

SEEKING

Virtue

IN FINANCE

By JC de Swaan

A RECURRING CONCERN for my first-year undergraduate students contemplating a career in finance is that they will turn into hypocrites: spend several years in college being exhorted to act in the service of humanity—perhaps studying great thinkers, absorbing humanistic values and devising solutions for a better society—and, as soon as they leave their idealized intellectual community, become cogs in a gigantic machine optimized to generate short-term profits.

In a bid to counter that narrative of finance professionals perpetuating a self-serving industry, I set out to identify role models who could help define what constitutes virtuous behavior in a conflicted industry. I looked for finance professionals we could learn from: self-interested, ambitious and successful individuals, each in their own way, who were able to balance their own interest with the collective interest, despite the relentless pressure to conform to norms anchored on the narrow pursuit of self-interest. From the study of their behavior, a few patterns can be teased out: they serve their customers faithfully, with their customers' interest in mind; they do so without extracting value from other stakeholders, and, ideally, by creating value for the rest of society; they treat their colleagues with dignity, help develop them and promote diversity

within their firms and the industry; and they utilize their financial skills and networks to pursue social goals outside of their careers in finance.

The vast majority of virtuous finance professionals who contribute to society are anonymous and unheralded. They comprise professionals at all levels of the organization who, for instance, diligently score credit to extend loans at the appropriate price, guide customers toward the saving instruments that are best suited to their profile and circumstances, oversee the operational minutiae of replicating market indices with virtually no tracking error or identify the best product to insure a family's assets. By engaging in core financial services which support real economic activities with their clients' interest in mind, they help people achieve their goals and, in doing so, benefit society.

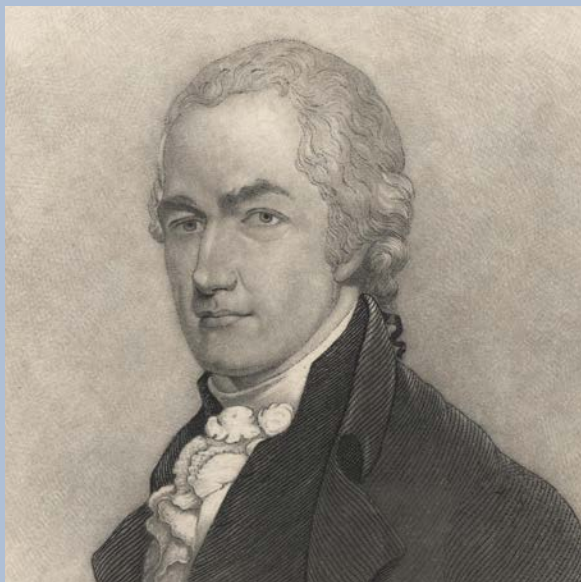
My research has focused on individuals who merit our attention for having deviated from the path of least resistance, the one that would have maximized their own material wealth by simply going along with their peers. At times, they stand out less because of the bravura of their action—diligently penny-pinching expenses on behalf of customers or promoting diversity in the workplace may strike readers as pedestrian—than for the simple fact that so few people in the industry take that path. Being involved in the industry and familiar with the countless pressure

points that lead finance professionals to conform, I have found myself inspired by their example.

Among these role models, there are those who exercise self-restraint—a deceptively simple goal made complicated by the fact that it typically entails lower profits in the short-term, often going against the grain of corporate priorities and colleagues' own financial goals. They leave money on the table, in an industry where doing so is often perceived by peers as a sign of either incompetence or confused logic.

Jack Bogle, founder of pioneer indexing firm Vanguard and as close to a wise man as the industry will ever have, perhaps said it best by titling one of his most thoughtful books *Enough*. Among the scourges of modern times, he bemoaned the primacy of maximizing wealth, which increasingly trumps other considerations and places business objectives above professional values.

In a reversal of industry practices, Andy Okun and his partner Stephen Modzelewski, co-founders of The Watermark Group, a hedge fund, set up terms that skew in favor of their clients, even when those terms are not particularly valued or even known by these clients. The Japanese “herbivores” are endeavoring to introduce a low-cost active asset management model to Japan and sway their peers toward lower fees. Highly successful endowment managers, such as David Swensen and Andy



Alexander Hamilton



Jack Bogle

Golden, have stuck with their beloved academic institutions for decades, eschewing the call for greater pay elsewhere.

Many of these individuals have taken their cues from those in past generations who went against the flow during their time. John Whitehead, co-senior partner of Goldman Sachs between 1976 and 1984, determined that Goldman Sachs wouldn't engage in hostile take-overs at the time they took-off, despite heavy demand from clients. Warren Hellman decided to retire from Hellman & Friedman, the private equity firm he co-founded, without "cashing out," to motivate future partners by paying it forward.

Others create new models that simply serve customers better, even if it means lower profits. Bogle revolutionized the asset management industry, slowly at first and then drastically, by introducing index funds and tirelessly advocating on behalf of shifting savings into passive asset management.

Yet others create models to both serve their customers and explicitly create value for society. Frederic Samama, a manager at Amundi, a large French asset manager, became convinced that the forces of commercial finance deployed to serve his bank's clients could be harnessed to address social and economic problems, in conjunction with the bank's client mandate. In the late 2000s, he took it upon himself to convene financiers and

academics to reflect on ways in which long-term capital holders could solve various market failures, including climate change.

In partnership with Patrick Bolton, an economist at Columbia Business School, and Mats Andersson, the then head of Swedish national pension fund AP4, Samama and his team became pioneers in embedding environmental, social and governance (ESG) factors in investments. They developed the first mainstream low carbon equity index, in partnership with MSCI, paving the way for a new market in low carbon or "decarbonized" ETFs and funds.

Some migrate beyond the industry to apply their finance skills and networks toward the collective interest. There is a long tradition of Wall Street professionals serving in government going back to Robert Lovett, a partner at Brown Brothers Harriman, who distinguished himself as a public servant under Franklin Delano Roosevelt. One of the first female partners on Wall Street, Michaela Walsh, utilized her finance experience to create Women's World Banking, a pioneer institution providing women access to credit. Most encouragingly, young professionals can make a considerable difference at an early stage in their career: Erin Godard, who, at the age of 28 and with only five years of professional accounting experience at Ernst & Young in Toronto,

created an accounting training institute in Rwanda which can generate outsized social returns.

Finally, there are those who are willing to agitate, mostly on behalf of others, often at a personal cost. For these professionals, self-interest and collective interest meld. Nicholas Benes, a long-time US expatriate in Japan trained in finance and law, has selflessly advocated for better corporate governance and has become a critical, albeit unheralded, behind-the-scenes architect of the seminal reforms initiated by the Shinzo Abe administration in 2014.

David Webb, a former investment banker turned investor and corporate governance activist in Hong Kong, has also had disproportionate impact by the sheer power of his dogged campaigns targeting cronyism, breaches of minority shareholder rights and threats to Hong Kong's democratic process, underpinning his cases with detailed, rigorous analysis made freely available to the public. Natasha Lamb, co-founder of Arjuna Capital, has led a relentless shareholder campaign in the United States pressuring large listed companies to publish their gender pay gaps and abide by contemporary norms of diversity, showing remarkable traction.

The simplest lesson may be learned from the architect of the US financial system, Alexander Hamilton. Of the many virtues that Hamilton exhibited as a public servant, his ability to resist enriching himself is



John Whitehead



David Webb

Bloomberg

particularly striking in light of his role as the effective founder of the modern US financial system and his recurring struggle throughout his life to provide for his family. He is a counter-intuitive role model, not having been trained as a financial professional.

Hamilton's life was devoted to public service, except for stints running a law practice in New York. While he lived in an era whose mores would be foreign to the contemporary professional, the tensions between the public mandate and the private interests of public servants—such as the temptation to benefit from graft, influence peddling and the revolving door—remain perennial challenges, making this example timeless.

Arguably the most brilliant of the US Founding Fathers, Hamilton left a legacy whose range almost defies reason, against all odds. He distinguished himself first as an agitator in favor of US independence and as a valiant soldier and military leader whose charge at Yorktown contributed to the British defeat. After independence was achieved, he relentlessly advocated in favor of a constitutional convention and then helped promote the Constitution by drafting 51 of the 85 installments of the Federalist Papers. They are still regarded as the most authoritative source on the original intent of the US Constitution.

In the eyes of historians, his symbiotic partnership with George Washington through the War of Independence and

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Washington's presidency, his prowess as a military leader and his critical impact as a constitutional theorist often overshadow the fact that he was the chief architect of the United States' modern financial system. As the nation's first Secretary of the Treasury from 1789 to 1795, Hamilton revolutionized the country's financial system. A self-starter and autodidact, he studied financial history with a particular interest

in how the Bank of England had managed its large national debt. Recognizing the potential power of sovereign debt, he founded the country's first central bank, restructured the national debt, established the US dollar as the national currency and launched the Treasury debt market.

Hamilton also understood the necessity for credit flowing to private enterprise and spurred the development of commercial banks. He did so by encouraging state governments to charter banks which would lend to private businesses and individuals. Between 1790 and 1795, the number of commercial banks grew from three local banks with limited connections to 20, while new branches of the Bank of the United States were established in several cities. He also actively supported the development of securities markets, leading private brokers to establish exchanges in Philadelphia and New York.

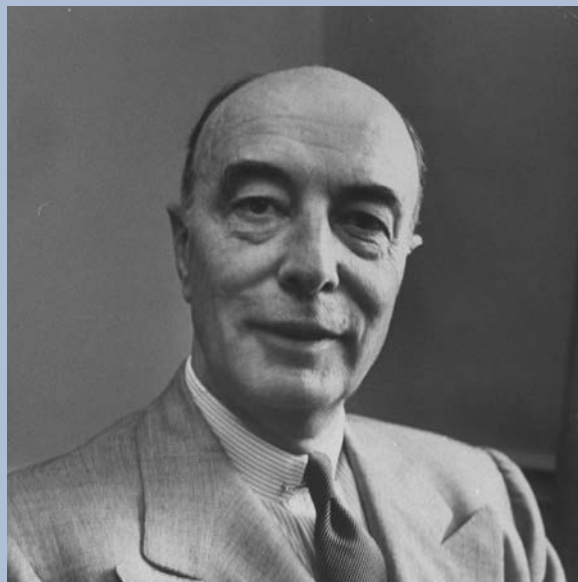
Hamilton perceived the modern financial system as an enabler of growth and national power. He was prescient in his vision. Most historians and economists did not systematically make that connection until the end of the 20th century. His motivation was visceral, having sensed that the war against the British had lasted longer than it should have because the British were much better financed than the Americans.

What was remarkable besides his prodigious achievements in the development



Frederic Samama

Bloomberg



Robert Lovett

Lisa Larsen

of the US financial system was his restraint from deriving any kind of personal financial benefit. He cared about national power and prosperity, but he devoted very limited attention to his own material comfort. There would have been no lack of opportunities to personally gain from being at the helm of a rapidly expanding financial system.

He exercised great discipline in averting conflicts of interests, eliminating all outside sources of income when he was in office, in contrast to George Washington, Thomas Jefferson and James Madison. As a member of Congress, he waived the pension he had been entitled to as an officer because he was deeply involved in the debate on veteran benefits. He also waived his right to “bounty” land that went to officers. In establishing the Treasury Department, he created internal compliance rules that prevented employees from transacting in government securities.

These were not benevolent gestures from a man of means whose lifestyle was assured by substantial assets. On the contrary, he frequently found himself in need of money, not because he spent it but because he made so little of it, and he did not take advantage of his exalted status in society or his unique position in finance while he built up the financial system. To his credit, he left office in a much weaker personal financial state than he did entering it. As Treasury Secretary, he made

\$3,500 a year, much less than he would have made in private law practice. Among his many responsibilities, he oversaw the Customs Service, which meant that he had purview over enormous amounts of cash—yet, he handled transactions with utmost integrity.

Hamilton resigned from the Treasury Department unashamedly invoking his need to make money to support his family. Even then, he refrained from the easy money available to men of his status. A clear opportunity presented itself when an old classmate offered to enroll him in a lucrative real estate project soon after he left office. Hamilton graciously declined, likely because his friend represented foreign capital which might present a conflict of interest in the future. He died leaving his family in a financial bind, prompting a discreet fundraising effort among his friends on behalf of his wife, Eliza, and their seven surviving children.

The US financial system—the most expansive and powerful in human history—was established by a man who embodies the antithesis of the concept “grab what you can when you can.” Of course, the current system would be unrecognizable to Hamilton, but the moral challenges faced by its participants endure. Even if Hamilton’s circumstances were unique, his eagerness to succeed on his own terms and his ability to refrain from self-serving—no matter how common or expected

that behavior may be—permeate these virtuous finance professionals, from this US Founding Father to Erin Godard, who is still at the beginning of her career. Their stories point to a path in finance that may appeal to well-intentioned professionals who are keen to contribute to society and uphold their values. **\$**

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