CORNERSTONE
INVESTMENT PARTNERS, LLC

# Beyond the Four Ps:
# Culture - The Keeper of Process

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## Executive Summary

- The traditional "Four Ps" of manager evaluation — Philosophy, Process, People, and Performance — are necessary, but not sufficient to ensure long-term success. We believe a manager can have all four and still fail if its culture does not preserve disciplined execution during difficult markets.
- Culture is what ensures the four Ps are durable over time – without it, firms may not have the control and consistency to deliver long-term results.
- At Cornerstone, we believe investment culture must be **investment driven**. Culture is not an end in itself; it must serve better investment decision-making, better risk management, and better long-term outcomes for clients.
- Our investment culture is built around an **intellectual meritocracy with an obligation to dissent**. Ideas must stand on their own merit, not on the title, tenure, or confidence of the person presenting them.
- Culture becomes real only through habits. Independent pre-meeting voting, open debate, trade reviews, continuous improvement, and tools designed to separate luck from skill help turn values into repeatable behavior.
- Trust, humility, alignment, and distributed leadership are not soft concepts. In active management, they are essential ingredients for preserving process discipline, managing downside risk, and improving the team's decision quality over time.

## Why the Four Ps Are Not Enough

Institutional investors have long evaluated investment managers through the framework of the "Four Ps": Philosophy, Process, People, and Performance. It is a useful framework. A manager should have a clear philosophy, a repeatable process, an experienced team, and a demonstrated record of execution.

Yet most allocators have also seen a frustrating pattern. A manager appears to have all four. The philosophy is well articulated. The process is well documented. The investment team is sharp, experienced, and well credentialed. Performance has been strong. Then something changes. The performance deteriorates, but more importantly, the discipline behind the performance deteriorates. The manager starts forcing decisions, defending legacy positions, reacting to short-term pressure, changing the process at precisely the wrong time, or failing to adapt when evidence changes.

The due diligence question then becomes uncomfortable: if the manager had the Four Ps, why did the outcome change?

**The question is not merely:** does this manager have a philosophy?

> **…It is:** what protects the philosophy when it is out of favor?

**The question is not merely:** does this manager have a process?

> **…It is:** what keeps the team executing the process during underperformance?

**The question is not merely:** does this manager have talented people?

> **…It is:** how do those people make decisions together, handle disagreement, review mistakes, and improve?

**The question is not merely:** has this manager performed?

> **…It is:** is the performance likely to be repeatable because the organization is built to preserve the behaviors that produced it?

The answers to those questions may reveal as much as the traditional Four Ps. We believe the Four Ps are necessary, but not sufficient, because there is another element that determines whether those Four Ps remain durable under pressure: culture.

Culture can be difficult to underwrite because it is less tangible than a portfolio, a model, or a performance table. But that does not make it less important.

Culture is the keeper of process. It is what determines whether a stated philosophy is actually followed when it is out of favor. It determines whether dissenting evidence is surfaced or suppressed. It determines whether an investment team learns from mistakes or rationalizes them. It determines whether the team is aligned around client outcomes or whether individuals become locally optimized around their own incentives, titles, coverage lists, or compensation structures.

Cornerstone has long described its investment philosophy as "stock prices are more volatile than company fundamentals which drive value," and has emphasized that philosophy and process only work when they are executed with discipline across market environments. Culture is what helps ensure that discipline survives.

## Culture Must Be Investment-Driven

Every investment organization has a culture. The question is whether that culture helps or hinders investment decision-making.

A strong investment culture is not corporate theater. It is not a collection of slogans, meeting rituals, personality frameworks, or feedback exercises disconnected from the portfolio. Those tools can be useful, but only if they serve the investment mission. The test is simple: does this practice improve the team's ability to make better investment decisions on behalf of clients?

At Cornerstone, our answer begins and ends with seeking to deliver the best investment results for our clients. Everything else must serve that goal.

That matters because active management is an unforgiving arena. In aggregate, active management is arithmetically difficult: before costs, the average actively managed dollar must theoretically equal the average passively managed dollar; after costs, the average actively managed dollar must therefore underperform. To win for clients, an active manager needs an edge that is real, repeatable, and protected from the behavioral forces that destroy discipline.

This is why culture matters. In a competitive market, small decision advantages matter. But small decision advantages compound only if they are repeated. They are repeated only if the organization is built to protect that repeatability.

We believe that poor investment cultures often fail through local optimization. An analyst may be rewarded for one-year stock picking even though the strategy's investment horizon is three to five years. A Portfolio Manager may defend a losing position because admitting errors would damage status. A senior person may dominate a meeting because his or her title carries more weight than evidence. A team may perform attribution after the fact and call winners "skill" while describing losers as "bad luck," "early," or "the market being wrong."

Each behavior may be understandable at the local level. Collectively, they damage the team.

A strong culture aligns incentives, habits, and governance around team-maximized decision-making. The individual's role matters, but the team matters more. The goal is not for anyone to be proven right. The goal is for the portfolio to be right often enough, and in sufficient magnitude, to deliver attractive long-term outcomes for clients.

## Habits Turn Values into Culture

Values do not become culture because they are written down. They become culture when they are converted into habits.

This distinction matters. Many investment firms can describe admirable values. Fewer can show the practices that make those values unavoidable in daily decision-making.

At Cornerstone, we use business processes to build habits that reinforce our values. One example is the way investment team members vote before we meet to review a stock. By capturing views before discussion begins, the team reduces the risk that the first speaker, the most senior voice, or the most forceful personality anchors the room. Independent judgment is preserved before collective judgment is formed.

That habit does several things at once. It shows the distribution of conviction. It reveals disagreement early. It helps identify whether the team is converging for the right reasons or merely because the room is moving in the same direction. It makes dissent visible.

The meeting then becomes more productive. Instead of asking, "What does everyone think?" the team can ask better questions: Why does conviction differ? What evidence is driving the gap? Are we disagreeing about fundamentals, valuation, timing, risk, or position sizing? Has anything changed that should change our prior view?

This is how culture becomes operational. The value is intellectual meritocracy. The practice is independent voting and evidence-based discussion. The habit is disciplined dissent. The desired result is better team decision-making.

## Trust Is Not the Opposite of High Standards

High-performing investment teams require trust. But trust is often misunderstood.

Trust does not mean avoiding conflict. It does not mean lowering standards. It does not mean making people comfortable at the expense of performance. In an investment context, trust means that people can surface uncertainty, admit mistakes, challenge senior voices, and change their minds without fearing that intellectual honesty will be punished. Ultimately, team members must feel safe in order to make difficult conversations frictionless.

Research on psychological safety describes it as a shared belief that a team is safe for interpersonal risk-taking and connects it to learning behavior in teams. In investment management, that concept has practical importance. A team that cannot safely discuss their own errors cannot reliably learn. A team that cannot admit uncertainty will manufacture confidence. A team that cannot challenge authority will eventually confuse hierarchy with judgment. All of these can be value-destructive to investment decision making.

Moreover, trust encourages curiosity. This is critical. It is impossible to be curious while being defensive. If a Portfolio Manager is focused on protecting ego, status, or prior decisions, the natural instinct is to explain away disconfirming evidence. If the environment is built on trust, the better instinct can emerge: What are we missing? What would make us wrong? What does the market understand that we do not? What evidence would cause us to change our mind?

Trust gives the team room to ask those questions before the market forces the answer. Trust makes humility possible.  Humility allows us to change our minds.  Changing our minds allows us to recognize and correct our mistakes quickly.

Importantly, trust must be paired with alignment. When incentives are misaligned, trust erodes. If one person benefits from defending a stock, another from turning over ideas, and another from avoiding controversy, the team will struggle to make clean decisions. Alignment of interest helps create the trust required for honest debate.

At Cornerstone, the objective is not local maximization. It is team-maximized decision-making on behalf of clients.

## Continuous Improvement Requires Separating Luck from Skill

Every investment decision creates an opportunity to improve. But improvement requires the team to distinguish between what was repeatable and what was not.

This is harder than it sounds. The investment industry is full of post-hoc storytelling. When a stock works, the decision is often labeled skillful. When it does not, the explanation may shift to bad luck, poor timing, temporary market irrationality, or being early. Sometimes those explanations are true. Often, they are incomplete.

A good outcome does not prove a good decision. A bad outcome does not prove a bad decision. It is possible to be skillful and unlucky. It is possible to be unskillful and lucky. That distinction is essential because skill can be repeated, unskillfulness can be corrected, and luck cannot be relied upon.

This is why reviewing prior trades with honest and thoughtful clarity matters. The purpose should not be to pat oneself on the back if it went well, or to blame oneself indiscriminately if it goes poorly. The purpose is learning. What did we believe at the time? What evidence supported the decision? What evidence did we discount? Did the thesis play out for the reasons we expected? Was the position sized correctly given the risk? Did we update appropriately as new information arrived? Did we sell for the right reason, or did headlines and price movement overwhelm process discipline?

We have also built tools, including training a large-language-model-based "Anti-Bias Engine," which analyzes two decades of prior trades and daily votes to help us identify our own possible biases. The goal is not to outsource judgment to a machine, but to use the tool to identify questions we must ask ourselves. Our goal is to use these types of tools to help identify where our explanations may be drifting into inertial bias, overconfidence, or narrative convenience. If a tool can help us ask better questions, surface inconsistencies, or separate process quality from outcome quality, then it can support continuous improvement.

In our view, continuous improvement is not a separate initiative. It is part of the investment process. Every buy, sell, hold, trim, add, and pass creates evidence about how the team thinks. The best investment teams use that evidence.

## Humility and Confidence Must Coexist

Investment management requires confidence. Active managers must be willing to own securities that the market is mispricing, which means they must be willing to differ from consensus. But confidence without humility is dangerous. The market has a way of humbling investors who confuse conviction with certainty.

Humility is what allows an investment team to say, "We may be wrong." That simple statement is a risk-management tool. It opens the door to downside protection, position-size discipline, thesis review, and timely course correction. A team that cannot acknowledge error will often hold too long, double down for the wrong reasons, or turn an investment mistake into a portfolio problem.

This is especially important because winning in investing does not require being right all the time. In a prior Cornerstone thought paper, we discussed how small edges can compound over time. For Cornerstone's Concentrated 30 Large Cap Value strategy, the average percentage of portfolio stocks outperforming on a quarterly basis over the 10 years ending June 30, 2024, was 52.3%, and the paper emphasized that magnitude matters: average contributors added more than average detractors subtracted.

This statistic also means we were wrong 47.7% of the time. It is easy to overreact to mistakes, especially when nearly half of all decisions will prove wrong. A 52.3% stock-level win rate is not perfection — it is a reminder that a strong long-term record can be built from a modest but repeatable edge, provided the team responds well to both winners and losers. Humility is what makes that possible. Confidence helps us act when the evidence supports action. Together, they create the possibility of positive asymmetry: winning by more when we are right, and protecting capital by recognizing quickly when we are wrong.

## Team First, Leadership Earned

The investment team is the core of an investment management firm. Individual excellence matters, but it matters in service of the team. This is not always easy. Investment organizations often elevate strong individual contributors into leadership roles and then allow title to become a substitute for contribution. That can be corrosive. Once title protects influence, the meritocracy weakens. Once seniority suppresses dissent, the process becomes fragile.

We believe leadership should exist throughout the investment team, not only at the top of an organizational chart. Different team members should have opportunities to lead discussions, own research debates, challenge assumptions, and develop judgment. But distributed leadership also requires support. When a team member steps into a leadership role, the team must allow room to learn, make mistakes, and improve without turning every imperfection into a permanent label.

Distributed leadership builds a team first approach by extending agency throughout the team.

This is another place where trust and high standards meet. The team catches the person who stumbles, but it does not remove accountability. It creates the conditions for people to grow into greater responsibility while protecting the quality of the investment process.

Cornerstone seeks to have a flat meritocratic investment team dedicated to consistent process execution across market environments, regardless of title. That statement captures an important cultural principle: titles may define responsibilities, but they should not determine the merit of an investment argument.

## Culture Creates Greater Execution Certainty

No culture can eliminate uncertainty. No process works in every environment. No investment team is right all the time.

The goal is different. The goal is to create a culture that allows the team to execute its process with discipline, humility, and consistency through all markets.

At Cornerstone, we believe culture is what allows us to live our investment philosophy rather than merely state it. It is what allows us to challenge each other without fracturing the team. It is what allows us to be confident enough to act and humble enough to change. It is what allows us to learn from both winners and losers. It is what helps convert individual talent into team decision-making.

The Four Ps still matter. Philosophy matters. Process matters. People matter. Performance matters.

But culture is what binds them together. Culture is what determines whether a manager continues to do what it says it will do when markets evolve or become uncomfortable, when performance is challenged, when evidence changes, and when the next decision matters more than defending the last one.

In that sense, culture is not separate from the investment process.

We believe culture is the way the process survives, and firms that truly build an investment culture have a durable structural advantage that compounds in ways performance tables can't capture.

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