

February 23, 2016

### **LOL Journal - Playing with Purpose**

Increasingly FCG works with clients who want to extend their purpose statement beyond making a buck. Or, in our industry, making a whole LOT of bucks. FCG has no problem with people making good money for good work, but it's the "good work" that comes first! Big bucks should follow a slew of value for the client.

But even beyond the legitimate goal of "making excellent returns for our clients," many firms are searching for a larger purpose to include in their mission statement. This may be driven by the influx of Millennials in the work force who are hungry for purpose. Or maybe investment leaders have read Pink's Drive in which he says:

*The most deeply motivated people—not to mention those who are most productive and satisfied—hitch their desires to a cause larger than themselves.<sup>1</sup>*

Or perhaps, they've read Simon Sinek's Start with Why, in which Sinek says about workers, "Deep inside, they all love being a part of something bigger than themselves."<sup>2</sup> Sinek goes on to pose an interesting challenge to all of us:

*The goal of business should not be to do business with anyone who simply wants what you have. It should be to focus on the people who believe what you believe. When we are selective about doing business only with those who believe in our WHY, trust emerges.<sup>3</sup>*

Whoa. As a philosophy major, I know when we've stepped on to philosophical terrain. And this is definitely, "I think therefore I am" territory!<sup>4</sup> Sinek is asking, "What do you believe and why do you believe it?" When I was running money—just before dinosaurs—no one in our industry was asking these questions. We were simply having fun disproving the Efficient Market Hypothesis and enjoying an incredible bull market. Cha-ching. But actually, the mindset of our industry has not changed THAT much. Most investment professionals are motivated by the nature of the work (32%), followed by client satisfaction, interesting colleagues, and financial rewards. Coming in dead last, as shown in the chart below, is our friend: Purpose.

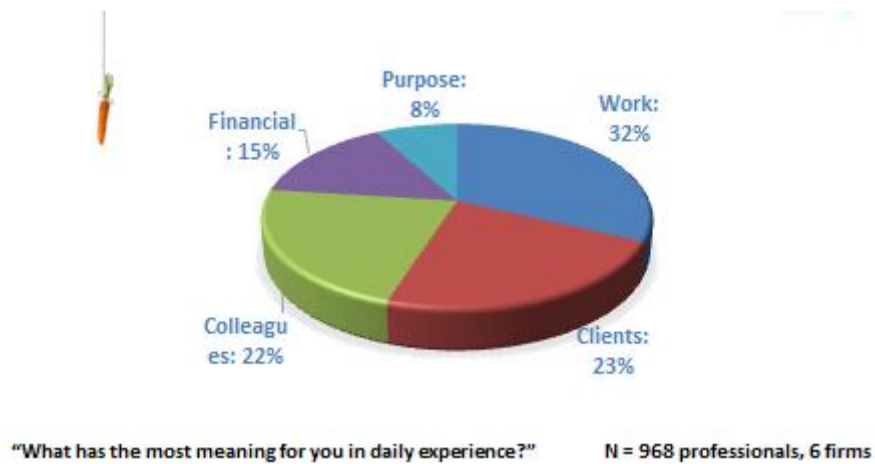
---

<sup>1</sup> Dan Pink, Drive, pg. 131

<sup>2</sup> Simon Sinek, Start with Why, pg. 63

<sup>3</sup> Ibid, pg. 80

<sup>4</sup> Rene Descartes famous statement identifying the most fundamental truth of our being. He was wrong, but it sold a lot of books...



Currently, many investment professionals are not connecting the dots between what they enjoy doing every day and the greater good. In this blog, I want to play with some of the connections that I see because there are a lot of ways that investment firms could hitch their wagons to a bigger purpose.

### **Conventional Wisdom**

Let's start with the original purpose of financial markets: "to raise capital for companies that create jobs, build organizations, manufacture products, or provide services, with growing efficiency and lower costs to consumers."<sup>5</sup> This mission certainly seems purposeful. The criticism is that only a small portion of investment activity involves this raising of capital and most is in the secondary markets, trading securities.<sup>6</sup> Still, there is purpose in this activity as well. Many investment analysts have told me that they see their purpose as properly allocating capital in the markets: rewarding good firms by owning their securities, penalizing bad firms by selling them. Firms that are really good at price discovery are serving a valuable purpose in the larger economy. However, in FCG's view there are far too many firms playing this price discovery role. Suzanne Duncan, author of "The Folklore of Finance,"<sup>7</sup> agrees: "more than 60% of the industry's capital is spent on the pursuit of alpha." My point is that if you are one of the really good firms that DOES produce alpha, then you are clearly mission driven. I had the pleasure of listening to Marc Mayer—then head of research at Bernstein—give an inspirational speech on exactly that topic: good analysts are the heart of the capitalist system.<sup>8</sup>

### **From Conventional to Progressive**

One of our more conventional clients has a senior team that is committed to redefining the firm's purpose. After months of dialogue, they have come up with this statement:

<sup>5</sup> Bogle, Putting Investors First, JPM, winter 2016, pg. 9

<sup>6</sup> Ibid, Bogle in the same piece.

<sup>7</sup> The Folklore of Finance by Suzanne Duncan

<sup>8</sup> Speech given to over 100 Bernstein analysts at their corporate offices, March 29, 2008

*Our purpose is to help people achieve their long-term financial goals, making a difference in people's lives, in our industry and in our community.*

One of the big WHY's behind this firm's desire to redefine their mission is the understanding that the investment industry has reached the bottom of the Edelman Trust Barometer.<sup>9</sup> The firm's leadership really wants to be a flag-bearer in the industry's challenge to regain their status as a noble profession.<sup>10</sup>

Other firms are starting with the conventional view of investing—excellent returns--and then extending it to SRI, defined as Socially Responsible Investing (SRI), also known as sustainable, socially conscious, "green" or ethical investing. SRI funds include any investment strategy which seeks to consider both financial return and social good. Some SRI firms summarized under the heading of ESG issues: environment, social justice, and corporate governance. Once ridiculed, ESG is becoming more and more acceptable, while Milton Friedman—"the only purpose of a business is to make a profit"—is increasingly becoming the object of ridicule. Millennials are very much in sync with this goal of investing in a way that benefits the larger society. Obviously questions abound as to the criteria for "good" and "bad" firms, but millennials that FCG has spoken with are quite interested in asking and debating those questions. Calvert is a player in this space. Their mission is to make the lives of our clients and communities better. They describe their "principles-based approach" this way:<sup>11</sup>

*Responsible investing is a stewardship-based approach that includes analyzing companies based on non-financial information, including their environmental, social, and governance factors, as well as evaluating financial data and information. We focus on finding companies that demonstrate positive leadership and create impact through their business operations and overall activities, while producing competitive investment returns. The companies in which we invest:*

- *Advance environmental sustainability and resource efficiency*
- *Respect human rights and contribute to equitable societies*
- *Exhibit accountable governance and demonstrate transparency*

### **Niche purposes**

Many investment firms have created "niche" purposes. For example, Vanguard's founder Bogle created a huge following by dedicating his firm to low-cost, passive investing. If you've spoken with Vanguard employees, they are evangelical about the way their firm is structured and its mission to cut fees to investors. And to avoid the two masters dilemma: serving clients and owners.

---

<sup>9</sup> Google "Edelman Trust Barometer" for an extensive look at their research. And see the new piece called from Trust to Loyalty put out by Edelman/CFA Institute.

<sup>10</sup> On this topic, stay tuned for a future blog in which I review Andrew Lo's new white paper called, "The Gordon Gekko Effect: The Role of Culture in the Financial Industry"

<sup>11</sup> From the Calvert website

Another big name in finance—Sallie Krawcheck—has found purpose in launching her Ellevest Asset Management firm. The fund is called Pax Ellevest Global Women’s Index Fund. The fund focuses on a selection of companies that are culled from a global index according to the gender diversity of their top ranks. The top holdings include PepsiCo, where Indra K. Nooyi is the chairman and chief executive, and Lockheed Martin, where women make up a third of the board.

Ms. Krawcheck said the women in the Ellevest network – and women in general – wanted investments that delivered a “fair return” as well as an “impact.” She cited research suggesting that companies with a higher portion of women in senior roles tended to perform better than companies with less gender diversity.

Another purpose driven organization is Texas Teachers in Austin. CIO Britt Harris and his investment team are passionately committed to providing good retirement income to the teachers of the state. As many of the staff members will tell you, “I could make more money working on Wall Street, but I really care about the teachers who taught my kids. I want to do right by them.” Clearly, purpose motivates these investment professionals. Their WHY and the WHY of their clients (teachers) are completely aligned, as Sinek suggests. And TRS has had stellar results.

Still another niche purpose can be the many investment funds that are created with religious objectives. The options have expanded greatly for people of all religions to follow what is commonly called, “Faith-Based Investing.” You can match your religious beliefs—about gay marriage, abortion, gambling, etc.—to a fund manager who understands your beliefs and invests accordingly. Again, lots of purpose in these firms as they invest in alignment with their conscience.

### **Out of the Box Purposes**

When I said I wanted to “play” with some purpose ideas, I meant add in some new twists that are still just concepts.

Dave Ulrich, professor and author, has written a well-researched book on [The Leadership Capital Index](#). The book explores a methodology for exploring and analyzing whether or not a firm is well managed. Ulrich hopes that his methodology will allow for ratings to be developed for all publicly traded companies, such that each could have a quality rating (like Moody’s or S&P for bonds). I can imagine a very strong sense of purpose in the PM’s and analysts who are buying firms based on an insightful view of their leadership. Arguably, their purpose could be to reward firms with good leadership. And presumably make money in the process!

Or, how about finding purpose in creating a firm that provides excellent investment advice, while also building a great place to work? Each year P&I magazine does an extensive survey to determine which investment firms earn this distinction. Having worked with many of these firms, FCG can attest to the

excellent work environments they have built. We do 360 reviews<sup>12</sup> for some of these firms and read comments from co-workers such as:

- *My boss is a joy to work for. Has helped me improve my abilities across the board.*
- *She is adored by her staff; she builds trust, shows loyalty, and is kind and generous.*

I think too few investment leaders realize the hugely important role they play as leaders. Separate from the investment results, leaders who teach and inspire their teams offer great value to society. These team members typically give 100%, love their work, and leave each night with a positive attitude to share with family and friends.

Another FCG client is committed to building a learning culture for all its employees. They have designed a 5 year plan for moving their culture from its current state to one in which “employees will see improved motivation and ambition of our employees to learn and grow and develop in a supportive environment.” As a parent, I would love to see my daughters end up in a culture that values learning, growth and development. If investment leaders see themselves as mentors and teachers, then they can define purpose in the way an excellent teacher does: am I preparing my students to be excellent, productive members of society? Am I stimulating their curiosity, their desire to learn? Am I setting a good example of integrity, honesty, fairness, caring? What will my staff members say about me in 5, 10 or 20 years? Is it not purposeful to have a positive influence on the careers of these young people?

### **Bringing it home**

Hopefully, this piece has stretched your thinking about purpose. So, take a minute and finish this statement: My work allows me to be purposeful in the following ways\_\_\_\_\_.

Send me what you come up with. I’d love to print them in a future LOL. And if you can’t think of anything more substantial than, “my work allows me to get a paycheck every month” you need to do some soul searching. To quote creativity guru, Csikszentmihalyi (famous for describing the “flow” state):

*One cannot lead a life that is truly excellent without feeling that one belongs to something greater and more permanent than oneself.*

Here’s a good test. Can you state your purpose in a convincing way to a child or to a grandparent? If you get a thumbs-up from them, you probably have a good one. If not, consult with the philosophy firm Socrates, Nietzsche, Ockham, Bacon, and Schopenhauer (acronym: SNOBS). They are very good and reasonably priced.

Curiously yours,

JW

---

<sup>12</sup> Competency assessments based on surveys of a person’s boss, direct reports and peers.