. Yeah, I am being careful. Taylor and Travis. First of all, Adam Sandler officiated it. He came came down, everybody laughed and thought it was a joke at first, but he actually did. He probably spoke for 20 or 30 minutes.

vascillated between funny, very sincere, sang a few things. but you know, >> Adam Sandler saying, >> yes, sang during his officiating process. >> as one does. >> Yeah. Yeah. But you know if there was a key theme to his thing there are two things I remember real distinctly. One is you know in your typical vows the officiator says for rich or for poor. Adam said you know you're not going to have to worry about that. >> and then the second thing he his key message was kiss each other >> every day in the morning at night after dinner just just kiss often. And then Travis went first with his vows.

He probably spoke for 30 minutes and I don't want to violate his privacy but I was crying which I was trying to hold back >> but you know him in real life. >> Yeah. So I mean he made himself unbelievably vulnerable. I was sitting there crying and I was trying to hold it back until I look around and there's all these 300B men from the football business crying as well. And so I felt really comfortable just kind of let go on it. I mean it was it was very very powerful.

>> And then Taylor went and she also wrote her own vows. She probably spoke for 30 minutes. >> that's the least surprising part of this. >> Yeah. Yeah. And it was poetic. >> She's a writer. >> It was really well done. And then the last thing I'll tell you about the wedding or two things that were really incredible. One was, you know, the vows and the ceremony were very solemn, very sincere, very emotional. Then they opened up, you kind of walk through this massive castle that they built. And by the way, you would never guess you're in Madison Square Garden the way they did.

It was incredible. But you walk through this castle that they built and behind it, they had all sorts of games, amazing giveaways to people. and then the stage, initially, Taylor and Paul McCartney sang and then Taylor and Stevie Nicks sang. >> Since this is insane, >> and then for the rest of the night, everybody, the whole entertainment industry is I kept saying if something happens to this building, the entertainment in the industry in the US is gone. They just popped up in on stage and sang songs. so at one point we were I was dancing with my wife and without any exaggeration I had Paul McCartney to my left, Brad Pitt in front of me, Cindy

Crawford on this side and I can't remember who is behind me Brad Pitt. I mean we're just surrounded by legends and it was >> How do you ever go to a normal wedding after that?

>> It's going to be a letown. That's for sure. >> Why isn't Paul McCartney here? >> Yeah. Yeah. But it was they really calibrated the second part of it to the to their guests. I've never seen a wedding that was so designed to delight the guest and make sure they have a lot of fun. Usually there's always this ongoing theme about the bride and groom. For them, the the the ceremony was very much about them. Once you went through that castle, it was all about the guests and they went over the top to make sure everybody had a great time. Whole story.

That's really cool. >> >> Well, listen. I got to tell you, I absolutely love the story of American Century. Had so much fun learning from you today. Thank you so much for joining us. Sean, great job. Thank you for sitting in for Michael. And, I want to tell people where they could learn more about Vantis and and American Century. Where would you where would you tell people to go? >> Well, just americanentry.com. You from there you can get to information about income, which is a retirement product.

We have you can get to Avantis Investors and you can get to American Century product. I also post quite a bit on LinkedIn about some of our major achievements and developments. You can see it there. And then the Star Wars Institute org also has a lot of information about the research that's been going on there. >> Jonathan Thomas, thank you so much for joining us. We appreciate it. >> Guys, thank you for watching. Thank you for listening. Check out American Century, of course. We'll see you soon.