

LEADERSHIP LESSONS

MOST IMPORTANT ROLE OF LEADER: DEFINE, BUILD AND PROTECT THE CULTURE

Perhaps the most important role of the leader is to establish the group's or firm's culture. Culture is the foundation on which the business is built, which makes it a critical component of successful businesses. It defines who gets hired and promoted, how the team interacts with each other, how you approach business decisions, etc.

- I firmly believe that culture can be a competitive advantage or a competitive disadvantage. It is a primary driver of long run business success or long run business failure. I've seen both.
 - SAE example when I took it over.
 - SAE today.

As a leader, you have to do it. Culture starts from the top (BLK versus BGI).

Three steps we took:

- Removed five of the seven senior PMs, put remaining two in charge. Selected based on culture.
- Preached about behaviors and culture at every opportunity. They got sick of my "We're building a research-driven investment partnership" but I never stopped talking about it. Still do today, five years later.
- Changed the compensation structure... economics teaches us that incentives matter. Economics is right.

SINE QUA NON: A SIMPLE AND COMPELLING VISION

Sine qua non: Leadership requires one to have a compelling vision (a mental picture of the future state of the world) that the team buys into.

I've learned this lesson about the importance of having a clearly articulated vision over and over again. If you don't have that, then everybody will run in different directions and you won't get the best out of people. Having a clear vision means everybody knows where the business is headed and what their role is in getting there.

- Positive example: GMSG 2010: double revenues by doubling the alpha we extract from the markets.
 - Increase capacity by 50%
 - Increase performance by 25%
 - Increase capture rate (fees) by 15%
- Negative example, I was driving a big project to build a product line. We wanted to package long-horizon investment ideas into a delivery vehicle, mainly for sovereign wealth and family offices. But I did a bad job of articulating what "long-horizon" meant, so everyone had a different definition and different goals.

- You can't build anything under those circumstances. After eight months' work, we had to pull the plug. I learned from that because it was my initiative and my mistake. Now I make sure the vision is absolutely clear and well-understood by all.
- o Positive example: SAE 2015. Double the alpha we extract from the markets by becoming world class at thematic investing.

IMPORTANCE OF CONSISTENCY

Once you have the vision, you need all decisions to be consistent with this vision. Ideally, everyone on the team should be able to predict every decision – no strategic or tactical surprises.

- Example: No fee discounts in GMSG.

The leader sets out the vision, but the team executes on it. The leader should be ensuring that execution happens, but not necessarily deciding how to execute.

IMPORTANCE OF GUIDING PRINCIPLES

Everyone needs to know your guiding principles. I've said to people who work with me many times, *if your team can correctly forecast how you'll react to any problem that's comes up, you're probably an effective leader* because that is proof that your principles are clear and you are consistent in applying them. They need this clarity. Examples:

- I admire Pierre Trudeau, former Canadian Prime Minister, and Ronald Reagan — each for exactly the same reason. One was liberal and the other conservative, so I'm not picking sides. Trudeau, Reagan and in fact Maggie Thatcher too.
 - o Love them or hate them, every decision they made was run through a well-understood set of guiding principles. Two things made them effective leaders. One, everyone knew their guiding principles; people knew what they stood for. And two, every decision they made was consistent with those principles, which led to consistency and steadfastness. They did what they believed was right.