

Achieving Performance Excellence

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Horacio Valeiras, CEO of Frontier Global Partners, was invited to participate in the CalPERS CalSTRS 2019 Diversity Forum as part of a panel discussion on the importance of culture within an organization. The following were his prepared remarks and presentation slides as part of the discussion and Q&A session.

Frontier Global Partners (FGP) takes its culture very seriously even though we are a company of only 11 people. And we decided early in the development of our two predecessor companies, HAV Capital and Frontier Market Asset Management, that diversity was key to our success. As a firm, we invest globally, from the US to frontier markets. We are active fundamental investors with a philosophy grounded in behavioral finance. We believe our culture is critical to our long-term success.

Have we always succeeded? No, but we learn from our mistakes. Early on, one of our partners wanted to progress to CIO in a rapid manner without taking into account the consequences to the business that action (or move) might unearth. We ended up parting ways, but we also learned that we needed to give people as much responsibility as they could assume.



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The Impact of Diverse Thinking on Performance

- Diversity
 - “...the varied perspectives and approaches to work...”
 - Thomas (1996)
- Diversity of thought improves performance
- Challenging basic assumptions about functions, strategies, operations, practices and procedures
- The research results are ambiguous
 - All success depends on implementation

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We believe in the performance impact of diverse thinking. David Thomas, now President of Morehouse College, defined diversity as “...the varied perspectives and approaches to work...”

You've heard ample research about the benefits of diversity today – however, some of that research is ambiguous – implementation is key!



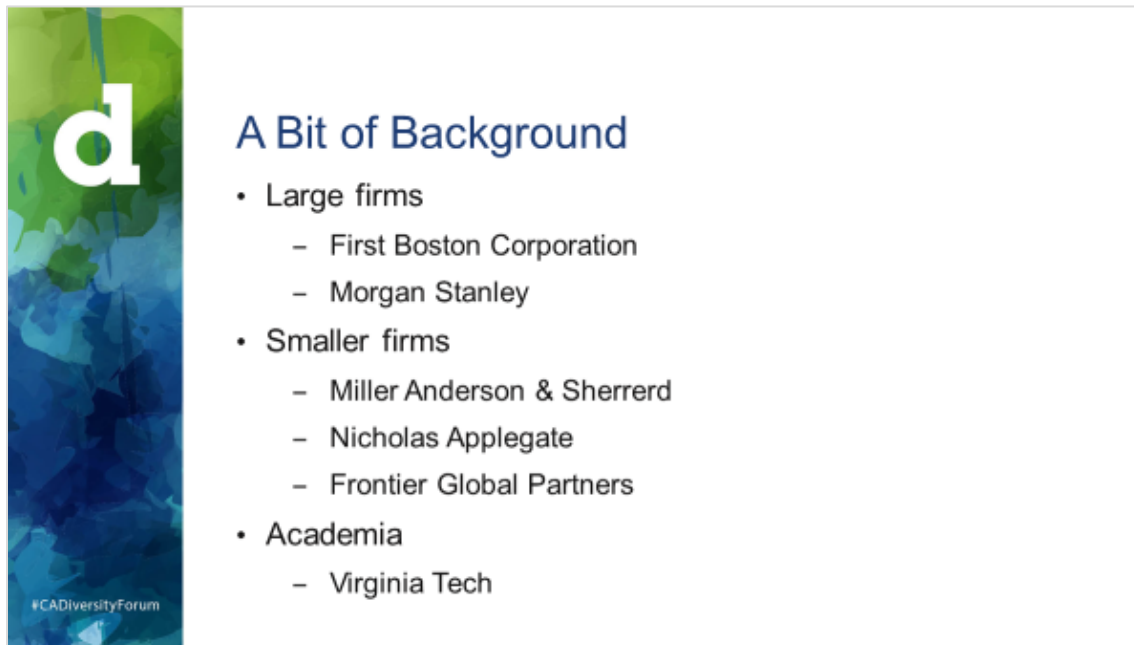
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Frontier Global Partners Culture and Values

- We value
 - Respect, transparency and collaboration
 - Strong ethical practices
 - Client's interest first
 - Diversity of thought
 - Entrepreneurship
 - Well-defined processes
 - Excellent investment performance and client service

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Our values are probably similar to many of yours, and they are listed on this slide in no particular order. We believe it is the diversity of our team that allows us to deliver on those values.



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A Bit of Background

- Large firms
 - First Boston Corporation
 - Morgan Stanley
- Smaller firms
 - Miller Anderson & Sherrerd
 - Nicholas Applegate
 - Frontier Global Partners
- Academia
 - Virginia Tech

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I've worked for large firms and small firms, and they have all taught us something. For example, when I started at First Boston in 1987, "diversity" meant allowing us to wear blue shirts on Fridays. At Miller Anderson, I learned the benefits of widely distributed ownership, giving an incentive to get everyone to pull in the right direction, and how the resulting transparency avoided or helped deal with a lot of business issues.

Finally, I've served on numerous academic boards, where living and breathing diversity has become essential to survival and to developing the talent pipeline we all need.



FGP has had a truly diverse workforce – someone called it a UN among small asset managers. Our partners have been from Latin America, North America, Asia and Europe. We have also employed people from Africa and the Middle East. I tried to find a link to Australia and Antarctica but was unable.

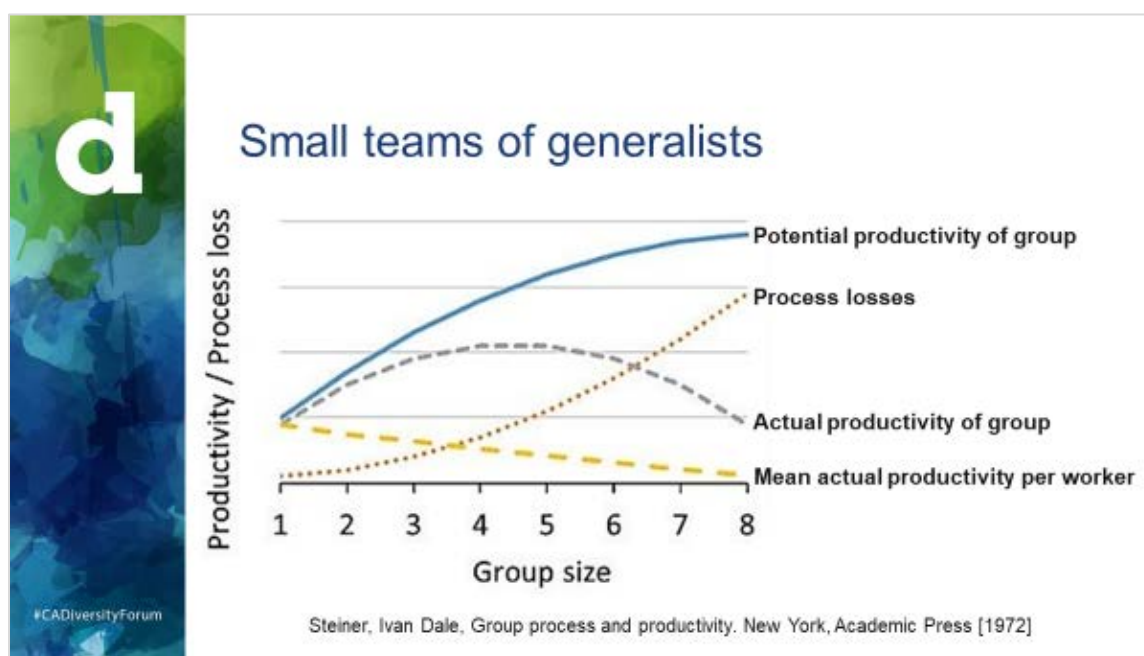


So how do we implement our culture in a way that allows such a diverse group of people to succeed? We have a number of rules we live by:

- Everyone we hire is on track for partnership, and we have no majority owner.

- Every employee knows our financials.
- Our senior partners are, every year, distributing ownership to our less senior partners. Our youngest partner is 25, our oldest is 76.
- We promote to portfolio manager early and allow everyone to participate in research and structuring portfolios – we train people to do all jobs.
- Everyone meets with clients and prospects.
- Everyone at our firm is a generalist. We want to bring different perspectives into all the companies we research.
- We have capacity limits on all our products.

While labels are the simplest method to identify diversity, we routinely observe and evaluate our diversity make-up by experience, background, perspective of thought, and global interactions with cultures other than our own.



Some prospects question how we can cover the markets we cover with teams averaging four people. We believe the specialization within large teams creates a push to include investment ideas from each team member in portfolios, which leads to less concentrated portfolios and closet indexing. As an example, when I was the CIO for Allianz Global Investors Capital, our very deep value team in New York included a well-regarded financial analyst and while we all thought financials were in trouble, the PM always included some financials in the portfolio. Most of these declined significantly in value, some to zero, during the financial crisis.

With a small team, we rely on process to make sure we conduct our research thoroughly, and we have low turnover in our portfolios which means we don't need to generate a lot of new ideas every month. We have academic support for our small team stance. Ivan Steiner, who was in the Psychology Department at UMass Amherst, published his model of actual productivity in 1972.

The above chart shows productivity and process loss on the Y axis and number of team members on the X axis. As the number of people on a team increases, total potential productivity increases but process losses also increase from things like lack of communication, lack of integration, and other factors.

The optimum team size peaks and then productivity begins to turn down with the actual productivity peaking at 4 people, which is where we operate.



To enhance diversity, we recruit people with different backgrounds from a broad group of universities. One company I worked for only recruited from one business school, and while it was a fine school, we believe it also decreased diversity of thought. And the majors you see listed in this exhibit are not necessarily working in the areas you would think. We even have a Latino professional volleyball player working with us who lived and played in Turkey, Qatar, France, Greece and China on teams where many times he was one of at most two foreigners.

Why do we do this?

- Deliver excellent performance for our clients
- Learn and expand our horizons
- Create value
- Have fun

People are our key asset

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Why do we do all this? To deliver outstanding performance for our clients. We truly believe our diversity allows us to do that. It allows us to learn from others, expand our horizons, create value and most importantly, have fun. We have been fortunate that it's worked out so far.

Thank you!

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