



THE HISTORY FACTORY

A HERITAGE MANAGEMENT AGENCY

ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

Alpha is just the beginning of the alternative investment story.

There is more to the rapidly growing hedge fund and private equity industries than absolute return. Some of the largest and most renowned firms have decades of history behind them. Moreover, many of the most successful players in the field are still led by their founding partners.

These men and women were present at the dawn of the current era of alternative investments in the 1970s and 1980s, and they have stories to tell. Theirs are the stories of unparalleled wealth creation and risk-adjusted return for institutional and individual investors around the world. And unparalleled philanthropic giving on a scale not seen since the era of Carnegie and Rockefeller.

For all their success in generating returns and managing risk, alternative investment leaders are not leveraging one of their core assets: their heritage. They have been—rightly so—putting performance and clients first over the years, managing growth and scouting new investment opportunities. They knew that there were some early files in this office or that closet. Someone was always going to get around to organizing that stuff. It was just never the right time.

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Why emphasize heritage management now? Many alternative investment firms are approaching milestones that prompt them to consider their legacy. Many also want to capture their institutional knowledge for the next generation and smooth the transition to succession management.

Heritage management is a vital and often undervalued but hard-to-pin-down approach to getting the best out of your business. After 35 years in operation, The History Factory still finds heritage management difficult to define in one-size-fits-all-clients terms. With that in mind, this paper explains the concept of heritage management, highlights its business

ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

relevance, and makes a case for its broader and more intentional use in the alternative investment industry.

ALTERNATIVE INVESTMENT HISTORY

Before considering how to leverage your group's heritage, it's worth taking a moment to review the heritage of the alternative investment industry. The modern alternative investment sector in the United States traces its roots to the years immediately following World War II. In 1946, the Boston-area private equity firm American Research and Development Corp., considered a venture capital patriarch by many, was formed to spur the commercialization of technologies developed in support of the war effort. Three years later, *Fortune* magazine journalist Alfred Winslow Jones formed what is widely considered the first hedge fund (he called it "hedged"). Jones, a former U.S. diplomat with a doctorate in sociology, sold stocks short to hedge his long positions and used borrowed funds to enhance his returns. In 1952, he converted his general partnership into a limited partnership and instituted a fee for himself (20 percent of the profits) as managing partner.

WHO'S ON FIRST?

Success has many fathers, and so apparently do alternative investments. Legendary investor Warren Buffett, bristling at the idea that Alfred Winslow Jones is credited as the founding father of hedge funds, asserts that his mentor Benjamin Graham was effectively running a hedge fund in the 1920s. And some private equity historians are wont to look back to the Massachusetts Bay Colony as the earliest example of private equity reaching America's shores. One could even argue that Christopher Columbus was a private equity investor, alongside Spain's Ferdinand and Isabella, as he sailed west in 1492.

LEVERAGING HERITAGE

How do you go about leveraging your heritage and making that success narrative uniquely your own? Heritage management is the practice of taking the collective memory of an organization and systematically telling a story that is compelling, authentic and relevant.

ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

History is a comprehensive record of what happened, how it happened and who was involved. While history theoretically includes everything, heritage is selective. It is what we choose to remember, what we tell and what we reinforce.

Some expressions of heritage are visible and conscious, such as rituals and traditions, founding stories, and oft-cited examples of innovation and success. Other elements of heritage often lie below the surface: think values and basic assumptions—the long-forgotten reasons “we always do it this way.”

Two leading management authorities—Larry Bossidy, former CEO of Allied Signal and Honeywell, and Ram Charan, a consultant to senior management—collaborated on the highly praised 2002 book *Execution: The Discipline of Getting Things Done*. Bossidy and Charan argue that leaders seeking change are right to focus on the so-called “soft” stuff—beliefs and behavior—because they are “at least as important as hard stuff . . . if not more so.”

They explain that “in an organization the hardware (strategy and structure) is inert without the software (beliefs and behavior).” However, they also critique efforts aimed first or solely at cultural change. “Most efforts at cultural change fail because they are not linked to improving the business’s outcomes,” they say. “To change a business’s culture, you need a set of processes—social operating mechanisms—that will change the beliefs and behavior of people in ways that are directly linked to bottom-line results.” Beliefs and behavior are simply another way of describing heritage.

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ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

Psychologist Howard E. Gardner is a MacArthur Fellow who studies how humans think and work, particularly geniuses and leaders. In his book *Leading Minds: An Anatomy of Leadership* (1995), Gardner looks at the use of heritage by leaders. “In recent years, social scientists have come to appreciate what political, religious and military figures have long known: that stories (narratives, myths or fables) constitute a uniquely powerful currency in human relationships,” he says. He adds that stories “of identity—narratives that help individuals think about and feel who they are, where they come from and where they are headed—constitute the single most powerful weapon in the leader’s . . . arsenal.”

The *Harvard Business Review* article “Authenticity: Is It Real or Is It Marketing?” refers to a decision to revitalize a brand by building on its past. In one of the responses included in this March 2008 article, The History Factory’s founder and CEO Bruce Weindruch discusses the shortcomings of focusing on perceptions of the past rather than “inherent attributes that make the brand ‘authentic.’”

START WITH THE FUTURE AND WORK BACK™

According to Weindruch, the usefulness of managing heritage starts with the future. “A company needs to know where it’s going before it can claim the authenticity of where it came from. Its success in this regard hinges on involving customers and employees alike in a vision for the company’s future.”



ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

“The real value of your history is in knowing it and using it as a resource that supports your character and informs your path ahead,” Weindruch says.

For organizational leaders, the pursuit of the future involves integrating and managing three visions: future, strategy and heritage. For strategy, it seems obvious that you start with the future. Organizationally, strategy defines the future and the related expectations from results.

Heritage also depends on your vision of the future. The roots of heritage are in the history of success, Weindruch says. People are smart. They remember and repeat in words, stories and actions the characteristics that make them successful. But organizations get into trouble when they stop learning and adapting, and heritage can become an obstacle.

Forward-thinking leaders are among the most ardent students of history and heritage. Not surprisingly, Harvard and West Point—both known for producing great leaders—concentrate heavily on case studies and history. They realize the importance of learning from the past and acknowledge the significance of managing heritage in leadership.

ALIGNMENT AND ENGAGEMENT

Every company wants to be at the top of its industry’s best-performing list, but many do not use the multi-decade record of accomplishment, innovation, growth and, yes, setbacks. That’s precisely the DNA that drives innovation and growth. Heritage is a differentiating factor.

Within a company, heritage builds the past platform for future success. We all want to be a part of something bigger than ourselves. And we want more than just a job. Heritage management conveys the values of an organization and its founding story of risk-taking, innovation, best-in-class customer service and focus. That story aligns and engages the troops internally; it also sends them over the top of the competitive trenches. That heritage management boost can help spell the difference between building an even better future and living in the past.

ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

LEADERSHIP AND HERITAGE

History

Comprehensive record of leaders, actions, inactions, decisions, events and results

Making History

With a firm sense of both history and heritage, strong leaders attempt to make history and intentionally select heritage to carry forward



Heritage

What organizations consciously and unconsciously carry forward: belief and behaviors, and their underpinning stories

Heritage Management

Using heritage to help manage priority objectives, starting with the future and working back

The artifice of timelines and how history often is taught as a chronological series of people and events encourages us to mistakenly see history as linear. More powerfully and accurately, we might instead think of it as a complex web of repeating, intersecting and interdependent patterns. Out of respect for this complexity, strong leaders turn to history and heritage, recognizing how tough it is to accurately see the present, and tougher still, to truly “make history.”

MEETING THE CHALLENGE

When it comes to melding your future with your past, there is no time like the present. These days, the alternative investment industry is bucking a fair amount of negative headwinds. Despite the more than fourfold increase in hedge fund assets under management since 2009 to nearly \$3 trillion, continued scrutiny of industry fees and practices is tarring the industry with an awfully broad brush. The recent decision by the California Public Employees Retirement System (CalPERS) to pull out of hedge funds, after leading the institutional field into hedge funds more than a decade earlier, is another negative hanging over the sector.

ALTERNATIVE INVESTMENT HERITAGE MANAGEMENT

On the private equity front, leading firms are sitting on billions of dollars raised—much of it coming from sovereign wealth funds—and looking for opportunities to invest. The amount of funds raised increases year over year. The industry is still well below the nearly \$540 billion raised in 2008, most of it before Lehman Brothers' bankruptcy sent the global economy spiraling into recession. And while many deals struck at the height of the pre-crisis frenzy eventually worked out well, the 2014 bankruptcy of the biggest ever private equity deal—2007's \$45 billion Energy Future Holdings transaction—was a reminder of the risks inherent in private equity transactions.

Another challenge is the growing competition in the alternative investment field and the consequent need for differentiation. Some hedge fund clients told *Institutional Investor* magazine during a May 2014 conference that they were taking a fresh look at smaller startups in the field because too many of the largest funds appeared beholden to sovereign wealth giants. And for the first time, according to Private Equity International's 2014 rankings, the 50 largest private equity mega-firms raised slightly less than the next 250 players combined.

It is hard to overstate the contributions the leaders of the alternative investment industry have made to the creation of wealth and prosperity in our era. However, without effective heritage management, many of these same leaders are justifiably frustrated that their stories aren't breaking through societal narratives that too often cast the entire industry in an unflattering light. "Leveraging your heritage is not in itself a silver bullet that will solve all your problems," says The History Factory's Weindruch. "But marshaling your heritage today provides you with a key differentiator for the future." Let heritage management be the key to leveraging your narrative of success.

FOR MORE INFORMATION,
CALL THE HISTORY FACTORY AT (703) 631-0500
OR VISIT US ONLINE AT WWW.HISTORYFACTORY.COM

The History Factory is a heritage management firm that helps today's leading global corporations, organizations and institutions discover, preserve and leverage their unique history to meet today's business challenges.

Since 1979, we've helped tomorrow's leaders use yesterday's accomplishments and lessons learned to gain competitive advantage—today.

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