



Building a **People's Business** in Asset Management

WHITE PAPER

Building a People's Business in Asset Management

By Bo Knudsen,

Managing Director and Portfolio Manager, C WorldWide Asset Management

Key Takeaways

- In this paper, you get insights of how to build a long-term business, a Cathedral in a people's business like Asset Management.

The key challenge is that your company's key asset – the people – can walk out the door at any time. Some might try to build an organization, where the system is more important than the people. Unsurprisingly, you get exactly what you aim for – a company that loses people. The only way to mitigate the risk of losing people is to embrace the people risk.

It's up to the founders and the first generations of key people – to possess the mindset for building for the long-term. Ingraining that mindset in the decision-making and the philosophy of the company defines culture and makes it possible. Strong culture brings life to the Cathedral.

The active, people-driven asset manager takes the risk of running such an organization. The clients can then exploit the alpha opportunity of active management in a low-risk way – keeping the flexibility of being able to hire and fire the active manager, while leaving the complexities of managing the operation to the active people-driven manager.

Building a Cathedral instead of a shelter

Building a successful and sustainable franchise – a Cathedral – in a people's business is challenged by the inherent fact that your company's key asset – the people – can walk out the door at any time. So how to best address this critical issue? Many, especially large organizations, try to prioritise the system over people. However, unsurprisingly you get what you aim for – a company that loses people. The best way to face the challenge is to embrace the people factor even more.

When striving to build a people's business in asset management – the Cathedral – you need to build environments, where people thrive. We need people, because it is people, who build the Cathedral. A Cathedral is only appealing because of the values and the stories that are linked to it. It is not the bricks and mortar, the architecture or the overall physical features that create a Cathedral. It is the WHY you are coming to the Cathedral and the life that people bring to the Cathedral that creates the attraction.

We live in a complex world that is shaped by the rapid digitalization transforming our societies and business models in significant ways. The irreversible and positive trend towards ESG implementation in capital management reinforces the need of a hands-on, long-term approach. Understanding the materiality of sustainability issues affecting companies matters. A shorter-term investor only needs a shelter and won't bother building the Cathedral as it is much easier to put up a temporary shelter. However, we believe there is a strong need for Cathedrals in Asset Management, offering longer-term, lasting environments for sustainable capital management with a more predictable outcome.

Identifying the masterpiece

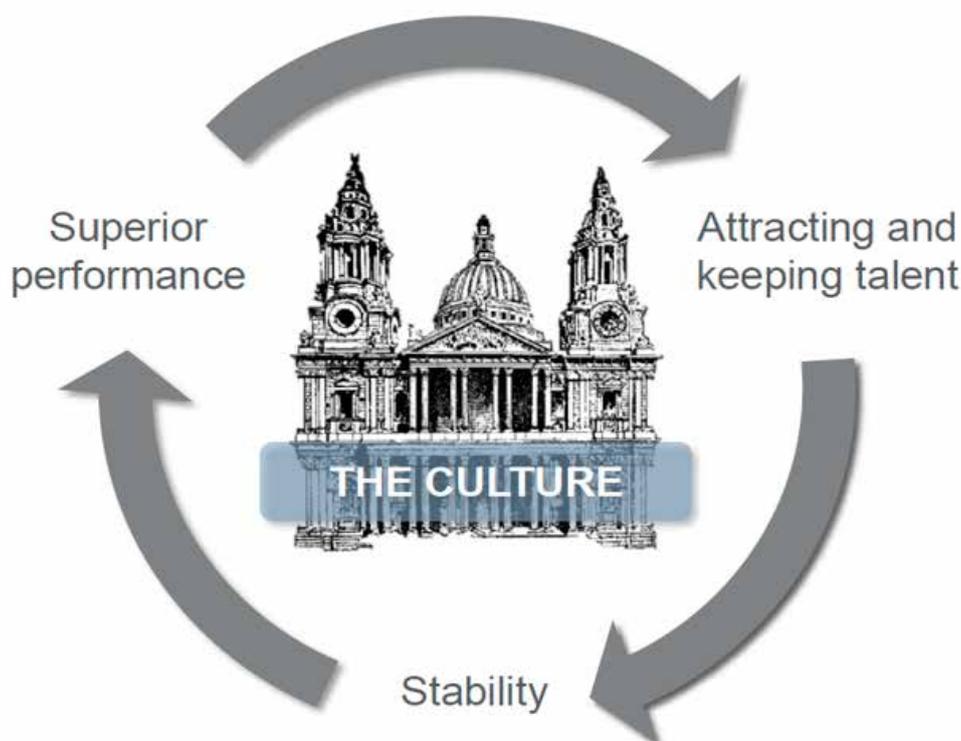
Finding the timeless masterpiece is what long-term investing is about. No need to bother about the average company. The trained eye can identify – sometimes with technology as a useful tool – that the painting (masterpiece) is an original. Likewise, the trained eye understands what makes it unique – also in the eyes of others, why they would be willing to put a higher price on it in the future. It is more the skill of the trained observer, and it can be challenging to describe in a very formalized (quantitative) way. The masterpiece in terms of an organization and a company is one that is long-lasting and relevant for years to come. To do this, you need managements who take a sustainable long-term stakeholder’s approach to allocating capital in addressable markets that grow – while typically being exposed to strong generational trends. This results in either high cashflows that can be paid out to shareholders or a rising stock price that discounts strong prospects. It is the trained eye that is capable of understanding the key factor(s) that make-up a masterpiece.

The world changes over time but the true masterpiece stands that test of time, even if the price fluctuates. At times, sellers are forced to liquidate providing opportunities for the long-term investor who recognize the underlying value and potential of the masterpiece.

Is it possible to build a Cathedral in a long-term people’s business?

There is both an inherent conflict and complication in building an organization that is meant to have a lifespan of generations, whilst being built on or around teams of key individuals. People don’t live forever while other practical issues such as career duration, job mobility, and patience also play a part. The active asset management industry is facing these issues, while at the same time, clients are expected to buy into the capability and experience of key individuals in the hope and belief they will endure indefinitely.

Figure 1: The Cathedral in a people’s business



Source: C WorldWide Asset Management, February 2019 (Cathedral drawing by Flickr)

As a response to these issues, some might try to be clever and build an organization where the system is more important than the people – to mitigate the risk of losing them. Unsurprisingly, you get exactly what you aim for – a company that loses people.

The only way to mitigate the risk of losing people is to fully take onboard that risk. For some this is unpleasant because you as an owner and CEO have to increase, and not decrease, your dependency on key people in order to succeed. Key people like the fact that the organization is built up around them. They like the respect and sense of belonging that follows. They like the forgiveness and the benefit of doubt that is given to them in times where they don't always deliver at the highest level. That is why they stay...and eventually the organization will receive the full, long-term benefits of having satisfied and contented people.



We believe there is a strong need for Cathedrals offering longer-term, lasting environments for sustainable capital management with a more predictable outcome.

A Cathedral transcends generations

Word of mouth can spread fast. When you are respected as an individual and where the organization is structured around the desires and strengths of the individual and the team – as opposed to an organization where the risk of people dependency is reduced by emphasizing the system over the needs of the individual, then people hear about this. The story around the firm of individuals who work together and support each other is one which generates its own momentum – as people take pride in and aspire to work in such an organization. This increases the likelihood of attracting talent and with the right mindset and the right incentive structures, you can build a Cathedral in a people's business. As people stay on onboard for a long time, you build lasting knowledge in the organization. At the same time,

you lay a foundation, which if properly managed, can be passed on through generations.



The clients can exploit the alpha opportunity of active management in a low risk way – keeping the flexibility of being able to hire and fire the active manager, while leaving the complexities of managing the operation to the active manager.

Some might believe that people can't handle being treated too well. That there is a risk of them being spoiled – resulting in negative company dynamics. I disagree with that view. You get what you give, and people function best and are most creative when treated well. If an individual responds in an unusual or counter-productive manner, action needs to be taken. The hiring process must take this into consideration to find the right inner-driven individual that fits into and can grow in this environment.

People build Cathedrals – and it is up to the founders and the first generations of key people – to possess the mindset for building for the long-term which makes the real difference. Ingraining that mindset in the decision-making and the philosophy of the firm makes it possible. This is what defines the culture.

The benefits of a Cathedral

When you have succeeded in building a Cathedral in a people-centric business such as asset management, you have created an aspirational workplace that can attract and hopefully fulfil the professional ambitions of talented people. For clients of the Cathedral, they have the opportunity to outsource part or all their wealth management to an active manager who over time can show stability and consistency. Above all, you stand the chance of being able to offer the likelihood of superior returns as opposed to a passive strategy.



The active, people-driven asset manager takes the risk of running such an organization. The clients can then exploit the alpha opportunity of active management in a low-risk way – keeping the flexibility of being able to hire and fire the active manager, while leaving the complexities of managing the operation to the active manager.

However, only a few can do it

Not all organizations can execute on this. It is not without consequences and limitations to pursue the route of choosing to build a long-term people's business. I would highlight 7 factors here:

1. A key choice to make is to limit the number of people in the organization. The Dunbar number helps describe what happens with the number of relations that you have to nurture in a people's network. Moving from 3 to 4 people in a network increases the number of specific relationships from 3 to 6 following the formula $N(N-1)/2$, while a team of 6 has 15 specific relations, and a team of 32 has

496 specific relationships. 150 people has been highlighted as the maximum in an organization if people are to have a chance of knowing, relating and feeling part of a close connected community. A well-functioning organization seeks diversity across a range of factors, leaving room for the individual – with gender diversity being a particular challenge in asset management.

2. Another key is to have a focused product range. In this way it becomes easier to identify, prioritise and understand what is important to the organization. This requires the often inherently unpleasant skill of sometimes saying no to new business opportunities and to eventually make adjustments to the product range.
3. The ability to forgive and eventually adjust responsibilities, and to show patience is central to ensuring that you take the long-term perspective.
4. An attractive physical location and flexible workinghours is part of showing the individu-

al respect. Equally, work-place facilities such as in-house dining/coffee shop creates a natural informal place for interaction across departments and teams.

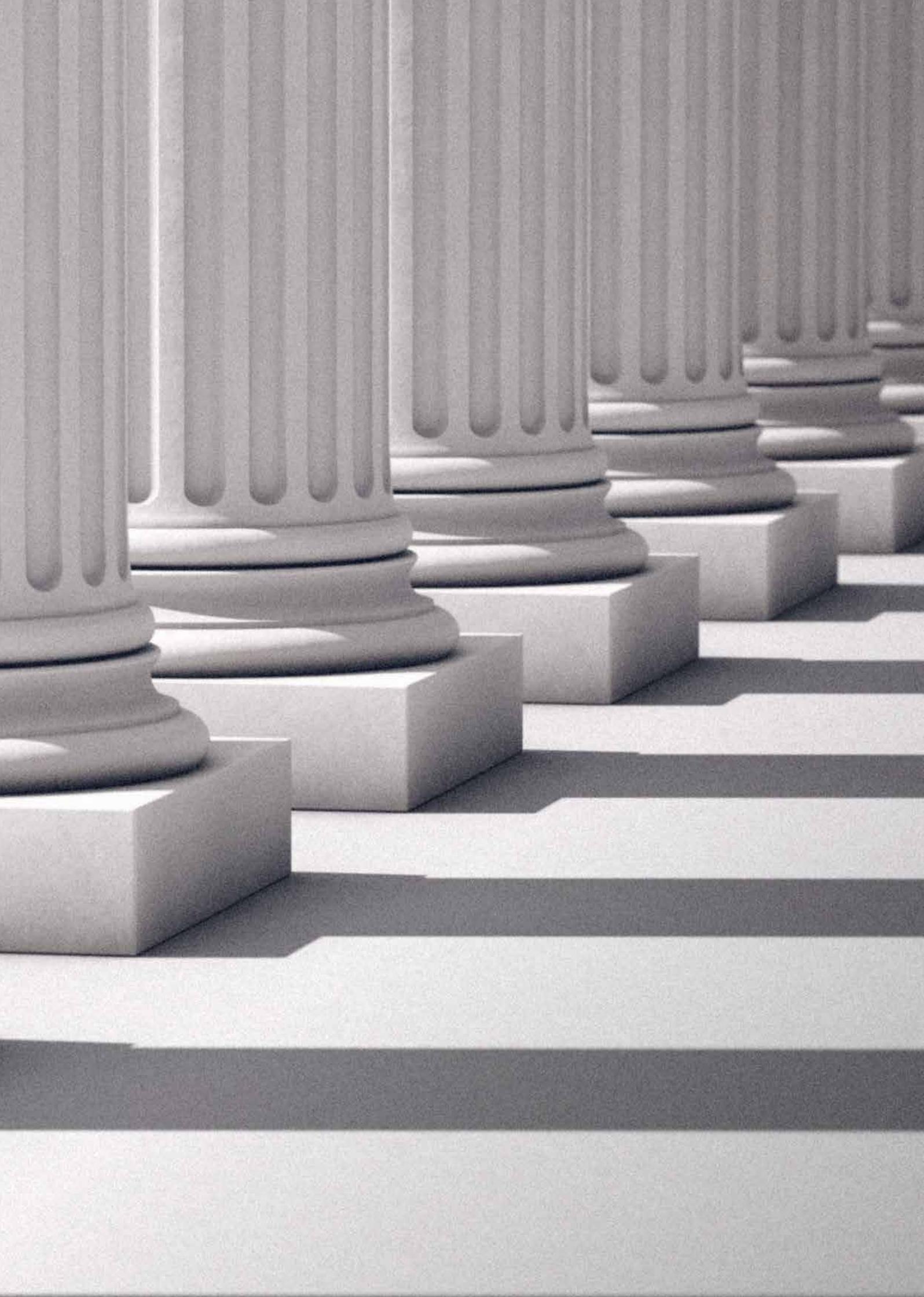
5. An incentive system has to respect that the value creation is achieved by the employees i.e., the people in the organization more than the providers of capital.
6. Easy access to top management in a flat organisational structure.
7. Interdependence and independence are key for a people's business as strong people with a sense of purpose need a secure environment where they can express their ideas. At the same time, key people also want to feel a sense of belonging. We all do. This is the culture you build over a long period of time.

Don't give up on humans

When you have made the choices highlighted in this paper, you might stand a better chance of building a long-term, successful people's business. We live in a world where we dream about inventing the perfect "machine". Yet the human brain is often highlighted as the most complex structure in the known universe with its 85 billion nerve cells and trillions of connections magically generating conscious experience and adjusting organically. And then linking it together. Maybe that is the perfect "machine"?

But don't treat it as a machine – treat it with respect and as the living organism it is. Then you can build a Cathedral in a people's business.

Disclosures: This publication has been prepared by C WorldWide Asset Management Fondsmaeglerselskab A/S (CWW AM). CWW AM is a registered Danish investment firm located at Dampfaergevej 26, DK-2100 Copenhagen, Denmark. CWW AM's Danish company registration no is 78420510. CWW AM is registered with the SEC as an investment adviser with CRD no 173234. This publication is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations, as investment advice or as investment research. The publication has thus not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. Opinions expressed are current opinions only as of the date of the publication. The publication has been prepared from sources CWW AM believes to be reliable and all reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy is not guaranteed and CWW AM accepts no liability for any errors or omissions. The publication may not be reproduced or distributed, in whole or in part, without the prior written consent of CWW AM. All figures are based on past performance. Past performance is not a reliable indicator of future performance. The return may increase or decrease as a result of currency fluctuations.



Active Investments

C WorldWide Asset Management Fondsmæglerselskab A/S is a focused asset manager. Our objective is to deliver consistent, long-term capital growth for clients through active investments in listed equities on global stock exchanges.

Our clients are primarily institutional investors and external distribution channels. The combination of a unique investment philosophy based on careful stock picking and long-term global trends coupled with a stable team of experienced portfolio managers, has since 1986 resulted in world-class investment performance.

Please find more of our White Papers on cworldwide.com

C WORLDWIDE ASSET MANAGEMENT FONDSMAEGLERSELSKAB A/S

Dampfaergevej 26 · DK-2100 Copenhagen

Tel: +45 35 46 35 00 · VAT 78 42 05 10 · cworldwide.com · info@cworldwide.com

Q3 2021