

*“...It goes without saying that no company, small or large, can win over the long run without energized employees who believe in the mission and understand how to achieve it...”*

*- Jack Welch*

Years ago, when Laurus was just getting started, we chose to pay special attention to the culture of our business. Rather than building a business around the investment “star” and their specific track record as is so often the case, we consciously chose to focus on the quality of our environment with the continuing goal to “be better tomorrow than we are today...in everything we do.”

Industry analysts and intermediaries continue to evaluate managers like Laurus on performance and performance characteristics. This analysis, unfortunately, is time-sensitive and simply measures the output of the process...which is, largely, driven by culture. We believe focus on our culture – promoting continuous improvement, openness, collaboration, transparency, and leadership development – creates a high-quality firm that will be aligned with the interests of our clients. The rest is all by-product.

But how does the investment analyst uncover a high-quality business? Fundamental investors and sell-side analysts are always talking about the quality of a company or its management team. But notions on what constitutes quality are hard to pin down and there are a broad range of capabilities that could be characterized as “high quality”.

Some businesses perform better than others. Revenues rise faster, margins get better, profitability soars...and along with it, soaring short-term share prices. But, like the performance of an investment manager, these are simply outcomes and are not reflective of the business quality. If sustainable – reflecting a unique competitive strength, for example – then one might consider that business to be higher quality. And, one would assume, if that business could be uncovered before revenues rose faster, margins improved, and profitability soared, then the analyst would be well paid for the effort.

Often what constitutes better or worse is very vague. Since there are no “pure” standards set to define the term, one analyst’s view of great quality could differ greatly from another. Each has their own standard and, likely, capability to evaluate the conditions on which that standard applies. Moreover, since quality cannot be measured quantitatively the evaluation cannot be scientific and so the interpretation is, generally, flawed.

In the same vein, there is growing sense that businesses meeting specific environmental, social, and governance (ESG) criteria are higher “quality” than those that don’t meet the criteria. In the strictest sense, businesses that engage in bribery and corruption, poor working conditions, and detrimental environmental standards (to name but a few) are not sustainable investments. However, like any rules-based analysis, ESG screens can toss ‘the baby out with the bathwater.’ As an example, many smaller businesses have limited coverage by governance research firms and generally score poorly as they do not have policies in place for all conceivable criteria.

While the human bias is to gravitate towards absolute measurement, measuring quality is a very difficult endeavour. The commitment of corporate management toward achieving a goal – and caring to achieve it – is likely a strong indicator of a quality culture. Especially, as noted in Jack Welch’s comment above, if the employees understand the goal and have the drive to achieve it.

Our industry, like many others, is highly competitive and fractured and has always competed on the three “P’s” – Price, Performance, and Product innovation. What is becoming more evident is that this is no longer where the source of advantage lies. Understanding client needs and delivering a competent solution by recruiting better people, implementing better customer processes, and utilizing better technology to rationalize cost is the future source of our success.

We believe our own culture, as described above, is a competitive advantage. We also believe embracing this culture not only influences the business, but how we deliver solutions on our client’s behalf.