

Culture Session

Intro:

- My usual speech on importance of culture:

The importance of a strong culture cannot be overstated. Culture defines how we interact with each other, who we hire, how we approach the markets, etc. It's the foundation on which we build our alpha extraction machine. Our culture can be a competitive advantage and a source of alpha, or a competitive disadvantage and a hindrance to alpha. Additionally, with a strong culture we can survive the inevitable downturns in our business, but with a weak culture long-run survival will be difficult.

Recall the work that Paul and Dave did 18 months ago on "What's our edge?" They concluded that one of our two edges is our culture. (The other is our investment mandate..."no excuses fund")

I agree that our division's culture – a *research-driven investment culture* – is our competitive advantage, and is the foundation on which we can expect to extract alpha for many years to come. Therefore, we must continue to strengthen this culture. We can't rest on the cultural success we've had over the last couple of years.

For clarification, here's what a *research-driven investment culture* means:

- Investment decisions – and therefore our long-run success – are based on the models we build. This means that research isn't a service that's provided to the PM teams to facilitate their capital allocation decisions. Rather, research is how we make investment decisions.
- Everyone in our division should be directly involved in building and improving our models.
 - Some are labeled "researchers." Some are labeled "PMs." Some are labeled "investment strategists." But all should consistently and positively impact the quality of models we build.
 - Running or using the models doesn't count as "building and improving" them.
- One implication is that individuals who don't positively impact the quality of our models cannot expect the same compensation levels or career paths as those who do.
 - Specifically, "model management" is a possible path to career and compensation growth, but it's less effective a path than having a positive impact on our models. A wise risk budgeting decision can save the year, and *will certainly be rewarded*. But a risk budgeting decision has a temporal impact on alpha, while a model improvement has a permanent impact.
 - We must be excellent at many different functions to succeed. We must be excellent at risk budgeting, managing cash flows, building our platform, coding our signals, commercializing our alpha, etc. Emphasizing the importance of our modeling efforts does not minimize the importance of these other elements of our investment process. Rather, it highlights the importance of having everyone engaged in improving our forecasting models.
- Objective of this session is action plan to improve/maintain our culture
 - "Not [that] you guys at the top don't embody our values...you don't say them out loud enough.
 - Simply work harder at being the kind of team we say we are.
- Draw JDS's diagram of three levels: every other job; where we are now; where we'd like to be.
 - There exists a dramatic amount of air over and above where we are now...we can and must do better. A good culture outlasts the people.

Description of our current culture

- **MD viewpoint:**

- Read MD paragraphs (probably have everyone read someone else's paragraph)
- Cover unstructured data analysis of those paragraphs (have fun with this...people better than technology at interpreting 12 short paragraphs, but I wanted to learn about the tools)
 - Word counts

Term	Frequency
Investment	16
People	13
Group	12
Research	11
Idea	10
All	9
Decision	9
Organization	9
Client	8
Process	8
Truth	8
Honest	7

- (some fun...interpret with humor) Pairwise similarity, based on angle between vectors: 4&12 most similar; 5&7 least similar
- Topic detection

Term rank	Cluster 1	Cluster 2	Cluster 3
1	Important	Debate	Value
2	Win	Intellectual	Strong
3	Decision	Honest	Way
4	Lose	Thoughtful	Thought
5	Together	Aware	Time

Teamwork/partnership; Socratic method; other

- The Piazza/Harrison summary from 18 months ago: Elements of our culture they identified included things like diverse skills, flat, simplicity and transparency, search for truth (intellectual curiosity), Socratic method.

- **Team viewpoint:**

- Cover the survey results...essentially they confirm the MD's description
- See Word Clouds: Q5 and Q3

Holes in our culture

- ...but that's not good enough to be a long-run sustainable competitive advantage. Here's what you all said should be better:
 - Aggressiveness
 - Decision-making: form over substance; group-think
 - Decision-making: partnership; inclusiveness; MD table, communication
 - Conviction/drift
 - Arrogant and insular: Connectivity
 - Inspirational leadership/vision: cover later in offsite, not now



- Aggressiveness
 - behaviors that would look out of place in a school playground, let alone a professional work environment.
 - ...violated "no asshole" [similar comments repeated many times]
 - We have a no-ashhole-policy yet at times, certain exhibited behaviors appear to be in breach of that policy. I believe there should be no opt outs.
 - There is a perception that certain displays of aggressive behaviour are simply tolerated: "that's just X's way", for example. We either opt-in fully to the no-ashhole-policy or we opt out of it; there should be no ability to pick and choose at will.
 - Much more aggressive. Can't we be nimble and markets-focused, without being so aggressive?
 - It's right that people should convey their views with conviction and passion but there is a fine line between that approach and the person being viewed as arrogant, or simply focused on scoring points against others.
 - A desire by some to see their name in lights.
 - Premium placed on making people look bad in front of a large audience.
 - I also think some of the combative styles could be toned down. Nobody responds well when confronted in that manner. That type of behavior makes people less willing to collaborate and work together.

- o We've become unnecessarily aggressive. People have to shout to be heard, but some aren't the shouting types (and therefore aren't being heard).
 - o There are one or two people that seem to dominate every conversation, with quite a hostile undertone, and I think that discourages people from participating in conversations.
 - o At times, discussions seem unnecessarily contentious. More persuasive or emphatic elements of the group may (involuntarily) constrain others to express opinions in group meetings.
 - o Stop rewarding people for aggressive behavior, just encourages more and disenfranchises others on the team.
 - o Strongly discourage condescending or attacking behavior.
 - o Consistently uber-aggressive behavior should be corrected far more strongly.
 - o Be sure everyone is called out (in private) when they cross the behavioral line.
 - o [The] 'price' to pay for open discussion; people have to police themselves to avoid making matters personal and, in case they don't succeed, they should be told so by their managers.
 - o Penalize aggressiveness. Ask the quieter people their opinions, forcing them to speak up, but don't immediately attack their answers. Reward (promote?) the unaggressive.
- Decision-making: Form over substance
 - o We put too much value on style over substance.
 - o Sometimes I feel like I am judged by my peers mainly by what I say/do in meetings, but the bulk of our work takes place outside of meetings. You can be smart in meetings but not add value outside of meetings. Talk is cheap.
 - o I would like there to be fewer fact-free discussions. We need to become more analytical and more rigorous. Debating-style rhetoric should be stopped.
 - o In internal debates (which we spend more and more time on) we value those who talk loudly, make confident statements that may or may not be supported by evidence, and jump into every discussion feet-first. More troublingly, this is also reflected in our hiring and promotion practices we reward those who exhibit these behaviors, at the expense of those who are quieter, less articulate, or less confrontational.
 - o An increasing focus on story-telling, and consistency with precedent than on capital T truth. Too much reliance on argument rather than dialogue in meetings.
 - o We are told that diversity is valued. But, increasingly, the incentives are to become more like everyone else. [It] has become harder to have healthy debates in large groups. People who speak the loudest are the only ones heard in those meetings.
 - o More self-policing with respect to differentiating between 'truth' and 'marketing'.
 - o Research approval process has become somewhat prone to "marketing".
 - o I think there is a widely held perception that the squeaky wheel gets the grease. People who talk the most behind closed doors have the most influence.
 - o Research needs constructive criticism but not to the extent that the people providing the criticism are rewarded more highly than the ones doing the research.

- I think the junior folks should be incented to communicate more openly in group settings rather than saving dry powder for bilateral meetings.
- I would hold people much more accountable for being good colleagues. This means delivering criticism in a way that lets the researcher get credit for improving their work, not lose it for conceding that you have a point. It means not making assertions which others have to spend time ignoring, debunking, or worse believing. It means talking in a way which is humble and recognizes the extreme uncertainty inherent in what we do, not arrogantly and as if investment outcomes are deterministic.
- Decision-making: Partnership, inclusiveness, communication
 - I don't think the decision making process is transparent for those not involved in it.
 - Too many decisions are made based on multiple pair-wise conversations instead of a single group wide conversation.
 - Greater transparency into decisions as they are being discussed rather than ex post. (Lots of comments like this one.)
 - Further inclusion into the investment decision making process before decisions are made.
 - A bit more communication from the top regarding major changes.
 - More inclusion of non-MDs into the pertinent investment discussions. (Lots of comments like this one.)
 - Allow some time for debate - if at least as a courtesy to people whose rewards are totally tied to the outcome of these trades - before executing (our timing is never inspired anyway).
 - Town Halls: More awareness of the broader team to the business conditions faced by our division.
 - Town Halls: More frequent business updates from Ken would be helpful. It would also be helpful to be more proactive in communicating changes.
 - Town Halls: When I joined the group, leadership made great efforts to educate all group members (Kroner's quarterly business briefings, Meese's econometrics lectures, IP updates, brown-bags). There is now less of this, and what there is is more private.
- Conviction
 - Dispense with the arrogant premise that we are skilled discretionary investors.
 - Too much overriding of signals and opportunistic trading. Looks like it defeats the purpose of having a systematic signal generation house.
 - Having long-term models but short investment horizons, necessitating repeated out-of-model trades which is patently not our forte, seems the worst of both worlds.
 - Decision making process (outside regular model management) to be more respectful of principles of quant investing: be either very strategic (take a view and stick to it) or very tactical (target specific stop losses and profit targets, rather than nebulous events).
 - We are more inclined to allow emotion to override our process and similarly too fast to forget what we have learned in past research.
 - Our increased tendency to allow emotion to both override our process as well as distract away from delivering the research that will drive future alpha.

- o There is less faith in the scientific method and less confidence in a model-driven approach. As a result, there is more weight placed on 'the quality of your story'.
 - o We (rightly) debate the minutiae of signal construction at great length, but the out-of-model decisions (overrides, opportunistic trades, etc.) are often opaque, subject to little debate (at least outside the top 3-5 people), unabashedly tactical and event-driven (rather than grounded in a long-term view where the world is going).
 - o Our division's culture has evolved towards placing less emphasis on doing one's own research, and more emphasis on criticizing others' research, debating overrides and market-watching.
 - o Alpha does not come from being able to talk confidently about what is on the front page of the FT.
 - o Too many MDs in research don't do any research.
 - o These days, many members of the Investments team do no research for long periods of time. Activities like watching the markets, managing others and providing feedback on others research are all valuable and have their place. The markets need to be watched but not to the extent that we start devoting too much risk to big bets where we have no comparative advantage over other market participants.
 - o Acknowledge that the low hanging empirical fruit has largely been picked, and that it is dangerous to keep squeezing the same return series for similar looking fruit.
 - o Root out group think.
- Arrogant and insular; lacking connectivity to BLK
 - o Ed Fishwick comments
 - o Bertrand: Insular; inward-looking. They've built a wall around themselves.
 - o More connection to broader BlackRock (admittedly a contradiction if this division is a boutique).
 - o Ability to leverage cross-organizational perspectives in solving problems. [Increased] relationship/connection with other Blackrock groups.
 - o Prevent this division from being too isolated from the wider company and isolated within itself (functional isolation and regional isolation are apparent).
 - o We tend to stay very division-focused. It would be nice to expand our frame of reference to be from a BlackRock perspective. I.e., how can I grow my career within BlackRock, instead of how can I grow my career within this division.
 - o Here is the flipside of the flat hierarchy. You would not expect to have a "career" the way you have in a more typical organization, e.g., the wider BlackRock.
- Inspirational leadership
 - o Confidence is a top-down thing. Leadership has to express complete (but rational) confidence and it goes from there.
 - o Communicate a long horizon vision for the business beyond just more AUM and more breadth of models & signals.
 - o Our internal meetings are too frequently dominated by a handful of (junior) people. The more senior members tend to keep their opinions to themselves in the public forums. It would be much more interesting to hear what a seasoned person thinks about the issues than someone who recently graduated college.

- I'm convinced that this division has become less sociable since 2007. I think that is a trend worth reversing. We need to enjoy spending time with each other.
- More team building activities.
- Increase enthusiasm/motivation.

Some outcomes I'd like to see

- Aggressiveness
 - Acknowledgement that we have allowed ourselves to become too aggressive.
 - Statement to division that we'll be dealing with the aggressiveness.
 - Agreement amongst the MDs about how we'll deal with it.
- Decision-making: Form over substance
 - Emphasize that bonus derives from impacting the models, not from overriding them
- Decision-making: partnership
 - Return of the quarterly Town Hall
 - Group meetings to debate investment decisions?? Other decisions (e.g., hiring)?
- Conviction
 - Take Section 7 seriously...no overrides unless accounted for in Section 7. (too stringent, but something like this)
 - Bring back the Kroner/Meese override policies
 - One-page written override document required before it's put into place. Document includes exit criterion, hedge bundle, and how the success of the override will be measured (easy if hedge bundle is stated in the document).
- Arrogance and connectivity
 - Arrogance: just stop it.
 - Connectivity: ??? It exists for the senior people, but not for the junior people.
- Leadership
 - Will discuss during the "Division 2014" session.