HENDERSON ROWE

INVESTOR EDUCATION

Why Healthy Teams Deliver Better Returns

Henderson Rowe is disrupting the UK market by delivering institutional-quality investment solutions directly to private clients. In this investor education article, **John Whick**, a Senior Investment Manager at Henderson Rowe, explains how healthy teams deliver better results and why you should care about the firm culture of your investment manager.

Sports and business breed fiercely competitive environments where success is determined by dedication, discipline and heart. In my experience, the thrill of a rain-lashed rugby pitch in West London is similar to an oak-panelled boardroom above Manhattan. Both attract competitors who are committed to being best-in-class.

You may think victory in sports and business are determined primarily by individual talent. I disagree. As with sports, entrepreneurs and companies succeed only when they have the right people and culture. Even a talented player cannot deliver wins on a dysfunctional team.

Healthy Cultures Yield Better Client Outcomes

Over time, any group of people will develop a set of behavioural norms that dictate how they interact, set priorities, make decisions, share feedback and process information. Peter Drucker, the father of modern management theory, calls the residual of these collective norms and interactions "firm culture".

Firm culture in the finance industry is often caricatured by the media. Financial firms are presented as profit-driven boiler rooms where financial success is everything. Its employees are usually portrayed as driven go getters, ruthlessly pursuing money and power; or sometimes they're brilliant but eccentric number-crunchers using mathematical wizardry to divine investing secrets. If you entered finance with Hollywood cinema as your guide, you would prepare by taking self-defence and pre-booking a monthly hilltop retreat.

This view is clearly an exaggeration. However, like most caricatures, it contains a kernel of truth. While other industries have steadily adopted progressive practices that emphasize firm culture and employee engagement, investment managers have clung doggedly to outdated norms. This is beginning to change – but why has it taken so long for investment managers to move forward?

It is partly because investors have been slow to hold their managers accountable for firm culture. A common client refrain is, "All we care about are returns!". Perhaps more troubling is that some clients even correlate a negative culture with a quality manager. These clients believe the outdated Hollywood caricature of a star manager – the ruthless, big-spending, pin-striped egomaniac – will deliver better results.

They are wrong.

The truth is that investment managers with unhealthy cultures deliver demonstrably worse client outcomes. This is supported by the research. In 2015, the Journal of Portfolio Management published a paper by Jason Hsu, the CIO of Rayliant Global Advisors, demonstrating that investment firms with unhealthy cultures deliver worse results for their clients. Stated

differently, firms with good cultures put more money in clients' pockets (and they also present less investment operations risk). This is why the Financial Conduct Authority has taken such an interest in firm culture, including by publishing the FCA Culture and Governance Handbook in late 2015.

So, do you care about investment performance? I might safely assume the answer is "yes". If so, then you should also care about the culture of the firm managing your investment.

Why Unhealthy Cultures Can't Win

Why do firms with healthy cultures outperform for their clients? It is because unhealthy cultures are a breeding ground for misaligned incentives, ill-informed decisions, and rash actions. These cultures undermine collaboration and feedback; they stifle diversity and meritocracy; they reward money and power; and they promote fear and blame. As Hsu writes, "Blame has many brothers, including fear, defensiveness and self-righteousness. When the four horsemen are present, personal accountability, creativity, openness and learning go into exile." Managers working in this environment are poorly positioned to act in the best interests of their clients.

Over time, these managers will lose.

Today, UK managers with unhealthy cultures are struggling with asset outflows. They try to staunch the bleeding by poaching "star managers" from other firms – but this strategy is misguided. In both business and sports, a star's talent will never manifest if it is undermined by a culture of blame. This is well-understood in the academic literature, but retail managers have been slow to adapt. They continue spending millions on star talent only to see it flame out.

By way of analogy, the most winning team in major international sports is the New Zealand All Blacks. Despite having star players, they attribute their sustained, century-long success to team culture. This talented team eschews arrogance and blame. Instead, they adopt 15 clear principles that include "Create a Learning Environment", "Follow the Whanau (Family)", and "Know Thyself". Talented players who cannot adapt to the culture do not remain on the team. For the All Blacks, healthy culture is deliberate and fundamental – and as a result, they are universally recognized as the most creative, dynamic and effective rugby team that has ever played the game.

Firm Culture at Henderson Rowe

There is robust academic research on the importance of firm culture and its impact on performance. But my views are also based on my personal experience at Henderson Rowe.

I have the unique privilege of having spent most of my entire career in finance working for the same firm. Over its 20-year history, Henderson Rowe has been the rare boutique investment manager in a ruthlessly competitive UK market. Its in-house investment research has always been strong – it was an early innovator in smart beta, ETFs, and other low-cost investment products. I remain proud of the work we did and continue to do at Henderson Rowe.

But prior to Henderson Rowe's acquisition by Rayliant Global Advisors in 2018, firm culture was a secondary consideration. Collaboration was limited and there was little appreciation for how broader firm culture meaningful impacts performance. Learning about the relationship between culture and performance – and seeing the positive effect on our business - has been a revelation. Jason Hsu's vision for a new kind of investment manager has transformed my professional experience and reinvigorated our purpose at Henderson Rowe.

Like the New Zealand All Blacks, Henderson Rowe today is a principles-driven organization that puts the team before the individual. Our culture is both deliberate and fundamental, which means that talented employees who cannot adapt do not stay on the team. I'm pleased to report that, as with the All Blacks, our unrelenting focus on culture is delivering results: better performance for our clients and a happier workplace for our team.

The results of Henderson Rowe's focus on culture are not abstract. In addition to a year of excellent investment performance, over the past year we have delivered:

- global, institutional-quality investment strategies that are based on robust, institutional-quality research;
- a new pricing model that is among the most transparent in the industry;
- increased diversity at both the management and governance levels (four of our Directors are racial or ethnic minorities in the UK (with two women and two men), as are its Head of Research, Head of Investment Operations, Head of Compliance, and Finance Manager;
- new culture-related practices that are advocated by industry regulators and activists;
- improved culture and employee engagement through automated pulse surveys and human resources data analytics;
- strengthened compliance and investment operations infrastructure to reduce transaction costs and improve operational controls;
- transparent, institutional quality strategies that are delivering better net-of-fee performance for its clients;
- a robust communications program built around client education and financial literacy;
- regular team-building, conflict resolution, and other culture-related trainings; and
- an active role in the community through several charitable initiatives, including direct volunteering, as well as promoting key charities at client and investor events.

Although I was a seasoned finance professional with well-established working norms, the cultural transformation at Henderson Rowe has given me renewed energy and purpose. As clients and others see the results of this transformation, I am convinced it will ultimately extend to the broader finance industry.

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John is a Senior Investment Manager at Henderson Rowe, responsible for winning business and looking after clients through managing their portfolios. He takes a lead role in training and developing new members of the investment management team.

Prior to joining Henderson Rowe in 2007, John worked as a proprietary trader for two years, trading on the European bond markets. Previously, he worked in fields ranging from research to teaching, primarily focused on economics and related subjects; that work involved the academic, corporate and government settings. He earned his BSc in economics and geography from University College London before completing a MSc in global politics at Birkbeck, University of London.

John enjoys face-to-face interactions with people, an aspect that lends itself naturally to his work in investment management in an entrepreneurial environment. He is a keen sportsman; he continues to compete in rugby and enjoys athletics and boxing. His other passion is music having spent his first year at university studying for a professional qualification.

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