

Why asset managers should be thinking and talking about culture

There's a difference between knowing the path and walking the path. —Morpheus, The Matrix

We believe that investment teams should strongly agree on which dragon to slay, and then strongly disagree on the best angle of attack. This will result in an isolated and surrounded dragon.

Investment team members must subscribe to the same investment philosophy but have the freedom to look at investment opportunities from different perspectives. Regular rigorous debate could put strain on relationships. To keep the team together for the long haul, there should be a shared desire to put clients' success ahead of their own. Furthermore, employees should align their interest with clients by investing in the same products on the same terms as their clients.

Establishing such a team is far easier said than done. You have to start with the right people, and the business must be configured in the right way.

How do you know that the team consists of the right people?

- Team members should have compassion. Compassionate people will care about colleagues and clients.
- You need individuals who can think independently. Differently. The right environment can develop this ability, but it also needs to be part of an individual's DNA. The probabilities of making the right investment decisions increase exponentially if you challenge your ideas from multiple angles – because the free market eventually will.
- The individuals shouldn't nurture fragile egos. This means that they care more about arriving at the right answer, and less about who came up with it.

How should the business be configured?

Employees need to have the final say on business decisions and shareholders need to be patient. There are many incentives in businesses that could be at conflict with consistently putting client first. These include considerations like time spent on existing clients versus finding new clients, adding expenses to the benefit of clients (like investment in the client experience and research capacity), the ability to have portfolios that look different to peers, the number of products you offer and at which product fees. To be the best custodians of clients' money, the investment and operational teams (combined) should control these decisions.

How do you make sure you are always putting the client first?

A good test is to imagine a client and a shareholder sitting in every meeting. If the shareholder has a slight frown and the client a slight smile you're probably on the right track. The irony is that smiling clients - in the long-term - make for smiling shareholders. If your shareholders realise this, you probably have the right shareholders.

Over the years to come, Granate Asset Management will often comment on culture. We may well be writing at length about culture and psychology while markets are falling. When markets are falling, cultures get tested – healthy cultures will remain calm and continue to make rational decisions. Knowing what to do is not hard; doing it is hard. That is what culture is all about.