

**Singer, Brian & Fedorinchik, Greg – Investment Leadership and Portfolio Management**

John Wiley & Sons, 2010, [Finance] Grade ★★★★★

From a management perspective the investment business is an unusual animal due to the loose relationship between cause and effect. In most other industries, if you do the right thing and do it better in every way than your competitors you will win. In investment management you'll have gained a say 55 to 60 percent probability of yearly outperformance that during relatively long periods will be almost indistinguishable from randomness. At the same time, due to the fact that competition has taken the business of investment management so close to being short-term efficient, it is the subtle differentiating things that can tip the conditions in your favor. Having a leadership and a corporate culture that nurtures the appropriate type of environment for asset management is an underestimated source of long-term alpha and also the topic of this book. The two authors are former colleagues from the value investing focused Brinson Partners and from UBS Asset Management. Today Brian Singer is the head of dynamic asset allocation at William Blair and chairman of the CFA Institute board of directors while Greg Fedorinchik is the head of client portfolio management at Mesirov Financial. The book is meant to present the characteristics of leaders and firms that are to be successful stewards of client capital; analyzing the strategies, structures and actions that create an environment that delivers outstanding investment outcomes. Apart from their own experiences they build their work on interviews with individuals covering hundreds of different investment firms.

The authors point to the fact that asset managers can become successful in two ways, as a business venture and as a superior investor. The two can be connected but don't have to be. Even though there are two chapters covering fee structures and client communication the focus of the book is to implement the characteristics of a successful investment driven firm. They identify five critical aspects to manage this: 1) a strong culture, 2) limited size and complexity, 3) clear governance of

the business and investment functions, 4) first-rate non-hierarchical investment leadership and 5) integrity. The culture is key, number three through five contributes to the culture and number two is a constant threat if the business of investing is given priority over stewardship of client capital.

The bulk of the book's chapters expand on the five critical aspects above and gradually the authors paint a picture of how they perceive that an asset management firm should be run. Mission, investment philosophy, processes, performance evaluation, merit based compensation and promotions, organizational set up and several other topics are brought up. There is a sound core of customer focus, consistency in execution and of integrity. The authors not surprisingly show a marked knowledge of the character of big institutional investment organizations. Seemingly simple guiding principles like "*people + philosophy + process = performance*" contain a lot of wisdom as superior long-term performance cannot be forced but instead is a residual of other decisions. If something I think the recipe the authors present is a bit too specific. It's obvious that Brinson Partners is the role model; hence the book describes how a big mutual fund with value investing focus should function. I think it's a pity that they had to be this restrictive. Further, chapter five mainly describing how to view the (stock) market is the most inspired and cutting edge of all the chapters. I still think that it is a bit misplaced. Only by developing one's own view of market functionality can an investment firm build a solid foundation for its investment philosophy. It cannot be served one-size fits all.

Books on strategy and management could easily fill an Alexandrian library, as could those on investing. Despite this there are very little written on management of asset management firms. Since leadership and corporate culture matter more than most realize, *Investment Leadership and Portfolio Management* is an important book.

Mats Larsson, May 16, 2015