

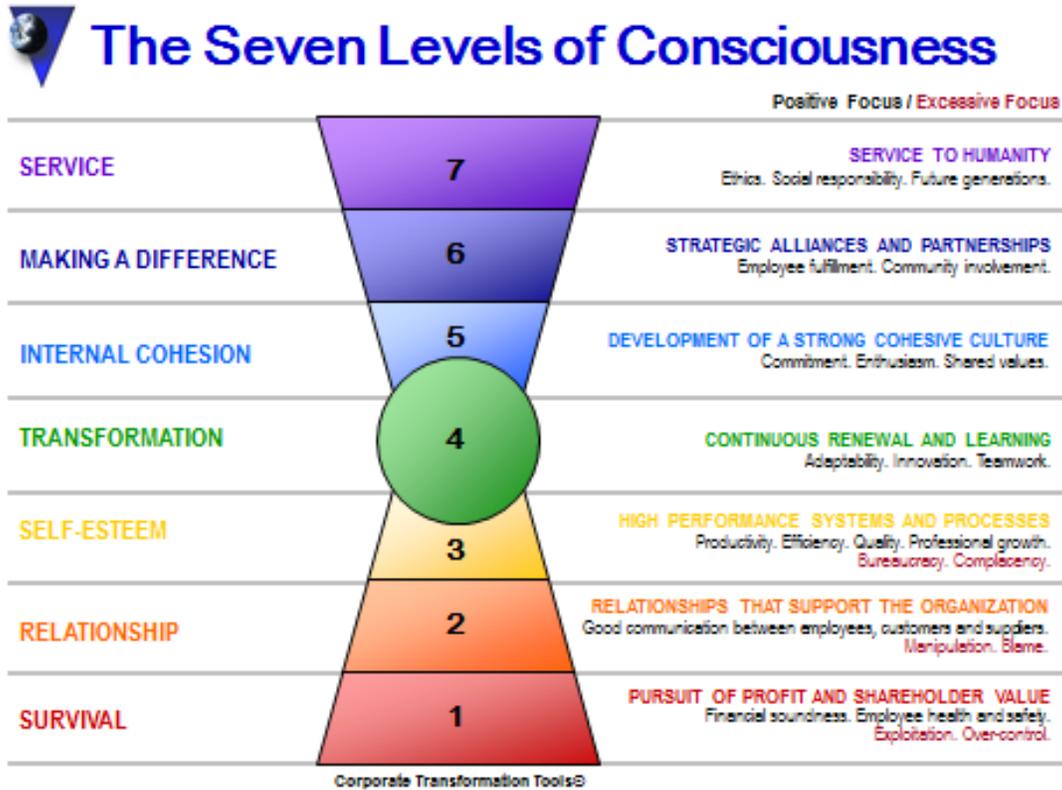
July 1, 2014 LOL Journal

Ok, for starters, I have not left Focus Consulting—the firm I founded over 15 years ago—to join NexTier Capital. I'll skip the Mark Twain jokes about rumors of my demise and go straight to the warning: when you change your LinkedIn page by adding a new role—in my case a Board position with NexTier—the LinkedIn message to all your contacts reads: ***Jim Ware, CFA is now Senior Advisor at NexTier Capital.*** I have received countless messages from my contacts congratulating me on my new job! So be careful when you monkey with your LinkedIn profile. You may end up sending a message that you've changed careers!

As always, lots of interesting stuff to report on. I was invited by Helena Morrissey, CEO of Newton Capital in London, to attend a meeting of the 30% Club. Lots of influential presenters like Valerie Jarrett (White House), Sallie Krawcheck (just started the Ellevest Fund), Scott Powers (CEO SSgA). The message was important: more women on corporate boards. Helena is a good example of someone who is operating at the top of the Maslow hierarchy: serving the greater good. She is deeply committed to seeing greater opportunities for women in the corporate world. At FCG we know that diversity—gender, age, cognitive, etc—improves decision making, so the case for women is an easy one. Gender balance improves decision making. (If my wife is reading, please consider this...) Importantly, Helena could easily make the case that she is “too busy” to promote the 30% Club agenda. She is CEO of a major asset management firm AND the mother of 9 children. (yes, 9, that is not a typo) So, in her “spare” time she promotes the 30% Club. For more on this: www.30percentclub.org

The 30% experience was a good lead-in to my next adventure which was hosting a panel at the U.S. Institute's CEO Roundtable. 60 CEOs from various asset management firms met in LA to discuss topics from strategy to new products to compensation to talent. The informal setting—away from the office and daily routine—allowed me to pursue with many of the CEOs the question of: What goals do you have at the “top” of Maslow's hierarchy? How could you be of service to a larger cause, as Helena is with promoting women in the boardroom? (To be clear: I am interested in this question because I want to be a resource to investment leaders who are thinking about these issues. Several CEOs have said to me privately, “it takes a lot courage to move away from the perks, money, and status of a CEO role to follow a higher calling.” Indeed.)

To help frame this topic, let me provide a graph from Richard Barrett who has adapted Maslow to the corporate world:



FCG likes this graph because it very much follows our “above/below the line” framework for thinking of leadership or employee behavior. All investment firms must master levels 1, 2, and 3 of the Maslow hierarchy if they want to be world class. In short, this means:

1. Survive and make a profit! Many firms in this competitive world are struggling with shrinking AUM, lower fees, and losses. No question, these issues need to be addressed.
2. Relationship means creating an environment that has sufficient trust and respect such that employees enjoy coming to work. They feel a connection to their co-workers. There is good communication at the firm: transparency, candor, and openness.
3. Self-esteem relates to the feeling that employees are “playing for a winner.” I can do good work here, and the firm is succeeding such that I am proud of being part of the team.

Note that the challenge for all three of these levels is fear. If too much fear exists in the organization, then sludge (i.e. blame, manipulation, gossip, etc.) appears. The more sludge, the lower the chances of success. (See our recent white paper on the evils of blame:

http://www.focusgroup.com/files/3114/0053/0298/Does_Blame_Predict_Performance.pdf)

The main drivers of fear are:

- A. Security: fearing that you lack security, that you are in danger physically, emotionally, or financially.
- B. Approval: fearing that you are not liked, appreciated, respected, valued. “Conformity bias” is one way that this fear shows up: we conform—as in groupthink—because we don’t want to appear strange or different from the collective.
- C. Control: fear that we will lose control, that we won’t have enough structure, organization, or skill to control the outcomes. Given that the investment business involves so many factors that are out of our control, it is a small wonder that many of us get hung up on this one.

In FCG’s view, leaders must get sufficient mastery of these three “big” fears. If one or more of these fears is running the show, then the leader will be sub-optimal. For example, if we don’t have enough inner security that we are liked and approved of, then we’ll operate from an approval seeking mindset. One very common consequence of this mindset is dishonesty. We won’t be candid with co-workers because they may react to tough feedback by disapproving of us.

Back to the CEO Roundtable. I had some wonderful discussions with investment leaders about their aspirations at the “top” of the Maslow hierarchy. I had breakfast with a CEO who wants to fund a spiritual leadership institute, so that leaders could integrate spiritual principles with the leadership of their firms. This same leader confided to me over eggs and toast that he had just paid off the mortgage of his church, more than \$10 million. That’s inspiring. And clearly indicative of someone operating at the top of Maslow’s hierarchy: service to humanity, community, and future generations.

My panel at the CEO Roundtable was on “Product Innovation.” This topic provided another opportunity to test for the leadership mindset: was it focused solely on profit or on serving the clients? Do we really act as fiduciaries? Carl Richards had a couple of great quotes on this topic at this year’s CFA Annual:

“It’s easy to sell to clients what they want, and harder to sell them what they need.”

And

“The finance industry needs to simplify investments. There is a difference between ‘simplistic’ and ‘elegant simplicity.’ But the product sellers ask, ‘What would they pay me for if it was simple?’”

So, both before and during the panel discussion I kept alive the topic of “fiduciary responsibility.” Specifically, are we acting in the client’s best interest? One of the CEOs in the industry who has become a great friend to FCG is Andrew Canter (CEO of Futuregrowth in South Africa). When I asked Andrew for his thoughts about my panel on new products, he sent me his firm’s criteria for thinking about new products:

- Ability (if we can't do it, we don't sell it) ["product follows process"]
- Client Suitability (for the client's need)
- Timing Suitability (for the market/asset class; for market timing)
- Fee Fairness (between FG and clients... between clients)
- Sustainability (favour open-ended, long-lived products, not short term "get rich quick" or opportunistic funds)
- Avoidance of conflict (staff & FG or clients; FG & clients; between clients, etc)
- Transparency of risk / true-to-label (no hiding or misrepresenting risk)

In our opinion, Andrew is a CEO who is operating at all levels of the Maslow/Barrett hierarchy: his firm is successful and has a great culture AND it is values driven at the "higher" end of the hierarchy: ethical and sustainable. (And he's hilariously funny. Last year at the FCG CEO Forum, one of our guests arrived late. Andrew, with a straight face pointed to the new arrival and said, "Doesn't **he** have to tell his most embarrassing story?" The group of CEOs played along perfectly—not admitting that we had NEVER done a "most embarrassing" exercise to start the day—and the new arrival began telling his most embarrassing story! Fortunately, the latecomer was a great sport about it, and we all had a belly laugh about his story and the prank that Andrew engineered. Good one, Andrew!)

When I asked Andrew directly about what our calling is as money managers, he responded, "we are professionals -- and we answer to a higher purpose than merely business growth and profits. We have a duty as professionals to look after our customers." Amen to that.

One of my colleagues, Michael Falk, CFA often says that FCG is trying to help firms "do well and do good." In our view, firms that do both are the "complete firm."

Wishing all our American friends a happy Independence Day, and our British friends a Happy Give-away-a-colony-day!

On the topic of football (aka soccer), we Americans are delighted with a sport in which we can lose games and still advance to the next round. Now, if we can just get investment clients to think the same way about returns...☺