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Newsletter of Horizon Cash Management LLC

FALL 2014

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ASSET ALLOCATOR ROUNDTABLE: WHY INVEST WITH A NEW MANAGER?

By Ginger Szala

To the unschooled, emerging commodity trading advisors evoke thoughts of a lone trader setting up shop, hanging out a shingle and hoping to raise assets. But that's an old view of emerging managers, who today often have long and strong trading pedigrees, are well financed and surround themselves with key personnel to run the business. And these changes could be the sign of the times with the billions of dollars available for investment that won't settle for anything less than a trader who also is smart in business.

With overall CTA performance struggling the last several years, allocators are looking to extend their bench, and go deeper to find the newer talent. Focusing on emerging managers, this Horizon Cash Management Special Report begins with a roundtable of four industry veterans who specialize in finding new talent: **Esther Goodman**, managing director of Conyers Group in Greenwich, CT, formerly was with Kenmar Group, which was a pioneer in developing new talent, finding that there was a "sweet spot" to performance for traders of a certain size; **Tom Broadbent**, senior managing director of Revere Capital Advisors, in New York, which has specialized for years in finding and developing new talent; **Annette Cazenave**, principal of Cazenave Investments LLC, in Chicago, has worked with CTAs for years in an allocator capacity, and can spot new talent like the best scout; **Michael Dubin**, managing director of Silvercrest Asset Management, has 25 years in the business finding talent. We asked them to provide insights on this group of traders and how to spot, and exploit, budding talent.

ESTHER GOODMAN is managing director of Conyers Consulting Group and has spent 35 years finding, developing and promoting trading talent. Previously she spent 27 years with Kenmar Olympia Group (formerly Kenmar Group) as chief operating officer and senior executive vice president. She also spent three years as vice president of marketing for Commodities Corp. She received her BA from Stanford University in child psychology and is founder and board member of the Stacey Joy Goodman Memorial Foundation, a non-profit organization that focuses on raising funds for finding a cure for juvenile diabetes.

MICHAEL DUBIN is managing director of Silvercrest Asset Management, a $17B wealth management firm managing private investor and institutional portfolios across all asset classes, and he heads up the alternatives group. He has over 25 years of hedge fund experience. Previously, as a partner at Powers & Dubin for more than 15 years, he developed their expertise in hedge fund-of-funds. Prior to that he served as president of both Morgan Stanley/GFTA and GFTA Services. He authored *Foreign Acquisitions and the Growth of the Multi-National Firm*, and lectures frequently on alternative investments and financial markets issues. He has a doctorate of Business Administration from the Harvard Business School in International Finance and a BA from Yale University in Molecular Biophysics and Biochemistry.

TOM BROADBENT is senior managing director of Revere LLC. His oversight and focus is on the development directive and investment success for emerging hedge fund managers and Investors alike. Tom has more than 20 years of global alternative investment experience building business value, innovating and capturing results.

ANNETTE CAZENAVE is currently the principal of A. Cazenave LLC. A senior executive with over 32 years of comprehensive business management experience in alternative investments including mutual funds and the planning, establishment and successful management of the growth of business ventures on a global scale. She has a BA from Drew University and an MBA in International Management, Thunderbird School of Global Management.

Q: How do you define an "emerging manager"?

Esther Goodman, *Managing Director, Conyers Group:* I define an "emerging manager" broadly, to include managers who are new to managing customer money as well as managers who may have long records of managing money but at low AUM levels. I am reluctant to put specific numbers on AUM or years in this business because it can be limiting and exclude managers who belong in the "emerging" category. However, if pushed to the wall I would say an emerging manager is one managing less than $250 million AUM.

Tom Broadbent, *Senior Managing Director, Revere Capital Advisors*: There is a fairly wide variation in definitions for emerging hedge fund managers/CTAs held by the investment community. From our perspective, we classify an emerging manager using two standards, a combination of the age of fund and AUM. Once a manager exceeds $500 million AUM, they are beginning to outgrow our emerging manager investment mandate. Independent of AUM, we feel that as they complete their fourth year of performance and having established themselves, they are graduating from the emerging hedge fund manager ranks. These factors, in addition to our proprietary decision process, help set the course in determining when to exit, reposition the investment, and reallocate to another emerging manager.

Annette Cazenave, *Principal, A. Cazenave, LLC*: An emerging manager can be defined in a composite that typically include assets managed and the tenure of that function. So, an entity/individual who is managing less than $500 million +/- and/or has less than a 5-year track record. I do know allocators, however, who consider "emerging" as a manager with less than $1 billion and a 10-year track record. Interestingly, I've heard these referred to as "evolving" managers. It is important to distinguish between the emerging entity and the experience of its investment principles: some very seasoned managers will leave one firm and start another. Regardless of experience, the new entity/effort is still "emerging."

Michael Dubin, *Managing Director, Silvercrest Asset Management*: We tend to focus on what we call smaller managers, which we group on the $100 million to $1 billion AUM range. Many of these would also be considered emerging managers in most definitions. We can include start-ups for managers with strong backgrounds in their area of expertise.

Q: Why do you include emerging managers in a portfolio?

Broadbent: Revere focuses on, and specializes in emerging hedge fund managers including Global Macro and CTAs. Our investment thesis holds that emerging hedge fund managers outperform mature hedge fund managers. Our goal is to identify and invest in qualified, high quality early stage managers. We have created the Revere Emerging Managers Founders Fund as a structure to invest in what we would classify as "best idea" and "high conviction" managers. The goal is to manage an emerging manager hedge fund of fund that is diversified, one that outperforms widely recognized hedge fund benchmarks, and endeavors to moderate drawdown events. We align with investment managers who are unencumbered and flexible so that they can take optimally sized investment positions.

By doing our job correctly we are able to drill down and locate emerging managers that are potential standouts among both emerging and mature hedge fund peers. They are smart, focused and nimble, able to fully execute their investment strategy quickly, get in and out of entry and exits better than larger managers. People, process and psychology will determine persistence, passion and performance. [When] you get it right, everybody is rewarded.

Independent research shows outperformance by emerging managers. In fact, our experience highlights outperformance sometimes 300-600 basis points above other established managers or fund of funds. We are designed as an organization and sized right to tackle emerging managers. It is in the DNA of our team; it is what has differentiated us. Frankly, not a lot of allocators are fully committed or capable of making expert investments in emerging managers. It requires a lot of work but if you do it well you are rewarded.

Cazenave: Depending on the strategy, emerging managers very often produce better returns and have more favorable risk/reward profiles than larger traders.

> [Emerging managers'] incentives are more in line with investors in that most of their income is coming from incentive fees, not management fees. *–Michael Dubin*

Dubin: We look for these managers to have a niche strategy that can generate meaningful alpha. Having managers that can generate alpha in the 5% plus range can make an important contribution to a portfolio of hedge funds, as long as the manager's returns do not have a strong beta factor as a driver. We think smaller managers have numerous advantages over larger managers: they are investing in niche strategies in generally less efficient sectors of the markets, so there is reason to expect they can continue to generate independent sources of return (or alpha); they are more nimble in managing their exposures; their incentives are more in line with investors in that most of their income is coming from incentive fees, not management fees.

Q: What methods or tools do you use to find emerging managers? What criteria do you use to drill down?

Goodman: Finding emerging managers is a matter of networking like crazy - with prime brokers, attorneys, auditors and administrators, making sure they know you would like to see information on any/every new manager they come across. Other good sources include CIOs and due diligence analysts at family offices and FOFs as well as direct investors, many of whom meet emerging managers but may not have a mandate to invest with them. I would also talk to your managers, who may be in contact with new managers. Of course, conferences can be a great resource, especially those focused on emerging managers, such as CTA Expo.

Broadbent: Early on, Revere was seeding emerging hedge fund managers, so managers saw us as a capital source and opportunity for growth. New managers know of our reputation and often will call us. Also we are based in New York and London, which give us good vantage points to discover new managers. Our team always has the ear to the ground, we have positioned ourselves in the flow of know, with news releases, conferences, cap intro teams and we keep aware of new launches. We have a good reputation and remain accessible so we are well positioned.

Over the past four years we have identified and tracked over 1900 emerging managers. This work is captured and further analyzed from which the Revere Qualified Emerging Universe has been created. Currently we have high conviction ratings on 58 emerging managers that make up the REMQU. To put this in perspective, there are approximately 250 to 300 new emerging hedge fund managers that come to market every year. We conduct comprehensive investment, operational due diligence and manager background checks for every manager.

> They need to have engaged with good partners that will support the business and fund, such as an auditor, counsel, custodian, administrator, prime brokers, etc. *–Tom Broadbent*

Cazenave: I have found the best source is actually word of mouth; speaking to other allocators, IBs and brokers. With budget constraints, emerging managers usually don't have a marketing team, don't always attend conferences etc.

In analyzing an emerging trader, my top four criteria are: 1) Strategy: Is it different? If so, how? 2) The principal(s)' experience prior to establishing the emerging entity, 3) Organizational structure; are they set up to run a business? and, of course 4) Performance.

Dubin: We get many of our good ideas on smaller or emerging managers from the institutional investors we work with. We also tend to look for certain characteristics for managers that we want to add to a portfolio, so we can often find feedback from broker dealers or cap-intro groups useful in sourcing.

Q: Is there more/different due diligence you use between an emerging manager and established manager? For example, do you ever do forensic due diligence on emerging managers?

Goodman: The due diligence process is the same for all managers, however the bar might be different for an emerging manager than an established manager. Said another way, you have to look at an emerging manager through a different set of eyes.

Many emerging managers have little or no history managing customer money, but do have a proprietary track record. If this record has not been prepared or audited by a known/reputable firm, I would want to verify the record myself. As always, trust but verify.

References are probably more important when evaluating emerging managers, most especially references and comments about the manager from one's own sources rather than those references supplied by the manager. It really helps to have a network of industry sources you can trust and whose opinions you respect.

Broadbent: The due diligence is the same with the exception that with emerging managers more attention is given to observing business structure, fund launch, organizational viability, entity risk and the teams capacity. Just like in any due diligence process, there are multiple steps before an investment is made, but sometimes we can tell right away that we'll pass on a manager.

Yes, we use forensic due diligence, and in our experience, the best emerging managers are roll outs from existing funds. We really dig into trades, prior track record, references and personal background checks.

Cazenave: There are additional considerations when conducting due diligence on an emerging trader. Established managers usually have in-house personnel to fulfill compliance, mid-office, and business management functions. An emerging trader may outsource some or all of these functions. It's important to understand the roles fulfilled by vendors and the expertise of those vendors. Also who manages/coordinates the vendors? How much of the Principal(s') time does that require if any? For emerging traders there needs to be assurance that, in addition to an effective trading operation, the business is well run. Have they developed a business plan? How do they prioritize investing/spending? Does infrastructure, R&D or marketing get the first available dollar?

Dubin: We believe that Forensic ODD (operational due diligence) makes a valuable contribution when evaluating a smaller/emerging manager. We are in fact planning to start a new multi-manager product that allocates to about a dozen smaller managers, with each one going through a Forensic ODD review each year. One of the key differentiators of Forensic ODD versus the standard ODD is the emphasis on the key man and in particular, his or her sources of income and individual accounts. A lot

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An Inside Look at Emerging Managers

By Ginger Szala

It might seem that with investment coffers overflowing, and the hunt for talented traders attracting new, larger allocators, emerging commodity trading advisors might easily acquire six figure allocations with sturdy promises of more to come. But that's seldom the case. Yes, there are greater numbers of allocators with deeper pockets who actually search especially for new talent. But like that kid on the baseball diamond, it's not easy being noticed by the scout or, even if it happens, being sent to the farm team not to mention to the big leagues.

Many of today's allocators come in the forms of huge firms that crunch data and eat CTAs for lunch. A 2013 survey by CTA Intelligence found the greatest inflows of investments would come from high net worth individuals, private bank platforms and family offices. Sadly, though, even a CTA with stellar performance might not get a glance because he or she is 1) too small, 2) doesn't fit the portfolio, 3) isn't diversified enough, 4) is too diversified, 5) doesn't have the right business set up, 6) can't explain the program in plain English, 7) none of the above or 8) because…

Also, the competition is fierce. Of the 200-250 managers a year Revere Capital Advisors LLC might keep close tabs on, only about 75-100 get reviewed by the firm or may get an introductory call or meeting. Of that group, between 50-75 might get an on-site visit, and of that only 9-12 might get an investment. And this is a firm that specifically invests with emerging CTAs and has done so for years.

One problem new traders face is "they generally don't have any idea how they are different, or how they add value because they haven't looked at 50 to 100 other traders," says Frank Pusateri, who with his business partner, Bucky Isaacson, run the CTA Expo that caters to emerging traders and allocators. He highly recommends they do their homework and read up on successful traders and research databases.

Although the bad news may be the hurdle of successfully getting an investment is high, it's certainly possible, even within the first three years of trading. In fact, one reason RCA has a special emerging manager fund is they've found the best performance comes in the early years. According to a 2012 PerTrac report, funds under two years had a compounded rate of return, on average, of 14.93% with a standard deviation of 6.37%. The compounded ROR for funds two to four years old dropped to 11.19%, with a higher SD of 6.99%. Funds older than four years had a compounded annual ROR of 9.85%, with a 6.80% SD.

Dovetail this with a fund's size: Funds less than $100 million had compounded ROR of 12.50% with a 6.92% SD. The performance dropped to 9.95% compounded ROR for mid-sized funds of $100 million to $500 million, and a SD of 5.94%. Large funds of more than $500 million in size had a compounded ROR of 9.16% with a 5.95% SD. Surely this shows that firms hunting for new talent are in it for performance. Younger talent is hungry, more aggressive and more willing to take risk.

The advantage of emerging managers, according to RCA, is they have a "nimble investment approach," have "greater ability to generate alpha," and are "performance focused." In addition, RCA notes working with emerging managers also means direct access to key decision makers, enhanced transparency, greater liquidity, and more flexible fees and negotiable terms.

This isn't to say allocators are ignoring the Tudors of the world, but some realize the advantage – and smart business sense – of getting in early to capture the best performing cycle of returns.

As noted in the allocator roundtable, emerging managers have a broader definition than a new kid on the block. Some have been around for years and are starting their own business. With that in mind, to get inside the thinking and style of emerging CTAs, in this Horizon Focus Special Report we interviewed three emerging managers with different backgrounds and styles.

Esulep: Proof of concept is in the system

AUM: $82 million
Total return through August 2014: Permo Fund (started April 2008): 121.73%, Max Fund (started Oct. 2010): 50.78%
Compounded annual return: 13.21%, Max: 11.05%
Key correlations:
Vs. S&P 500: Permo: (0.11), Max: (0.45)
Vs. Barclay CTA Index: Permo: 0.06, Max: (0.10)
Vs. Barclay FOF Index: Permo: (0.27), Max: (0.66)

Looking for a challenge seems to be in Matt Peluse's DNA, and sometimes he's not even looking for it. Case in point, Peluse launched his CTA Esulep LLC in April 2008, just after the Bear Stearns' emergency sale and during what would become a financial crisis and global meltdown of epic proportion. Despite that volatility, Peluse's firm had a 15% return by year's end. And to date, the Esulep LLC's Permo Fund through August 2014 has a compounded annual return of 13.21% and is up this year through August 2014, 8.50%.

But that kind of pressure isn't unusual for the Princeton grad who decided to major in chemical engineering because it would be "challenging." Today he says that curriculum helped him learn how to manage his time as well as taught him team management as engineers always work in groups. The 6'5" Peluse also had to fit in five hours of practice daily as the right linebacker for the Princeton football team, a group that saw three of the linemen going into the NFL. His thesis was on designing rockets and he actually worked with NASA by helping design and fabricate thrusters and cells for tiny drones.

But that's not what he wanted to do for his life's work. He graduated in 2002 and the fallout from 9/11 still riveted the country, employment, and economy, yet he felt the pull of the financial markets. Through a family friend, he ended up on a trading desk of a Chicago prop firm, where he worked for a year and a half learning the markets and trading. When that firm closed he and some other traders started Green Light Trading, a small prop firm he ran for a couple years.

"I saw prop trading going different routes in 2007; computerization was taking over if it hadn't already," he says. "I saw a better opportunity in doing more with client money as more of an assets under management model instead of the world of prop trading and leverage."

Esulep's program trades only the S&P 500 options on futures. "I was always risk conservative," he says. "I'd rather go in and make $500 each and every day as a prop trader than have the $2000-$3000 swings these other guys did. I don't jump out of airplanes, I don't like gambling, casinos to me don't make sense."

Part of his quant mindset is researching proof of concept, which he applies to all aspects of his business. When he started

developing and testing the program, he found the S&P 500 was the optimal market, as it's the broadest, most liquid and least volatile of the U.S. equity markets, Peluse notes. Eventually he hopes they will expand to other commodity markets such as precious metals, currencies and energies, but as they are an emerging manager, he wanted to focus on a specific market to build a track record.

Using options provides them with the ability to adapt quickly, which also gives them better risk management. "We're able to define risk, define reward…definitely not as much of an options strategy as just a trading strategy. Like everyone else, we're trying to buy low and sell high, and we're doing it using options," he says.

The strategy is short-term, positions typically are kept on for 30 days or less, to adapt quickly to new market conditions. The system is rules-based in which signals are generated by the analytics. "Everything has a game plan," he says. "We develop a game plan before the month, we develop a game plan every day, we develop scenarios that say, if there was a flash crash, which actually happened in 2010, if our system goes down, if something happens in [Chicago, their home base]…we do everything to be prepared for what could happen."

In addition to adaptability, he says their risk management impacts the firm's timing. "We didn't realize starting in 2008 we would have a financial collapse at our doorstep. How do you plan for that?" But the risk management keeps them true, and where as they might have on 30-day positions, they put on hedges long before that, which can last 60-90 days. "People have looked at me and said, that doesn't fit the model of a trader, and I think, 'well it should.' It's putting on insurance [ahead of] core positions. Everyone does that in real life, for example, you buy car insurance before you have a wreck. Since it works in real life, we thought it would work in the investment world."

Today the firm manages just over $80 million, which might seem that Esulep is an established manager. But Peluse points out the definition of emerging manager has changed, especially after 2008 and 2009 when capital dried up. Key advice he would pass onto other emerging managers: 1) have tight risk management, 2) make a daily trading and execution plan, and 3) stay true to yourself. For example, as an engineer, he was a quant and knew systematic trading was the only way he could trade.

He adds that a manager needs to be able to articulate his or her system easily, as many CTAs "are mathematical guys who may have an awesome system but can't explain it to someone else." Obviously developing a successful system is core to being a trader, but seed capital and growing assets under management are necessary to run the business, and something that can be time consuming and frustrating. He recalls when Esulep first started, they were told they needed a three-year track record. Once they got it, they then were told they needed a five-year track record. Once they got this they were received by many allocators, but did meet resistance for varying reasons. "One person said they couldn't invest with us because we weren't diversified [because they only trade in the S&P 500]. They labeled us specialty, yet they would allocate to a manager who trades only six stocks," he says.

Esulep's extraordinary track record is near flawless, with a 12.74% drawdown in September and October 2008 being the only down months (due largely to a new overlay program that was taken off quickly). It's one reason the firm won the 2014 Pinnacle award for 3-year best Hybrid CTA. He's proud of that, but more proud that his strong discipline and caution have paid off.

Degraves: Down under but definitely on top

AUM: $20 million
Total return January 2013 through August 2014:
Global Diversified: 14.85%
Compounded annual return: 8.66%
Key correlations:
Vs. S&P 500: (0.11)
Vs. Barclays CTA Index: 0.02
Vs. Barclays FOF Index: (0.03)

Australia has been a breeding ground for successful traders for years, and like the surge of Down Under actors who have stormed Hollywood (Russell Crowe, Hugh Jackman, Nicole Kidman, just to name a few), so have commodity trading advisors in the managed futures arena.

One firm, in which managers learned the ropes at more established Aussie firms, is Degraves Capital Management. Named for the Melbourne street where the principals, over coffee, initially determined to establish the firm, Degraves was launched in November 2012 and began trading in January 2013, garnering an 11.49% return its first year, with a 3.03% return through August 2014.

The purely systematic program was developed by its three principals, Rabin Kaneyson, Leigh Fitzgibbon, and Maziar Nikpour. Kaneyson and Nikpour both spent time at hedge fund Boronia Capital, Kaneyson as head trader and Nikpour as a researcher and system designer. Fitzgibbon comes with a resume bordering on rocket science, having a PhD in computer science as well as building a real-time futures trading platform right after graduation. His expertise is in predictive modeling, where he's worked for the Santa Fe Complex Systems Research group as well as Portland House, one of Australia's largest private hedge funds, where he also worked with Nikpour.

Kaneyson learned the ropes while studying commerce and law at the university, and was so entranced with the markets, he "sat in most lectures with my market data pager glued to my hand – leaving class sporadically to make trades," he explains. "Over time I consumed as much reading material on trading as I could and ultimately became a convert to systematic trading." Working at Boronia Capital while finishing school solidified his decision to pursue the systematic method, as well as gave him insights into CTA trading operations.

Fitzgibbon's systems design and building, along with Nikpour's research and mathematical expertise and Kaneyson's macro trading knowledge makes up the platform for Degraves' short-term, fully systematic trading model that trades a wide swath – 30 markets – of financial and commodity products around the world, everything from the S&P 500 e-mini futures to the German bund, Taiwan 500 Index, global currencies, energies, grains, softs and precious metals.

Kaneyson notes because their system's intra-day short-term horizon, there are greater number of opportunities to exploit as well as they are better able to control risk in "difficult" circumstances. Diversification is a key tenet, both in markets and systems. He notes that "multiple parameter sets are used. The different parameter sets aim for different trading characteristics such as trading frequency and hold time. The advantage of doing this is that it is far less likely that over a given period, all parameter sets perform poorly."

Risk management is a key, with each trade having no more than 0.019% risk, so no one trade has a dramatic effect on the portfolio.

When asked to name their strengths, Kaneyson says that the ultra short-term method isn't reliant on long-term trends to be present. Further as they can react quickly and profit from moves in the opposite direction to a long-term trend, they are able to profit even when markets are flat over long periods of time. He says the strategy is designed to "profit in high volatility conditions where there are large directional moves."

This, as well as the system's robustness, were borne out in some heady trades last year. In February 2013, the system managed to gain more than 4% from short positions in the Dax and Eurostoxx. Later, the drop in gold prices, and resulting volatility, provided some nice returns in late 2013 and early 2014. Kaneyson adds that natural gas also has been profitable for the system, as it "traditionally has large directional moves intraday."

Overcoming the emerging manager hurdles perhaps is even greater for the Degraves team, says Kaneyson. Not only does the current environment in raising assets in the emerging manager space provide a challenge, but "couple this with a manager located in the far reaches of Australia," he says. "The likelihood of face-to-face meetings in Australia with offshore investors is therefore quite limited, as they generally shy away from trips south of Singapore," he adds. With the onus on Degraves, they schedule multiple trips a year to the U.S., Europe and Asia. No doubt that will rack up frequent flyer miles, as well as hopefully, AUM.

STRM Capital Management: Short-term contrarians equal early success

AUM: $7 million
Total return from March 2013 to July 2014: 11.53%
Compounded annual return: 8%
Key correlations:
Vs. S&P 500: (0.06)
Vs. Barclay CTA Index: (0.52)
Vs. Barclay FOF Index: (0.17)

Being contrarian is in the nature of STRM Capital Management's co-founders Larry Rascio and Mark Shukovsky. Whereas many commodity trading advisors who are systematic trend followers hold trades multiple months, STRM (Systematic Trading Research Method) typically holds a trade five seconds to two hours, and at most 24 hours. Their tight risk management includes putting on stops as well as going flat before big government reports. So far the systematic emerging manager has done well, with its first full year of trading 2013 performance at 15.82%, although through July 2014, performance is down 3.70%.

The paths these two former investment bank traders took to eventually launch STRM in 2012 also was contrarian early on. Although Shukovsky studied finance at Dartmouth and then went to work on Wall Street, Rascio had a different start. He was in med school at Harvard when one day he decided medicine didn't hold interest for him any more. Leaving Boston behind, he took a temp job at Credit Lyonnais ("basically I was a secretary") on the interest rate derivatives desk where he learned the ropes of the business. CL took him on full time and one day six months later he answered a call to the desk from a search firm looking for the head trader. He threw (a smaller) hat in the ring and ended up going to Morgan Stanley to work as an assistant trader on its interest rate options, swaptions and swaps desk. Again he learned the ropes, and after three years, in 2000, he moved to Bear Stearns where he eventually headed up the interest rate trading desk. Although the job ended when the firm did, he made friends with a government bond trader on the desk, Shukovsky.

One day before the wild 2008 ride, Shukovsky turned to Rascio and said he thought the housing market was going to go bust and he wanted to short it. "But Bear Stearns was married to the housing market, so they wouldn't do the trade," Rascio says. Thus Shukovsky left Bear Stearns, convinced his "big short" was right (and it was) and started a firm MFVR Capital with a former Moore Capital trader.

But 2008 brought big changes to Wall Street and one was Rascio moving on after the Bear Stearns sale to head up interest rate trading at MF Global, where he was only a year ("they couldn't get their act together, it was still more of a futures shop.") Meantime Shukovsky's partner wanted to retire, so they closed the fund, returned the money and Shukovsky worked at Rosenthal Collins Group implementing models. Finally, Rascio and Shukovsky, who had remained close, decided to work together and launched STRM in October 2012, each bringing their own models and meshing and refining them for institutional markets.

STRM focuses on liquid markets: obviously interest rates, but also currencies, commodities and equities. And in blending the models, they fully understood the volatile market environment.

"We knew no matter how far we back-tested, certainly in interest rates, we were testing our models under bull market conditions because we've been in the biggest bull market since the early 1980s," Rascio says. "We knew at some point the market would turn and it would be a bear market for bonds. So we designed each model to recognize paradigm shifts and adapt to the changing environment."

For example, in June 2013, STRM was up while many other CTAs were down. "Because our model started to recognize in early May, after the May unemployment number, the bull market in bonds may be over," Rascio says.

All the models are multi-fractal as well, covering three time periods. "When all three of those time periods show an [oversold or overbought] level, we begin to enter a trade," Rascio says. "We're trying to capture capitulation moves in each market…..the first move, [traders] are not sure; the second move, they are thinking, okay, now. And the final third move is the capitulation that people throw in the towel. That's where our entry is, getting in at the third move. We think market behavior and human behavior is quantifiable, and you can extract repeatable and exploitable patterns out of it."

The multiple systems also look for discrepancy between markets, which can protect them in the long term. For example, in November 2013, U.S. bond markets spiked five points. But the short-term model looked at all related instruments and didn't see any other move, so it recognized it was an error or "fat finger" trade, which it was. So instead of buying, it sold. "That's the model that's trained to think like Mark and I would look at a trade," Rascio says. "We would have looked at all surrounding markets and said, 'this looks off.' It's our most complex programming model."

While many bank traders have struggled to succeed when striking out on their own, often due to not seeing the "flow," Rascio contends "flow" in their work at the big firms, including Bear Stearns, wasn't a factor in their trading.

Actually, he believes it is their bank trading experience that gives them a different perspective and edge, especially with his working on interest rate derivative desks and Shukovsky working on government instruments desks. "Maybe we've put different factors into our model that other CTAs haven't, given our experience in interrelated markets. But I really think it's the way we manage risk. It's the way we test: strict rigorous testing methods. We only come to market with [strategies] we have a high confidence level in," Rascio says. ●

So You Want to be an Emerging Manager?

By Ian Morley

I couldn't get into the lecture hall. It was built for about 150 and it seemed crammed with about 300 students occupying every possible place that they could sit or stand. The lecture was at the London School of Economics (LSE) and the subject was "Experiences and Job Prospects in the Hedge Fund Industry." As an LSE alumni and founder chairman of what became AIMA, the global trade association of the hedge fund industry, I had been invited to address the audience.

When I finally managed to explain that I was the speaker, a path was cleared allowing me to get to the podium.

Following an introduction I asked the audience why they all wanted to be in the hedge fund industry instead of curing cancer, designing better cities and saving the world from environmental meltdown?

The audience was incredulous. Was I some kind of philanthropic moron? Hedge funds were where the action and money was and they all knew this for a certainty. My simplistic view that we may need more doctors, scientists and engineers rather than more hedge fund (or emerging) managers was probably, rightly so, regarded as a duplicitous double standard of those who have lectured to those who have not, on why they should be happy with their lot in life. And this was back in 2006!

Today, I find myself increasingly attending conferences for hedge fund start-ups. The world has changed dramatically since those halcyon days of 2006 and not for the better for hedge fund start-ups.

While more money is going into alternative investments in general, not much of it is going to new hedge funds. The large ones continue to Hoover up most of the allocations. Regulation on a global scale, including compliance, anti-money laundering and governance have all moved from intelligent necessity to proscribed theology where breaches will be dealt with by the regulatory equivalence of public floggings and executions.

This not very attractive situation is the reality for start-up hedge funds. So what can they do to help themselves and what should they avoid? The views below are based on my 36 years of hands-on experience of building, managing, buying and selling such businesses.

Hedge fund businesses do not come from another universe. They fail for the same reasons that most businesses fail:

Too much optimism instead of reality in the business plan. Almost all start-ups under estimate how much it will all cost and how long it will take to raise money and to get to break even.

> Hedge fund businesses do not come from another universe. They fail for the same reasons most businesses fail.

Assume no income for at least two years. Maybe three. Can you fund that? Are you and your colleagues able and willing to live on lower salaries until the business is sustainable? Have you explained this to your other half, if you have one? Do not hire mates at their previous investment bank salaries. You and they have just become entrepreneurs. This is not a lifestyle subsidy program.

If you were the genius who made the money, and when you clicked your fingers all the logistics just happened, consider for a moment if you have the skill set to be a COO as well as a CIO. If not, you will need one. **Focus on the skills you have, not the arrogance of skills you don't.** Hire good people and delegate. Don't offer them huge salaries. Offer them as Churchill did: Blood, toil, tears and sweat and maybe some shares and freedom to run their own lives free of the old bureaucracy.

Look in the mirror and **ask yourself honestly if you made money in a large house because the deal flow was big enough for anyone to make a turn at the margin, or if you have some real skill that will thrive in a smaller environment?** Recent failures of the great indicate this can be the case.

Are you offering something new or are you another me too? Nothing wrong with that. McDonald's was another me too in the hamburger business and look how well they have done with a model that is better than others.

Focus. If this is a lifestyle choice and not a passion it will be recognized by skeptical investors. While you will need to meet much higher regulatory hurdles than in the past, this does not mean you must have a bullet proof infrastructure in place from day one that will satisfy any and all investors. The simple math is clear. Large investors are unlikely to invest on day one. A $5 billion fund will not invest in a $20 million start-up. They won't want to own more than 10%, or at maximum 20%, of any fund. And the effort of doing due diligence for a $2 million to $4 million investment that will not make any impact on their overall fund is not worth the time involved. That is why, with a few exceptions, all the big funds just get bigger.

None of the above means you can ignore infrastructure. It just means you can keep it proportionate and, wherever possible, outsourced and easily terminated until you need it all.

Friends and former colleagues will sadly let you down. Offers to help and invest made in the bar will rarely past the muster of daylight reality. The excuses are numerous. We need more time, you are too small, we don't invest in this style. They may be true, they may be just excuses. Either way, only count the investments in the bank.

I have only just touched the surface of things that you need to do and to avoid if you have decided to start up a new fund. Be passionate yet pragmatic. Focused with a sense of humor. Patient but energetic. And remember, despite what the delusional may say: You are not doing God's work on earth but you can still make a difference. Even as an emerging manager. ●

IAN MORLEY is a successful business Angel and entrepreneur. Author of Morley's Laws of Business and Fund Management and one of the leading global figures and pioneers in the development of the hedge fund industry. He ran one of Europe's first and oldest fund of funds and subsequently helped build one of Europe's largest privately owned fund of funds. He has helped build, manage, own, buy, sell and mentor start up businesses over the last 20 years. He founded and was elected the first chairman of what is today known as The Alternative Investment Management Association (AIMA) and trained as an economist at London School of Economics. He has served as a battle medic with a MASH unit and has completed 16 international marathons. He lives in London with his dog, two cats and sometimes his children.

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> The due diligence process is the same for all managers, however the bar might be different for an emerging manager than an established manager. Said another way, you have to look at an emerging manager through a different set of eyes. *–Esther Goodman*

of ODD work looks primarily at the firm and not the person. The feedback to the manager from the Forensic ODD is also an important factor in guiding the smaller managers toward improvements in the operational area.

Q: Given that emerging managers generally do not have the capital to invest in the operational infrastructure required to conform to industry best practices, where do you draw the line? Are there minimum operational standards you insist upon? Do you want to have an emerging manager to have a business plan or a working capital cushion to insure business survivability?

Goodman: I think you have to accept that most emerging managers must operate on a limited budget, but the operational infrastructure must be sufficient to minimize operational risk and to support the extensive compliance requirements in today's regulatory environment. There are many small changes an emerging manager can make to its operations that do not cost an arm and a leg but which can move the manager closer to industry best practices and thus provide early investors greater comfort. I would be very concerned about a manager who is unwilling to make reasonable changes that would significantly improve operational risk.

There must be a strong culture of compliance within the firm, starting at the top, regardless of AUM. This means using experienced attorneys to review documents (Offering memorandum, disclosure document, marketing materials, etc.). When I see marketing materials that make me cringe from a compliance perspective, that tells me the manager is more concerned about making money than doing things right. Today, unless you hire an experienced compliance professional, it is virtually imperative that you have a consulting relationship with an independent compliance firm or an attorney, which ensures you will be on top of regulatory requirements for CTAs or Investment Advisers and that, if needed, they will assist you in ensuring you are compliant.

In the final analysis, the manager should have a good understanding of industry best practices and demonstrate that they have made sensible business decisions appropriate to AUM and the complexity of the strategy.

Broadbent: The answer is yes, it's very critical. They need to have a business plan and have capital to carry the business as well as themselves. Equally important is that they need to have engaged with the good partners that will support the business and fund, such as their auditor, counsel, custodian, administrator, prime brokers, trading firm, and risk systems. Some emerging managers are overwhelmed when launching and with the ongoing responsibilities. Many are used to established support but when out on their own it is daunting. So they better have working capital and endurance. Revere can lend a hand.

Cazenave: It's a balance and often a judgment call, between AUM and the sophistication (or not) of the infrastructure and the trading strategy. If a manager has $200 million AUM and has only basic infrastructure or outsources the basic infrastructure and is high volume, it would raise a flag. The same amount of assets and infrastructure with a different trading strategy may not be cause for concern. Operational standard depends on their business. One key component I look for is if the operational infrastructure is scalable/fungible without too much disruption. Ideally we want a business plan and working capital and ask: Whose capital is it? The investment and working principal(s) or an equity partner only? Besides a stellar business plan, is the drive there to weather any delays/setbacks?

Dubin: We would not expect the emerging or smaller manager to have the same level of operational expertise or build-out as the larger managers. So the standards would be less stringent for the smaller managers. We would not expect a manager with $100 million to have, for example, the same number of in-house compliance personnel as a $1 billion manager. This is where the Forensic ODD can help set targets for the smaller managers, and if the review is done annually, these targets can be reset on each review to higher standards each year. Part of the ODD review includes a model of the firm and what is required to maintain profitability. This in turn is a function of what the principals take out of the firm each year and how much is plowed back into research and operations. These simple models can be quite useful in evaluating the business risk of the manager.

Q: What red flags do you have to avoid managers (either before or while being invested)? How much of your decision making is based on a gut feel?

Goodman: Without a doubt, at the top of the list is CHARACTER. Trust your gut here. If you have any concerns about the manager's character, walk away! Character concerns always trump quantitative results. It is far better to miss a great manager than to invest with a manager who turns out to be a bad apple.

Other red flags:

- Lack of clearly articulated investment strategy and/or risk management policies. This is a huge problem for many emerging managers. A good track record isn't enough. You have to be able to explain how you make money, why you make money, when you make money and when you lose money. You have to explain what you do to manage risk.
- Unknown, poor quality service providers.
- Insufficient working capital to survive initial low AUM or periods with no incentive fee income.
- Performance record that is inconsistent with the strategy as explained.
- Lack of commitment to invest in the business. The manager should be reinvesting in his business as AUM grows, continuously improving all aspects of the business from research, operations, marketing/sales and client support to upgrading service providers and improving internal compliance capabilities.

I want to invest in emerging managers through a managed account, either my own or through a third party platform that provides full position transparency. There may be some exceptions to this "rule," but very few.

Broadbent: There are a number of big red flags that we avoid such as prior or current investigations, evasive communication, de-

layed or inconsistent reporting, surprise on performance or drawdowns. We want them to have a good operational base, good systems, redundancy, disaster recovery plan and a consistent investment approach.

There is a difference between finding emerging managers and investing in them. It is not a "Gut" decision but a "Go" decision. You really find out how robust your selection process is and how good the managers is only when you actually invest.

Cazenave: Before: Any red flag raised during due diligence specific areas described above. While being invested: There is daily opportunity to spot any weaknesses or pitfalls. This applies to well-established managers as well as emerging.

Gut feel? One can document hard facts and statistics up to a certain point. The balance is solely dependent on gut feel, judgment, experience - the unquantifiable measure that will either indicate go or stay or come back later. Some have said the decision to hire a manager is 20% numbers and facts and 80% art.

Dubin: Red flags are generally well known factors, so we don't need to spend too much time talking about the obvious ones. However, it is a more interesting question when you find a series of "yellow flags," and it is that circumstance that often lead us to defer allocations to a particular manager. Some of these include the "key man" provision, that is if investors couldn't redeem if the key man was to leave the firm. Another would be concentration of ownership with one person. This is bothersome as other persons wouldn't have a say in important decisions. We also don't like concentration of cash at a prime broker, as opposed to sweeping it into a bank account. As the universe of smaller managers is large enough, we can afford to move on to other managers and pass on an allocation where there are multiple yellow flags. Gut feeling is always important in judgments about the manager's edge and commitment to the business.

Q: Once you allocate how do you monitor performance to insure against style drift?

Goodman: I can't imagine investing with emerging managers except through managed accounts (or a third party managed account platform) – it is the only way you can truly control operational risk and monitor trading and performance. Before investing with a manager, your due diligence should be extensive enough to give you a very good picture of what to expect in a given the market environment, in terms of trading activity, position size, portfolio composition (diversification, concentration, specific instruments), performance (return, risk, benchmarks relative performance). Investing with emerging managers does not have to be a risky proposition, as long as experienced and knowledgeable professionals unfailingly monitor trading and performance from a qualitative and quantitative perspective at least daily.

Broadbent: We follow them closely and have good transparency. A combination of good communication and updates help assure us they follow investment expectations. Typically style drift is not a problem with the emerging managers that we invest with.

Cazenave: It is optimal if the clearing broker is able to give the client access to real time positions and margin requirements. This is important to note adherence to style AND risk management policies. If not real time, then careful review of statements each day are critical to monitoring a trader. This applies if one has a managed account. If one is invested in a fund, it will depend on cooperation of the General Partner to allow this level of transparency.

Dubin: Monitoring performance is quite important. We benchmark a manager's performance against several factors, including selected benchmarks, peer groups and position based information. We listen carefully to the manager's description of the strategy and how that is implemented through individual positions (which we review regularly), and we expect performance to be in line with the strategy as described. Where there is a level of deviation that is not expected or not explained well, that is cause for re-evaluation of the allocation.

Q: How much time do you give emerging managers if performance is lackluster? Is criteria different for an established manager? Do you inherently spend more time with emerging managers, especially during rough periods, than established managers?

Goodman: The amount of time you give a manager to perform really depends on the strategy, the market environment and your expectations for performance given all that you know about the strategy. If the manager is significantly underperforming its peers or the benchmark(s) you've chosen as the best one(s) for that manager, I would dig in and try to understand why the manager was losing money. Was my initial due diligence wrong? Has the manager been "tweaking" the trading system? At some point you have to question whether the manager is as good as you had hoped.

> "Often, your greatest value to the manager is not the allocation you've made, it is the business advice and support you can provide.
> *–Esther Goodman*

Yes, you do spend more time with emerging managers than established managers. Oftentimes, your greatest value to the manager is not the allocation you've made, it is the business advice and support you can provide. We all know that it requires much more than a great system or a unique ability to trade well for the manager to be successful. It is incredibly stressful managing other people's money – it is much more difficult to handle losing other people's money than your own. Adding to the pressure is dealing with the day-to-day issues of building and running a business. Hiring, managing and firing staff; handling regulatory audits and compliance demands; marketing and sales; and, finally, dealing with investor demands and easing investor concerns during losing periods. These are all things with which an emerging manager must contend. As an investor in emerging managers, I want to be there to help ease the burden of building an asset management business as much as I can.

Broadbent: Lackluster performance is a relative term and could be a function of market conditions and not the manager. Performance and under performance has to be constantly examined. Understanding the "Why?" should be no different for emerging or established managers. We spend time with our emerging managers before and after we invest to understand and set expectations.

Cazenave: If performance is lackluster, is it still within previous/expected parameters? Are similar strategies/managers experiencing the same? Have there been any organizational changes? If the answers are yes, yes and no respectively, it's best not to be reactive and give it some time. Also,

make a phone call and express the concern and see what kind of answer you get. Criteria is not different then for an established manager. And yes, we do inherently spend more time with emerging managers, especially during rough periods, than established managers.

Dubin: We tend to be longer-term oriented in our allocation decisions, and we try to allow a reasonable band for volatility around an expected rate of return. If the manager is down for a period in which the benchmark is down and the peer group is down, we are not likely to redeem if the manager's security selection and risk management are consistent with past descriptions. We would tend to size the position from the start to allow for some level of volatility. It is probably safe to say that more time needs to be allocated to smaller managers in their down periods than to larger managers in the same circumstance. We simply need to take a more in-depth look to make sure there are not factors at work that are inconsistent with our understanding of the manager's processes.

Q: What would make you pull your money?

Goodman: Performance inconsistent with expectations: Returns that are better or worse than expected, risk or volatility that is greater, or even less, than expected. As I mentioned, your initial due diligence should give you a pretty clear picture of what to expect. If reality doesn't match up to your expectations, either your analysis was wrong or the manager has changed something. Style drift!

I would also pull my money if the manager was not growing its operational infrastructure as AUM increases. You need to grow your operational capabilities fast enough to stay ahead of AUM growth.

I would be concerned about constant changes or tweaks to the investment strategy – especially technical/systems traders who may be constantly curve-fitting in response to losses.

Finally, and most importantly, anything that alters in a negative way my judgment about the manager's character would cause me to pull my money.

Broadbent: We would redeem if they've outgrown the mandate of an emerging manager…such as their assets under management grew so much they no longer are an emerging manager. Our managers know that when we initially make an investment.

Cazenave: If they raise money too fast, I might scale back. If there are too many operational problems, especially recurring; unexplained losses OR unusual gains; breach risk management etc.

Dubin: Volatility in line with expectation would not be the prime reason for pulling an allocation. If the manager's positioning starts to pick up beta exposure to areas we are not comfortable with, or if the manager seems to be shifting away from where his initial edge seem to be focused, then we are more likely to consider redeeming.

Q: On the other hand, what would move an emerging manager to the next level? If they are no longer classified as an emerging manager do you change your portfolio allocation?

Goodman: This is really a judgment call that requires weighing several factors against each other: The specific strategy, AUM, business infrastructure, the PM's experience prior to founding the Manager and how seasoned the PM and others in the firm are. If the PM's background has tested him/her in ways that add to their credibility and seasoning as an asset manager, you might move the manager to the next level more quickly.

Every manager needs real, hands-on, trading/market experience. Managing customer money is very different from managing your own money; dealing with customers adds a whole other dimension – and stress factor – to the equation. I want to see how the manager handles losing periods.

Of course, the operational risks of a manager must be clearly under control before moving the manager to the next level. While the manager is small, we understand that it is near impossible to operate in strict accordance with industry best practices given the expense involved. Nonetheless, we expect to see a culture of compliance within the firm, with operations and compliance procedures that are strong and effective, consistent with AUM and the complexity of the strategy. Over time, as AUM grows, the manager should be continuously improving its operational/compliance infrastructure, and moving closer to industry best practices. I would want to see the manager investing in the growth of the business.

I would not remove from a portfolio a successful manager that has grown from emerging to established unless the fund or account has a mandate that requires the manager's removal.

Broadbent: Yes, it would be a function of assets under management at $500 million and a 4-year plus track record. We are facing this situation now, so as we speak we are taking action to begin the redemption process and reallocate to new managers. Currently, we are examining how to address the investment lifecycle opportunities associated with our successful graduated emerging managers.

Cazenave: Both of these would move them out of "emerging" classification. As in the first question, there is a general definition of "emerging" which can be followed by "evolving." Both AUM and length of record are the key elements in the definition. If the manager continues to perform within parameters/return profile and continues to contribute to the overall portfolio, they would likely maintain their allocation, or maybe receive an additional allocation.

Dubin: We have generally set an upper limit of $1 billion to $1.5 billion in our definition of the smaller managers. But the definition really depends on the strategy and the markets in which the manager has its edge. An important source of our attraction to the smaller/emerging manager is their ability to generate returns in less efficient sectors of the markets using their niche strategies. Small size is critical to the success of these managers. We ask the managers themselves to define the appropriate size that each can manage without sacrificing liquidity. When the manager approaches that size, we expect that the manager will close or otherwise limit the AUM growth. If they grow beyond those limits, then the strategies generally need to change to accommodate the larger trade size. So it is very strategy and sector specific. Clearly some strategies only work well with large size, so we prefer to work with larger managers for those strategies. ●

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BOOK REVIEW

Taking a Cue from Great Leaders and Businesses

Reviewed by Andrea Cosentino

Leaders Eat Last: Why some teams pull together and others don't | Hard cover: $16.40
By Simon Sinek | 240 pages | Penguin Group

The most important reason for an emerging manager, or any professional, to read Simon Sinek's "Leaders Eat Last" is that it will encourage you to look at leadership from a different perspective. The book is a short read packed with great information, and I highly recommend anyone leading a company, team or even a household to pick up the book.

Trained ethnographer and author, Sinek became popular for his first book, "Start With Why," published in 2009, followed by his TEDx Talk "How Great Leaders Inspire Action," which ranks as the third most viewed video on TED.com with over 14 million views. In his 2014 book, "Leaders Eat Last," Sinek taps into lessons from the United States Marine Corps, in which one tenet is "officers eat last," and is a core strength of the Marines, according to one general.

"When you go to any chow-hall anywhere in the world, you will see the Marines line up in rank order – most junior first and most senior last. It's not in any rule book and no one tells them they have to. They do it, because that's how they view leadership. We view leadership as a rank; they view it as a responsibility," Sinek said.

It's these lessons from the military, true stories about failing businesses turned hugely successful and the chemical makeup that makes humans tick, that Sinek weaves together to provide the reader with tools to not only become a better leader of a team, but a better person to those around him.

Early on Sinek explains why "fundamentally a leader is like a parent." Just like becoming a parent is a choice, being a good leader is also a choice. During an interview on "CBS This Morning," Sinek explained, "Having the child is the fun part. It's the raising of the child, that's the hard part," he said. "It's exactly the same (with leadership.) Starting the company, that's the fun and exciting part. But actually becoming the leader and choosing to put peoples' interests before your own, that's a choice."

From the very first chapter, Sinek captivates the reader with a story from the Marine Corps, one of the oldest, well-respected and finely run organizations that's been "in business" since 1775. This story illustrates 22 men on a Special Operations Force making their way through a deep valley of the mountainous part of Afganistan in the dead of night. Flying above the cloud cover was "Johnny Bravo" in an A-10 aircraft waiting for the call if his help was needed on the ground. Across the radio he heard three dreadful words, "Troops in contact," and instantly had to use the skills he had only practiced in training. In 2002, the avionics in the aircraft were not as sophisticated as they are today. The instruments he had couldn't stop him from hitting the mountain walls and there was nothing that could prevent him from accidentally killing one of his men. So on that dark night in Afghanistan, Johnny did some quick calculations in his head and started counting out loud the seconds he had to dip beneath the cloud cover, fire at enemy targets and pull the aircraft up before he would hit the valley walls. "One one thousand, two one thousand, three one thousand…" That night, Johnny Bravo and twenty-two men went home alive.

> When an organization fills itself with leaders rather than managers, and treats each other as family rather than employees, a unity can be built.

Unlike most professional settings, this true story deals with life and death. Although extreme, this story shows that when an organization fills itself with leaders rather than managers, and treats each other as family rather than employees, a unity can be built that will not only ensure protection from outside dangers, but a team is created that possesses the willingness to give up their lives for each other.

But a leader can't just tell a team to trust each other, an environment must be created in which trust and cooperation are felt. When a team feels safe and dangers from within become non-existent, the focus becomes to look out for one other and to work together to ensure everyone succeeds. What leader wouldn't want to invest the time into building a company like that?

Included in the book is a real world example of a business acquired at its lowest point. Not just the lowest valuation of the company but the lowest point for trust and morale of the organization. In this story, the CEO listened to every employee describe the problems they felt plagued the company. During this exercise, the team's morale was lifted because they felt "heard" and the CEO benefited from hearing firsthand from the people in the trenches. As the CEO began to develop solutions to these problems, the organization began to turn around and the entire team, from the janitor to the CEO, was fully committed to ensure these solutions worked. Sinek also spotlights a common habit of companies when great lengths are put towards personnel and budget cuts as a "go-to" solution for difficult times versus the time and effort a leader could devote to work with the people who make up the firm.

In an interesting twist, Sinek also delves into the chemical make-up that physically influences every one of us. These chemicals – endorphins, dopamine, serotonin and oxytocin – have been a part of mankind since the Paleolithic era and aid our success as humans to survive. Most interesting is how often Mother Nature is overlooked when running a business. He notes the importance of leaders to understand how these chemicals affect human behavior, and highlights ways companies can create an environment that helps to produce "good" chemicals and reduce "bad" chemicals.

Sinek definitely has an optimistically human approach to leadership, and really, why shouldn't leadership always put people first? As he notes in the book, "The great irony of the corporate situation is that when leaders put employees' interests first, the staff will work hard and by default make the company more money." ●

"It has long been an axiom of mine that the little things are infinitely the most important."

- Sir Arthur Conan Doyle

It's the little things that count, Watson. Like an unexpected discovery of extra basis points on your bottom line. Or a seemingly simple thing like an individually managed account, so you stand alone, not caught up in a sweep with the usual suspects. Or daily transparency, to put you in the clear, not lost in bewilderment. Add it all up and it's elementary.

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