

Thinking Ahead Institute

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Smart leadership.
Sound followership.

**A Thinking Ahead Institute briefing paper on the Future Fund
and Willis Towers Watson 2017 Asset Owner Study.**

Smart leadership. Sound followership.

Self-awareness, an understanding of peers' practices and adaptability are central to the evolutionary success experienced by the world's leading asset owners, according to **new research** conducted by Willis Towers Watson and sponsored by the Australian sovereign wealth fund, Future Fund.

Following the Thinking Ahead Institute's Top 20 asset owner study in 2015, this follow-on paper, Smart Leadership. Sound Followership., seeks to benchmark and compare practices across 15 world-leading asset owners, chosen based on their global reputation, strong governance, significant size and thoughtful, outward-looking perspectives. The study produced a number of proposals to support international best practice, notably:

- Improved cognitive diversity
- Better sustainability
- Improved board-executive engagement
- Strengthened risk management through better understanding of the investment ecosystem
- Business model-appropriate balance in the mix of internal and external intellectual property.

The Thinking Ahead Institute (TAI) believes that this paper is of significance to our membership and ties into several of the Institute's past and present research streams. These 'Top 15' funds have professionalised their practices in recent years and we believe they now command the stature of the leading asset owners of the world.



Key findings

Topic	Summary	Links to TAI Research
<p>Culture and diversity and EVP are important</p>	<p>The study reveals that biases in investment decision-making are more numerous and deeply embedded than investors readily recognise. Using diversity effectively can help in reducing the impact of biases.</p>	<p>Our research on the impact of culture on institutional investors and the development of the TAI culture assessment framework provide valuable tools to measure an organisation's culture through the use of client value proposition (CVP) and employee value proposition (EVP) scorecards and provides a deeper understanding of its importance.</p> <p>We also argue that the investment industry should focus far more on building cognitive diversity. Specifically we have conducted in-depth research on gender-based behavioural bias, smarter teams and improved diversity in investment committees.</p>
<p>Sustainability and long-horizon investing is currently too shallow</p>	<p>Sustainability is a critically important emergent subject, yet opportunities are being missed in the overlapping areas of sustainability, ESG, stewardship and long-horizon investing.</p>	<p>We have created a toolkit to help organisations develop their sustainability investment beliefs and allow them to benchmark their stance on the issues against other organisations. The toolkit has generated some critical data on sustainability beliefs, grouping them by convictions on materiality and mispricing, motivation, consistency of individuals' beliefs and uniformity of views within an organisation. We have also set up a portfolio construction group to allow organisations to move from beliefs to action. We believe that these are big steps forward in helping organisations make progress on what, for many, has been an intractable subject, and will publish the full work behind the toolkit shortly.</p> <p>Our recent research has focused on the quantification of the long-term premium and how organisations can harvest this. We have also proposed core investment beliefs statements which we believe are needed to help organisations make and commit to effective long-horizon decisions in a complex environment.</p>
<p>Boards are having trouble being strategic</p>	<p>Boards seem strong in interpreting their fund's mandates and in ensuring executive accountability, but less so in their development of a strategic dialogue with their executive. This is work in progress, revealing an opportunity for organisations to improve.</p>	<p>Our research on best practice investment committees focuses on how to make boards more effective in making strategic decisions. Key research findings cover:</p> <ul style="list-style-type: none"> ▪ Role: Committees aren't always well suited to their delegated responsibilities. It is critical to apply the principle of comparative advantage to who does what and the design of decision-making structures. ▪ Selection and development: The structural impediments to building effective investment committees need workarounds to improve competency, teamwork and accountability. Members of the investment committee should be selected for their professional capabilities. ▪ Collective effectiveness: There is an opportunity to extend the Chair's role, restyle the investment committee's processes, methods and culture, and make cognitive diversity an explicit goal.

Risk management is key as the business landscape is changing

Scenario analysis is a helpful tool for managing risks. Studying the investment ecosystem, not just the markets, is critical to anticipate some transformational changes ahead.

Our paper on [System thinking and investment](#) explores some of the principles of ecosystems and looks at how they manifest themselves in the investment system. We believe the conventional view of the investment system as linear and defined in terms of cause-and-effect is misleading. It is much more accurate and more effective to view the system as dynamic, evolving and non-linear with disparate connections, creating feedback loops and making accurate forecasting difficult.

Drawing on work from the CFA Institute on future scenarios that are affecting the essential components of the investment ecosystem, we have studied four plausible scenarios, namely:

- The *lower for longer* era in interest rates and returns
- The emergence of a more *purposeful capitalism* that is both more inclusive and client-centred than its fore-runners
- The rise of *fintech disruption*
- The parallel worlds that are being traced out by different segments of society, by geography, generation and social groups, which require attention and integrated responses.

In addition we have considered two further scenarios:

- *Passive aggressive* (passive investing getting a lot bigger at the expense of active)
- *Alternatives future* (private investing getting a lot bigger at the expense of public markets).

Funds are evolving their mix of internal and external intellectual property

There are opportunities to improve the value chain, including the nature of external strategic relationships, which should go deeper, and creating internal capabilities for previously outsourced functions. Technology and increased sophistication make networking opportunities across funds potentially more valuable than ever.

Our research on [strengthening the investment value chain](#) focuses on how asset owners and asset managers can make better connections by reducing agency friction (e.g. costs, lack of clarity around goals) and improving the effectiveness of intermediation models involved (e.g. improved reporting and engagement). We have also done research on how funds can benefit from strategic partnerships – making ‘co-opetition’ (co-operation/competition) work for them and enhance the investment ecosystem as a whole.

Limitations of reliance

Limitations of reliance – Thinking Ahead Group 2.0

This document has been written by members of the Thinking Ahead Group 2.0. Their role is to identify and develop new investment thinking and opportunities not naturally covered under mainstream research. They seek to encourage new ways of seeing the investment environment in ways that add value to our clients.

The contents of individual documents are therefore more likely to be the opinions of the respective authors rather than representing the formal view of the firm.

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About the Thinking Ahead Institute

The Thinking Ahead Institute is a global not-for-profit group whose aim is to influence change in the investment world for the better by improving the provision of savings. The Institute's members comprise asset owners, investment managers and other groups that are motivated to influence the industry for the good of savers worldwide. It currently has 40 members with combined responsibility for over US\$13 trillion and is an outgrowth of Willis Towers Watson Investments' Thinking Ahead Group.

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Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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