

Define Your Purpose



To further Chestnut's mission of helping investment managers successfully navigate the rapidly changing industry landscape, Chestnut is going [Back to Basics](#), examining the research insights we've found are key to successful business growth. In this and our next several upcoming posts, we are turning to the middle ring in our Golden Circle of Asset Management which addresses HOW asset managers can position themselves for success by building meaningful and profitable relationships with investors.



We have a great track record, why do we need a purpose? Firms with a clearly-defined purpose that is consistently embodied by all of its professionals have an enormous advantage in the crucial relationship-building element of investment management, because these firms demonstrate in every interaction why investors can trust them enough to hire them. We believe that every client and marketplace interaction either builds or erodes trust in your firm, so your purpose - or lack thereof - gets communicated whether you mean to or not!

Recent research into the human brain shows that decision making is a complex activity involving multiple areas of the brain, most prominently the prefrontal cortex, hippocampus and parts of the limbic system. Most manager messaging targets the prefrontal cortex, which is responsible for rational, higher order thinking. A strong firm purpose, on the other hand, targets other areas to the back and deeper within our brains, those housing our instinctive reactions, emotions, and fight/flight responses. The deep brain deeply influences and even dominates decision making, so creating a purpose that lights up this part of your investors' brains is, in our view, a crucial step to building any successful investment management business.

How do you define your purpose? A mission or purpose statement can be powerful and emotive, and we encourage our clients to find and articulate their purpose in this way. But mission statements only go so far, and in the context of a hiring or retention decision, you have the opportunity and imperative to articulate your mission in far more detail. In fact, we argue it is critical that you do so as it directly influences the warmth that is critical to any successful investor relationship.

Become Agent 001 by creating your license to exist. James Bond's purpose is well known: he has a "license to kill" in order to fight evil and save the world. Applying this analogy to the somewhat-less-sexy world of investment management, we believe every asset manager must establish and consistently project their own unique license to exist. An effective asset manager license answers the ever-present question: WHY should an investor build a relationship with your firm?

As our list of sample questions to help managers articulate their purpose demonstrates, a successful investment firm's purpose aligns the firm's and the target clients' goals, and goes well beyond consistently delivering the promised risk/return stream from one or more investment products.

Questions to Help Develop and Articulate your Firm's Purpose

- What is your company's why or license to exist?
- What is your firm's mission?
- What are your beliefs?
- Does the client feel you understand them?
- Does the client feel you are important to them?
- Does the client feel that your interests are aligned with theirs?
- Does the client feel you care more about their well-being or outcome than about your firm's?
- Does the client feel they will be better off hiring you rather than someone else?

Strong investment performance is a weak purpose. In our own careers and in our work with hundreds of asset managers, we have seen that many investment managers view their primary if not sole purpose is to make money, both for their clients and for themselves. A huge proportion of managers approach the market with the message that their purpose is to outperform a benchmark. The vast majority of investment teams we've worked with believe that very little beyond investment performance determines their firm's ultimate business success. We believe that all these eminently rational measures of manager success or value are too narrow and cause self harm in the long run. Here are some unintended consequences of a primary focus on investment performance:

- Lack of understanding of the client's objectives and your role(s) in their portfolio(s)
- Short term thinking, evaluation periods
- Client skepticism
- Short term compensation metrics
- Volatile portfolios - performance chasing

- Attracting the wrong (performance chasing) clients rather than building deep relationships
- People turnover
- Product proliferation
- Commoditization of investment management
- Unhealthy focus on fees

The strongest purposes unify investments and distribution. In our experience working with managers to help articulate their purpose, we have found that it is crucial for the investment and distribution sides of the house to come together to develop a unifying mission that is equal parts client centric (distribution value add) and authentic (investment value add). Once articulated, the new purpose must permeate the entire organization, from compliance, operations, and trading to client service and beyond. Each person needs to relate to the purpose and understand how they contribute to it. Only when the new purpose is fully aligned with the culture of the organization will all client interactions become additive to building investor trust.

While the process of developing, defining and embodying purpose is far more meaningful than having a simple purpose statement, it is nevertheless useful to have one to rally around. The purpose statements below are some real anonymized examples from successful firms outside the investment industry:

- We are united in our responsibility to create healthier futures
- Inspire human progress through the power of communication and entertainment
- To drive integrity by being honest & transparent in every interaction
- We create confidence and excitement by personally equipping all athletes to achieve their dreams
- Nourishing families so they can flourish and thrive
- To help people secure their future and protect the ones they love
- Working together for a healthier world
- We exist to transform lives and investing for the better

It's important to note that none of these powerful statements includes any reference to the company's competencies, accomplishments or credentials.

Don't let RFPs distract you from creating a strong purpose. Here is a secret we've uncovered through personal experience and conversations with managers, investment committees and consultants: search processes give the incorrect impression that hiring decisions are all based on the What and the How. From the guidance given to the manager in a final, meeting agendas, data requests, to the due diligence process; all contribute to the feeling that the What and the How are paramount. While we don't mean to minimize the importance of credentials, processes and features (in fact we will get to them in other parts of this series), they are not nearly as compelling or important as the Why! In reality, the selection of an asset manager or an OCIO often comes down to feel and perception- the oldest part of our brains that respond intuitively, with "risk management" provided by the prefrontal cortex! This idea is well-illustrated in [this 5 minute excerpted video of a TED Talk](#) from Simon Sinek.

Stay tuned as we continue to unpack the layers of the Golden Circle in our ongoing Back to Basics series of thought leadership and research.

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