

Frontier and asset owners put fund manager culture under the microscope

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Asset owners are increasingly judging fund managers on cultural issues rather than just performance.

It is another sign of the rising importance of non-financial risks, which have destroyed value at several high-profile listed companies in recent times.

Frontier Senior Consultant, Sarah Cornelius, said a strong culture was not a guarantee of high performance but there was a strong correlation between a poor culture and failures.

"A successful culture will look different for each organisation, and it really is something that needs to be fit for purpose," she said.

Frontier is more closely assessing fund manager culture including whether they:

- Value client partnerships and actively engage when unexpected events arise.
- Proactively engage and act when an event occurs.
- Foster diversity and inclusion within their teams.
- Embed fairness and equality in how they treat people.
- Display courage and a desire for continuous improvement from a cultural perspective.
- Have transparency regarding structure, disclosures and conduct.
- Are free from systemic behavioural and cultural issues.

Sonya Beyers, Non-Executive Director at BUSSQ and Director of advisory firm Governance by Design, said a good cultural alignment between a fund and their fund managers ultimately resulted in long-term partnerships which delivered better outcomes for members. In fact she cited this as a deciding factor when the fund was comparing two similar fund managers.

"One manager came in and allowed all team members to speak and showed a little bit more diversity of perspective... so we felt like we heard their whole story, rather than just one person speaking on behalf of that manager."

Avant Chief Investment Officer, John Lucey, said they terminated a strongly performing manager in an asset class they were tilting the portfolio away from because of culturally related operational issues.

"The investment team were let down by their back and middle office – they were just too difficult to deal with. Everything was just too hard, reports were late... it wasn't something we could ever resolve."

Lucey said it had a small number of managers and viewed them as partners that could provide market intelligence. It was often only during times of pressure such as a crisis, that cultural issues were revealed.



"Culture should really go through a process similar to hiring individuals and if you wouldn't put up with star performers' bad behaviour within your direct team, you shouldn't put up with it with in your managers."

While the coronavirus pandemic stopped overseas travel and in-person meetings for several months, and this has provided challenges but it has also provided some unexpected benefits.

"It does mean you can talk to pretty much anyone you want in their organisation, and when you do an on-site visit you don't get that," Vision Super Chief Investment Officer and Deputy Chief Executive Officer, Michael Wyrsh, said.

Frontier Director of Sector Research, Paul Newfield, said there was a lot of quantitative data about managers, but people were at the heart of any culture.

"At the end of the day you need to meet with people to understand them as people ... that's how you can unpick that sense of culture, that sense of trust."

The full Frontier paper "Investment manager culture – what lurks in the shadows?" can be downloaded [here](#).



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