

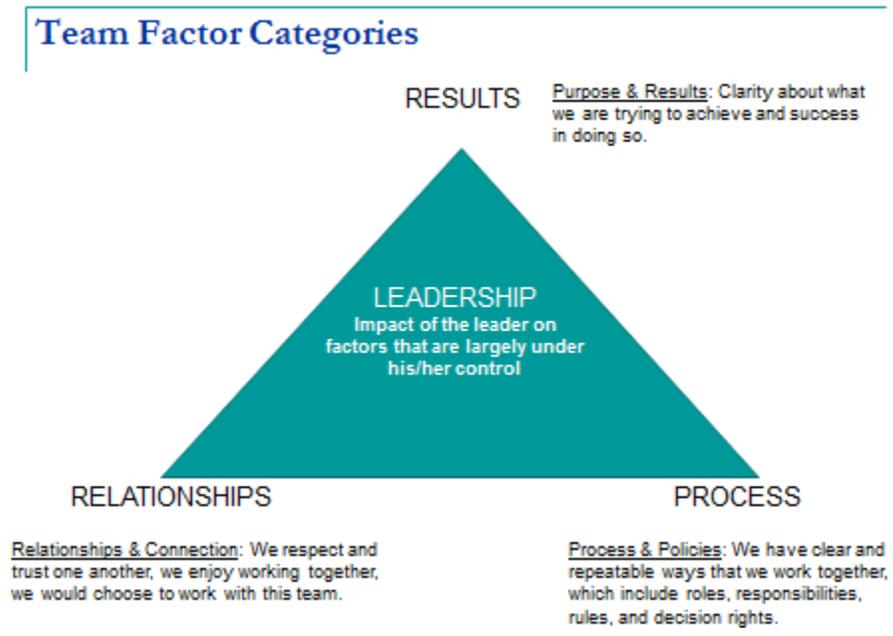
October 18, 2016

LOL Journal - The Best Investment Teams, their Secret Sauce

Under the heading “better late than never,” FCG finally conducted a study to see what factors power the best investment teams. (We’ve been in business just under 20 years, and we eventually stumbled upon this brilliant idea...) Michael Falk and I have worked with a number of really good equity investment teams, so we devised a survey to see:

What are the common factors—if any—that these great teams share?

We agreed on 40 factors that might lead to superior performance of an investment team. We used our basic model of teamwork, shown below



Michael embeds with teams often and provides insights and recommendations for improvement. He is especially sharp at the process piece. *Do they have clear processes? Are they repeatable? Does they work? How can the team continuously learn and improve?* My interest is more on the relationship side. *Do the team members work well together? Do they trust each other? Are they candid? Do they have good debate?*¹

¹ Michael Falk notes, “I always emphasis the debate piece when I embed because it’s crucial to the execution of the philosophy and process.”

We will summarize the complete study in a white paper, but here I want to share insights on the relationship side of the puzzle. Indeed, there are four factors which the best teams said are critical to success: (drum roll, please...)

1. We are committed to one another's success. (93% of respondents agreed)²
2. We enjoy working with each other. (89%)
3. The members of our investment team debate well. (86%)
4. As a team, we have emotional intelligence. (85%)

Let's look at these factors individually.

Committed to one another's success

The best investment teams are "all in." They are not dependent on "stars." (That factor scored only 21%.) Rather, they operate as a closely aligned, well-trained unit. Some of the comments on this factor were as follows:

- *Our process and our success is built upon the team and its commitment to each other. Without that commitment, I don't think we'd have the culture of trust which allows us to be creative, make mistakes, and still show up deeply excited to be there the next day.*
- *Everyone is "all in" and genuinely shares in each other's successes.*
- *I consider all my colleagues to be 'work friends'. Great bunch of people with whom I enjoy spending time. We are all aligned in delivering a common outcome.*

This week Michael and I worked with members of one of these elite teams. Indeed, the sense of commitment was palpable. And that level of commitment contributed to remarkable candor and transparency in their discussions about engagement levels, succession plans, and capacity constraints (for their strategies). They openly talked about their expected tenure and likely candidates to move up and replace them. Michael and I commented privately that it was rare—and wonderful—to see this level of disclosure and active listening. FCG has been teaching candor skills to teams for years, and this team was especially good. They routinely use language like "fact vs. story" in their discussions of investment ideas.

We enjoy working with each other

Note, the question was not, "Do you enjoy working with each other?" but rather "Does this factor contribute to investment success?" A team could enjoy working together but produce mediocre results. In this case, the elite teams said that this factor contributed to superior performance. Comments were:

- *High level of mutual respect, similar work ethics, detail orientation, curiosity, integrity, ownership mentality and skill. And fun. We do very much enjoy each other's company.*

² The survey consisted of a scale from 10 (critical to our success) to 1 (unimportant to our success). The percent scores show all the responses of 6-10.

- *In a collaborative environment, people need to be able to work together in flexible teams.*
- *The culture of our firm is the key ingredient which draws out the genius of its members. If we didn't like working with each other, or for the firm, we would be hard-pressed to contribute--over the course of years--the deep creativity necessary to our success.*
- *Goes to the culture, we have a strong one.*

Google recently studied its best teams and found that the most significant factor in great teams was “psychological safety.” This term means that team members feel comfortable being “real” with their team mates. When teams are open and honest with each other, it builds trust and allows for greater creativity, as stated in the comment above. Personally, I love my team mates at FCG and I know it contributes to our ability to deliver value-add for our clients.

The members of our investment team debate well

This factor seems to follow naturally from the first two factors. When I am playing on a team of committed individuals, who genuinely enjoy being together, I am much more likely to feel safe in rigorous debates. Again, that was our experience when we worked with an elite team recently. They had some remarkably honest debates about tough subjects, like whether or not to close certain funds. Comments on this factor were as follows:

- *This is critical and we are always challenging ourselves that we are facilitating this and provoking debate.*
- *A debate be won or lost along many different dimensions (logic, charisma, authority, experience, etc.), and our team needs to understand which lines of argument are useful and permissible, and to skillfully use them. The success of an idea depends not only on the quality of the idea, but its communication to the whole team, and debate is an important element both of ensuring quality and communication.*
- *Yes and getting better with communication training.*
- *All debates are focused on improving the returns for the portfolio while simultaneously reducing risk. Only constructive criticism is given and it is not focused on the analyst, but the idea.*
- *We still need to get better at discussing mistakes and being intellectually more open. But generally we do this quite well.*

FCG draws a distinction between three types of exchanges:

1. **Arguments.** These take place “under the line” and are antagonistic in nature. They are typically not productive. They emphasize personality, “my idea is right; yours is wrong.” Egos are prominent.
2. **Debates.** These are encouraged as good exchanges in which both parties are respectfully seeking the truth.
3. **Dialogue.** These exchanges are wonderful to watch, as they are largely egoless discussions in which all parties commit to learning and leveraging their knowledge. Participants are not interested in winning the debate but rather finding the best ideas.

One survey participant commented:

- *We emphasize dialogue over debate.*

Indeed, only teams with high levels of trust and candor can hope to have true dialogue.

As a team, we have emotional intelligence

The term “emotional intelligence” (EQ) was coined by Daniel Goleman and consists of four skill sets:

1. **Self-awareness:** the ability to know one’s own strengths, weaknesses, and blindspots. Plus being aware of one’s thoughts and feelings in the moment. The ability to self-reflect.
2. **Self-management:** the ability to manage one’s thoughts and feelings. Example: If I know that I am prone to defensiveness when my ideas are challenged, then I can stop myself from becoming argumentative. How? By asking the other person a question, such as, “Help me understand, why do you see it that way?” (Choosing “mutual understanding” rather than winning the argument)
3. **Other-awareness:** the ability to read other people’s thoughts and feelings. Instead of becoming preoccupied with my position, I can scan the room to see how others are participating. *Are they listening? Are they still engaged? Has someone dropped out of the conversation? Is someone offended?*
4. **Managing my relationships:** the ability to use my interpersonal skills to manage the conversation so that it is productive. People remain engaged and proactive.

Emotionally intelligent teams are far more productive than teams on “auto-pilot.” Comments from our elite teams were:

- *We recognize this is a very fickle business and that mistakes are made. Therefore, there is a level of ego and confidence that is mandatory, but it is also extremely important to be able to admit what you don't know, encourage others and learn from the inevitable mistakes.*
- *In a collaborative environment, we need people to feel safe evaluating each other's ideas. We could do a better job of speaking fairly and considerately, in order to spur honest feedback.*
- *We have no space or time for 'prima donnas' or oversized egos. We believe strongly that good teamwork with well-connected individuals in a constructive environment drives superior and more sustainable outcomes.*
- *We need to be able to rigorously challenge an idea and the work that went into it, and still walk away from the table as colleagues and friends. That is not easy, and it takes a lot of emotional intelligence in terms of how you conduct yourself in a debate, and how you manage your emotions before and after.*
- *Our team is highly emotionally intelligent and collaborative.*
- *I do think our culture and our team is a huge intangible asset to our success.*
- *Team culture and dynamics is a key consideration for every hire within the firm.*
- *I suspect compared with peers, we have more "emotional intelligence" than "discipline". Emotional intelligence is more difficult to develop as it needs a well-aligned, well-performing and stable team environment and it take time.*

As the FCG partner who has dedicated two decades to studying and teaching the “soft” skills, I find it very rewarding to see top investment teams acknowledge their importance. In our full report, Michael Falk will go into more detail about the process factors that were identified. Both are necessary: good relationships and good process.

Stay tuned.

Curiously yours,

JW