

## Defn of culture

- how we interact with and relate to each other, communicate, make decisions

## Importance of culture — We'll spend time on this, because it's the single thing you control that has the biggest impact on your long-run success

- Alpha drives the LR success of our business. But culture defines the environment in which we attempt to extract that alpha, which makes culture the foundation for the LR success of our business.
  - Based on my experiences, if it's strong, can survive underperformance (like MSG from 2012-2015). If weak, can't (like SAE circa 2010).
- Stated differently, culture can be a competitive advantage or a competitive disadvantage. It can lead to alpha creation or alpha destruction.
- From my experience, the two essential characteristics for a culture to facilitate alpha creation are
  - Partnership or teamwork
    - I fail if the person beside me fails
    - **All are entitled** to question/prod/get involved/challenge everything. But in the end **we rely on our colleagues** to make the right decisions.
  - Singular focus on delivered alpha
    - Fiduciary responsibility to our clients, not our models
    - Recognition of the difficulty of the task
- Why?
  - Partnership: SAE had the same research under way in five places!
    - If silos, then you can't (a) increase capacity, (b) deal with underperforming strategies, (c) build low IR strategies
    - better sharing of ideas
    - better coordination and cooperation across functional groups
    - Increased focus on one's comparative advantage
    - Facilitate recruitment of first-rate talent
    - Ultimately, better decisions and more alpha
  - Alpha
    - Faster reaction times, both on investment and business fronts
    - Facilitates recruitment of first-rate investment professionals
    - Ultimately, better decisions and more alpha

## SAE's culture circa 2010 contributed to our fall. What was SAE's culture?

- Collection of academic engineering and accounting departments
  - Same research agendas on different teams
  - Team leaders didn't like or respect each other
  - It was all accounting or engineering
- Failed on both required elements for long-run success

## What is SAE's culture today?

- research-driven investment partnership
  - Research-driven; Socratic method; search for truth
  - Investment culture; fiduciary responsibility to clients
  - Partnership; I fail if he fails; professional behavior
- I will not compromise on these three principles
- I'll assume you manifest these principles in different ways than SAE, but that they're the essential elements of your culture

## Random thoughts

### How to build this culture

- **Culture starts from the top**
  - Selected R and J based on culture.
  - Talk up Benj here. (I have confidence in FIGA team because people like Benj sit atop it.)
- **Partnership is the result of a common shared vision.** Providing every member of every FIGA team with the same common vision, and obtaining buy-in to that vision, will result in a partnership culture in which each person feels like s/he fails if the person beside him/her fails. The resulting teamwork is almost magical, as employee engagement skyrockets, good ideas get shared, weaker models get improved, and the clients realize better alpha.
- **Partnership requires shared rewards and shared penalties**
  - I understand the benefits of the current silo-d comp structure, but you're now a mature business ... encourage you to take another look.

### What to watch for

- Watch for **arrogance**. Some signs of arrogance:
  - Confidence bleeding into arrogance
    - Sense that we should keep doing what we're doing and eventually the markets will prove us right. THIS IS CONFIDENCE BLEEDING INTO ARROGANCE. Both SAE and GMSG guilty of this.
    - Too slow to recognize failures...models have it right.
  - Lost sense of urgency?
    - Does FIGA have it today? Not because of the flat period you're in, but because of the phenomenal 3-year run you're in.
    - Tim has it. Benji has it. I don't hear it from others.
  - Arrogance leads to insularity
    - "We don't need help from others"
    - Examples from my world: Even MAS colleagues tell others not to bother talking to GMSG because they won't talk or help you; Less insular at senior level
    - Others in BLK doing ACM, ECM, rates, etc....when's last time you've talked to them?
- Silos and the blame game
  - GMSG compared to SAE. Discuss the SAE blame conversations I had, contrasted with GMSG and ACM.
  - Around the FIGA water cooler, what's the conversation over the last quarter? Is it "His model cost us" or "Maybe I can help him"?
- Partnership and second-guessing and second-meetings.
  - SAE examples
  - My sense is that Benj and Tim won't tolerate this.

**Adapting:** Cultures must adapt, without compromising the basic core principles covered above.

- We've adapted and changed many times over the last 15 years, as previous offsite discussion highlighted. If we don't continue to do this, we won't survive.

**Summary:** Three keys to worry about

- Partnership
- Arrogance
- Embrace change