

# Thinking Ahead Institute

Changing the investment industry  
for the benefit of the end saver

Are you ready for change?





# Are you ready for change?

## Contents

The Thinking Ahead Institute .....	2
How are you shaping your future? .....	4
Why join? .....	6
Thinking ahead for asset owners .....	8
Working groups: tangible outcomes .....	9
Thinking ahead for asset managers .....	10
Supporting stronger asset management .....	12
10 reasons to join us .....	13
Thinking Ahead Institute research papers .....	14
2019 research streams .....	16

# The Thinking Ahead Institute

The Thinking Ahead Institute is a not-for-profit, research-led network made up of engaged institutional asset owners, asset managers and service providers whose aim is to change and improve the investment industry for the benefit of the end saver. Established in 2015 and built on the belief in the value and power of thought leadership to create positive change in the investment industry, the Institute brings ideas to life collaboratively through:

- A dynamic research agenda that encourages strong member participation through dedicated working groups
- A global programme of events to discuss and socialise the research
- Interaction with Institute members, using proprietary tools and workshops, to apply the research to their organisational contexts
- An ongoing global public relations campaign.

This global network of some of the world's major investment organisations includes third-party research partners – such as CFA Institute, Cambridge and Oxford universities and Santa Fe Institute – is a powerful force for change in an industry that needs:

- Better investment strategies and solutions
- Better organisational effectiveness
- Enhanced societal legitimacy.

The Institute's executive (Willis Towers Watson's Thinking Ahead Group, or TAG), is led by Tim Hodgson, Roger Urwin and Bob Collie, who have on average 35 years' industry experience each and a strong history of thought leadership. The diverse team of ten includes senior investment consultants with an average of 15 years' industry experience and who are recognised subject-matter experts.

The Institute is funded by member subscriptions and by Willis Towers Watson.

## Investment specialists in the Thinking Ahead Group



Bob Collie



Marisa Hall



Tim Hodgson

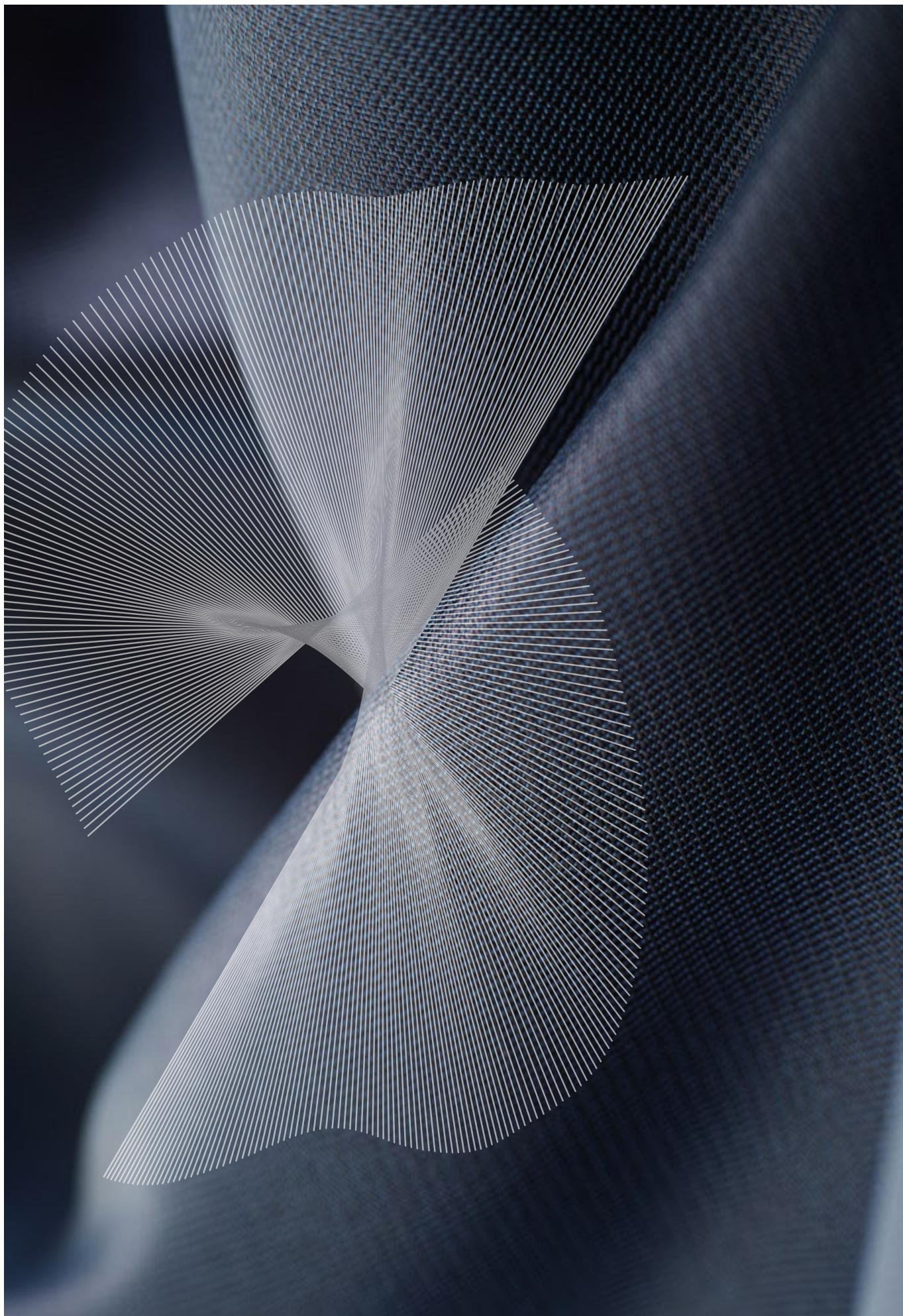


Roger Urwin



Liang Yin







# How are you shaping your future?

Being at the forefront of the investment industry and of new thinking is the goal of many asset owners and asset managers. We feel differentiating the organisation is critical in a competitive environment for talent, ideas, assets and clients.

But achieving this is easier said than done in a rapidly changing and complex world.

We believe few organisations have the time or capacity for **strategic thinking**, and fewer still have the resources to **implement** strategic thinking in the real world. Making changes that seek to improve outcomes for end savers and, by extension, for investment organisations are elusive. Effort tends to be spent on issues that are known and quantifiable. That leaves a whole load of challenges that are less well outlined, but arguably a lot more **meaningful to investment outcomes**.

The goal of the Thinking Ahead Institute is to lead efforts to change investment for the benefit of end savers through **tools and solutions** that also provide more sustainable futures for its forward-thinking members and the industry at large.

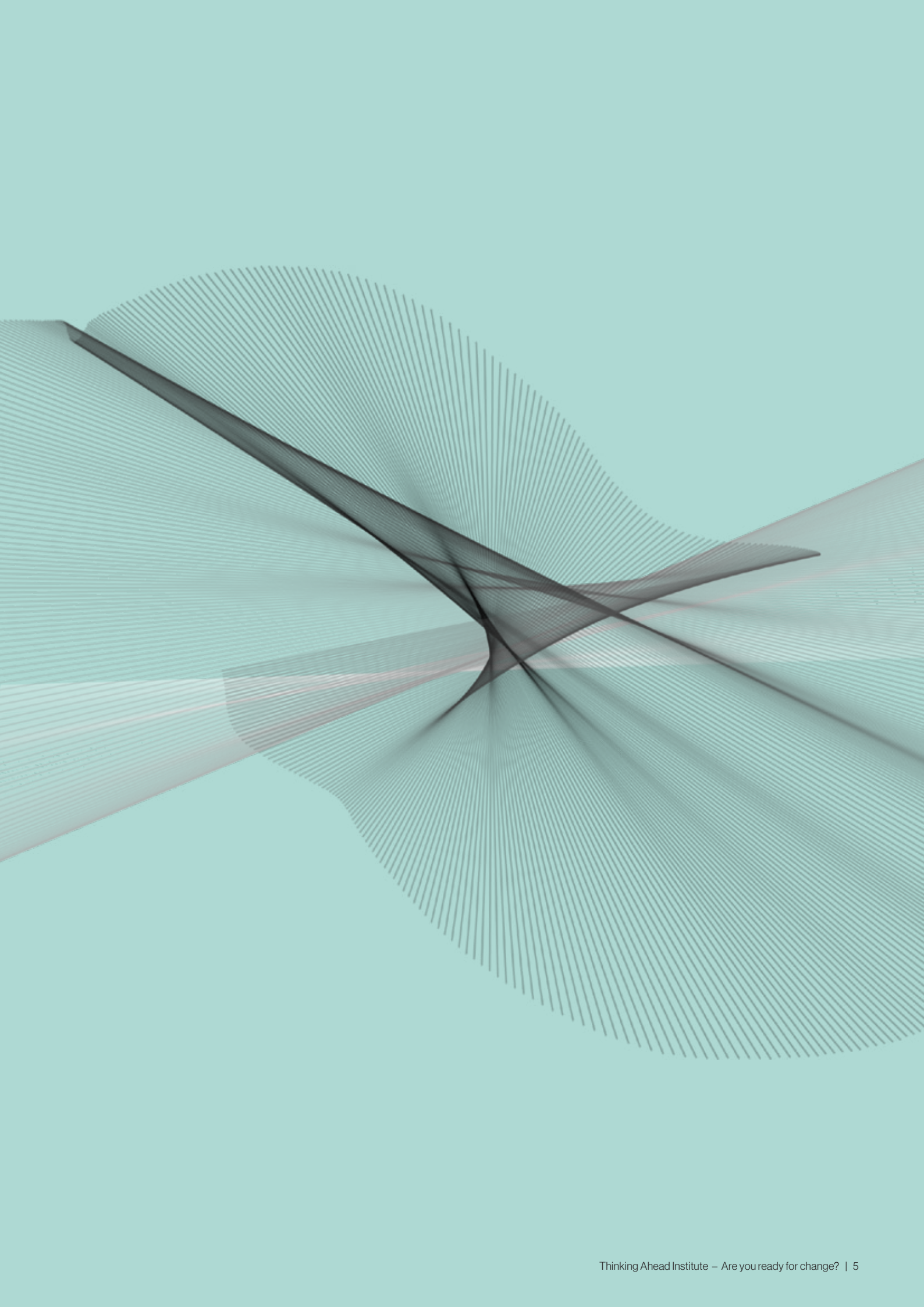
The Institute connects people from all corners of the investment world, harnessing their ideas through a “**give and get**” approach. This pooling of ideas helps lead to a range of concrete solutions to investors’ real-world problems. Consider this example of an outcome-oriented Institute initiative:

*A number of engaged members agreed that defined contribution (DC) is a nut that none of them had yet properly cracked, so a working group was set up. They met regularly over 18 months and developed a set of assumptions that would have substantial and tangible benefits. To hone these ideas further a DC-focused two-day summit was organised and attended by some of the world's largest DC operators. The ideas and assumptions were written up in research papers, with members inputting their ideas and experience. Today, the key findings of these papers are being put into action, and the DC members of member organisations should reap the potential benefits.*

These kinds of meetings and events take place regularly between Institute members and lead to new thinking and **solutions**.

This is just one way that the Thinking Ahead Institute directly benefits its members. With over 40 existing members (with stewardship responsibility for over US\$12 trillion in assets, as of 1 May 2019) and expanding membership, the pipeline of game-changing initiatives is only expected to grow.

We hope you will join and **help shape your future and the future of the industry**.



# Why join?

Organisations become Thinking Ahead Institute members because they agree that our world and investment are getting tougher to navigate and want ideas to journey further and better. Typically they:

- Are inquisitive and innovative and seek to engage with similarly-minded organisations on trends, context, new thinking and its application to their futures
- Are client- or member-focused and want to deepen their understanding of what other leading investment organisations want and need
- Have purposeful cultures and want to use this purpose to good effect, testing their ideas against the ideas of peers to round out their thinking and develop implementable strategies.

With over 40 members from nine countries (Australia, Canada, France, Italy, the Netherlands, South Africa, Spain, United Arab Emirates, the UK and the USA) the cross-fertilisation possibilities are enormous. We believe the strength of the Institute is collaboration. Value is created through engagement or 'give and get'. With your participation, we feel these possibilities will only grow.

## Give and get: it's your Institute

The ethos of the Thinking Ahead Institute is on the practical value add and impact, rather than on *bons mots* and nice ideas. It delivers applicable ideas in a number of ways:

**Research working groups.** The Institute invites representatives from each member to join a working group on the basis that members get most value from the Institute if they fully engage in its work. Working groups serve as channels for Institute members to contribute directly to ground-breaking research and solutions. Members are typically involved in calls and meetings throughout the life of a research project, from initial scoping to the production of whitepapers and toolkits. Each working group is led by a member of the Institute executive, who uses best-practice guidelines to encourage progressive thinking, engagement and collaboration. These working groups have been active across: sustainability, long-horizon investment, defined contribution; decision making; value creation; and benchmarking and monitoring.

**Implementable research papers with practical applications.** Using the working groups, the Institute has produced dozens of research papers that improve the accessibility of Institute ideas to members who are unable to attend events. In parallel, toolkits and workshops are developed for members to use in their organisations. These include: assessing culture in investment organisations; mapping and settling sustainability beliefs against a peer-group benchmark; seeking to improve investment decision-making; and testing the extent to which an organisation is genuinely focused on the long term. Increasingly, members plan to use these tools as part of their annual **one-to-one meetings** to help derive tangible value for their organisations from the research.

**One-to-one meetings and workshops.** In one-to-one member meetings, senior TAG executives offer insights into the unique contexts of member organisations and help act as a trusted sounding board. These meetings can also take the form of workshops, which aim to be a facilitated, engaging, inclusive and collaborative learning experience to help members better achieve their goals and, ultimately, the end saver. These meetings and insights are customisable to the member's requirements and the make-up of attendees is at the member's discretion. Previous one-to-one meetings have included a dialogue with a small group of a member's management team, through to a formal presentation to a member's board at its annual offsite.

**Global peer group research.** TAG has been studying trends and developments among the world's largest institutional investors for over 20 years via three annual research studies: the global pension asset study, the 300 largest pension funds and the 500 largest asset managers. Recently a fourth study was added – the Asset Owner 100, which includes data on pension funds, outsourced CIOs (OCIOs), sovereign wealth funds and endowments and foundations. From time to time, the Institute commissions and curates peer group studies on other topics which, in the past, have included best practice studies in governance and defined contribution.



*While we are serious about changing the investment industry, we do find time for social events, including formal and informal events to facilitate networking.*

**Seminars and socials.** Breakfast briefings and dinner discussions are held in major centres around the world, bringing members together to progress research and network. While we are serious about changing the investment industry, we do find time for social events, including formal and informal events to facilitate networking.

**Topical day events.** Topical day events are held in major centres, where academics and industry specialists present their latest research and challenge mainstream investment thinking. Typically these events focus on the threats, opportunities, implications and risk management associated with a pre-defined issue.

**Website.** The Institute hosts a full, members-only website containing a comprehensive research and video library, events section, news section, **podcasts** and social media area. In addition, it hosts an active **forum** for regular thought-pieces on diverse investment topics.

**Quarterly members-only newsletters.** These facilitate efficient and effective engagement across the full breadth of the membership on all research topics, projects and events.

### How we measure value add and impact

The Institute uses the Integrated Reporting (IR) framework – which was developed by the International Integrated Reporting Council – to report back annually to members. The main IR principle is that an organisation employs multiple capitals, not just financial capital, over multiple timeframes, to create value. In our Integrated Report we update members on our stewardship of resources and the extent to which our research streams helped create value and through it we aim to exemplify a high level of transparency which, if replicated across the industry, may engender a trust that we believe is currently lacking.

### Membership subscriptions

Annual membership subscription fees are available on request. As a not-for-profit organisation, financially underpinned by Willis Towers Watson, the Institute's goal is to continue to reduce subscription levels as membership grows.





# Thinking ahead for asset owners

Being part of the Thinking Ahead Institute offers an opportunity for asset owners to interact on a non-competitive basis and jointly develop solutions around investment strategies, organisation culture and governance, as well as wider industry issues. It is also a forum for them to influence and help shape the strategies being developed by asset managers and service providers.

*Our Asset owner of tomorrow* research paper, published in 2017, is an example of developing solutions for the specific needs of asset owners. This paper aimed to set out the direction of travel for asset owners over the coming 5-10 years and how to achieve change in practice. The key actionable solutions include:

- Repurposing the business model by institutionalising professionalism
- Streamlining the operating model to make more effective decisions possible
- Adapting the people model to leverage culture and diversity
- Making the investment model smarter and more sustainable

Institute membership is relevant to asset owners of all sizes and all roles within these organisations including:

**Chair of trustees.** Working groups cover big picture issues with recent relevant research focusing on the Asset owner of tomorrow, Better decision-making, The future of DC and Sustainability.

**Chair of the investment committee.** Working groups focus on, for example, better investment committees, and the long-term investment premium

**Chief investment officer (where applicable).** Working groups that include stronger investment theory, long-term mandates, and stranded assets.

**Corporate sponsor.** Research aims to help improve culture, cognitive diversity, the state of the industry, and sustainability

Each asset owner has its own needs which can be addressed through membership. For some, it can be a way, for example, to explore sustainability, by seeing what others are doing. Others see membership as an unofficial training program for trustees, investment committee members, or for staff in the corporate finance department.



# Working groups: tangible outcomes

Thinking Ahead Institute working groups are designed not only to identify issues but also to find applications and create better outcomes for investors. Examples of past and current working groups focused on tangible outcomes are:

## Seeking to build a better DC system

2019 will be the third year of this working group. The first research paper it produced was *Proposing a stronger DC purpose*, which argues that the DC industry needs to move its focus beyond the accumulation of savings to a more ambitious goal: provision of income that will last for a lifetime. Subsequent papers, *DC: the movie* and *Lifetime income – the DC system's missing design feature*, expand on this. They dive into what it means for the DC system to be re-built around the whole of the participant's journey, identify why progress towards lifetime income provision has been slow, and set out what it will take for that to change.

Other output from this work stream has included a global DC summit and a global peer study of best practices in DC.

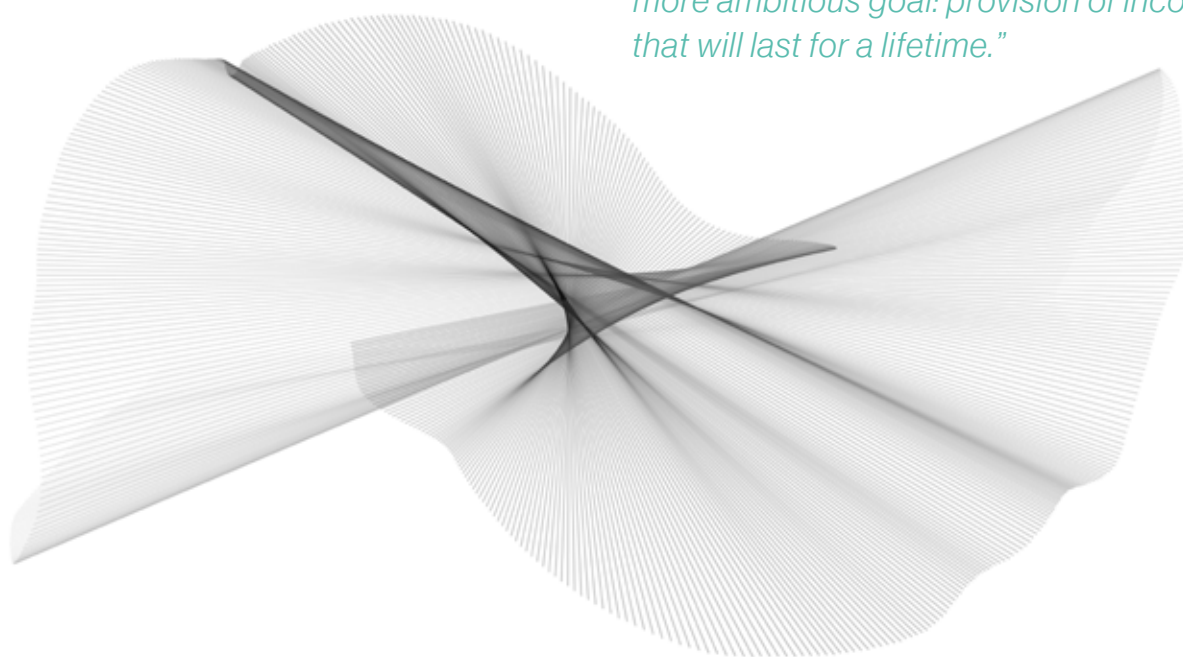
## Sustainability and long-horizon investing

With an increasing focus on sustainability throughout all aspects of investment, the Thinking Ahead Institute can play a unique role in helping asset owners to define and achieve their goals in this area. From capturing beliefs regarding sustainability and the benefits of a long-horizon approach, to the concrete steps needed to put those beliefs into action, the Institute has had sustainability at its heart since its inception.

Output to date includes several research papers, such as *The search for a long-term premium* and *Understanding purpose in the investment industry*, as well as measurement tools. We have created peer group benchmarks for asset owners and managers, allowing a comparison across organisations along six belief vectors – materiality, mispricing, financial, extra-financial, consistency and uniformity of beliefs.

In development are a value creation code and a workshop to help organisations articulate their purpose and wider impacts, as well as identifying next steps.

*"...the DC industry needs to move its focus beyond the accumulation of savings to a more ambitious goal: provision of income that will last for a lifetime."*

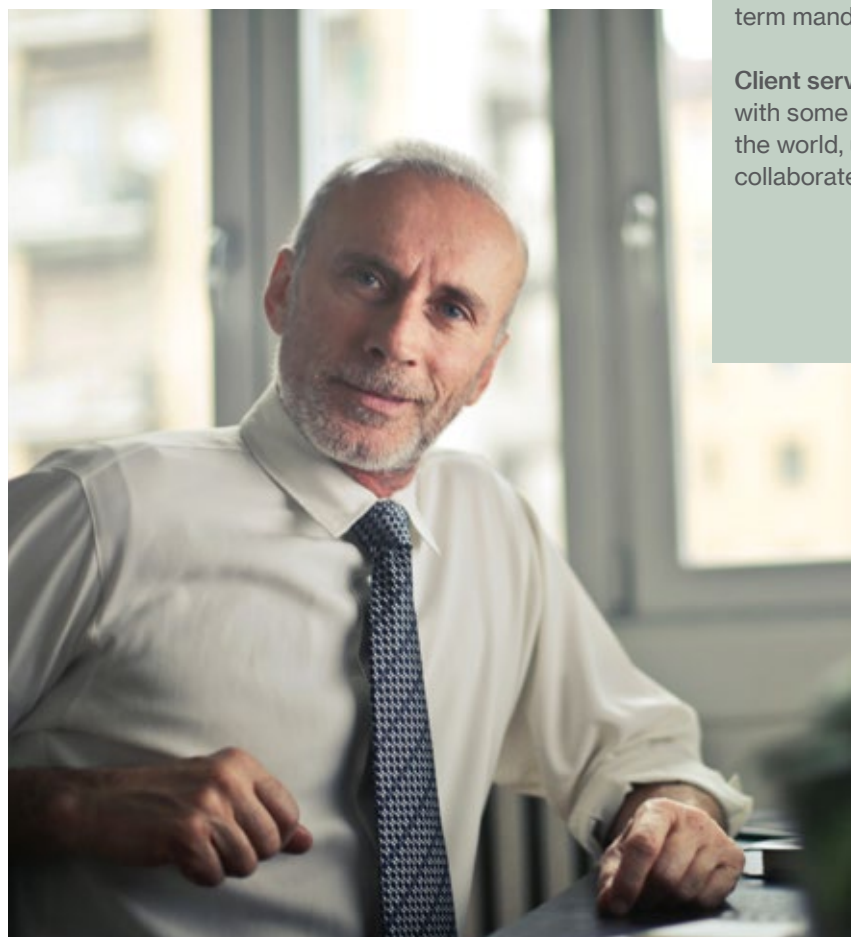




# Thinking ahead for asset managers

The operating landscape for asset management is changing faster than most participants could have imagined. Although assets globally have been stable or rising, the challenges are increasing as investors put more emphasis on outcomes.

Membership of the Thinking Ahead Institute provides access to research which can help asset managers think through the pressing issues and develop workable solutions. They can also gain from networking opportunities, including access to the thinking and needs of asset owners.



The Institute specifically targets certain roles within asset management organisations:

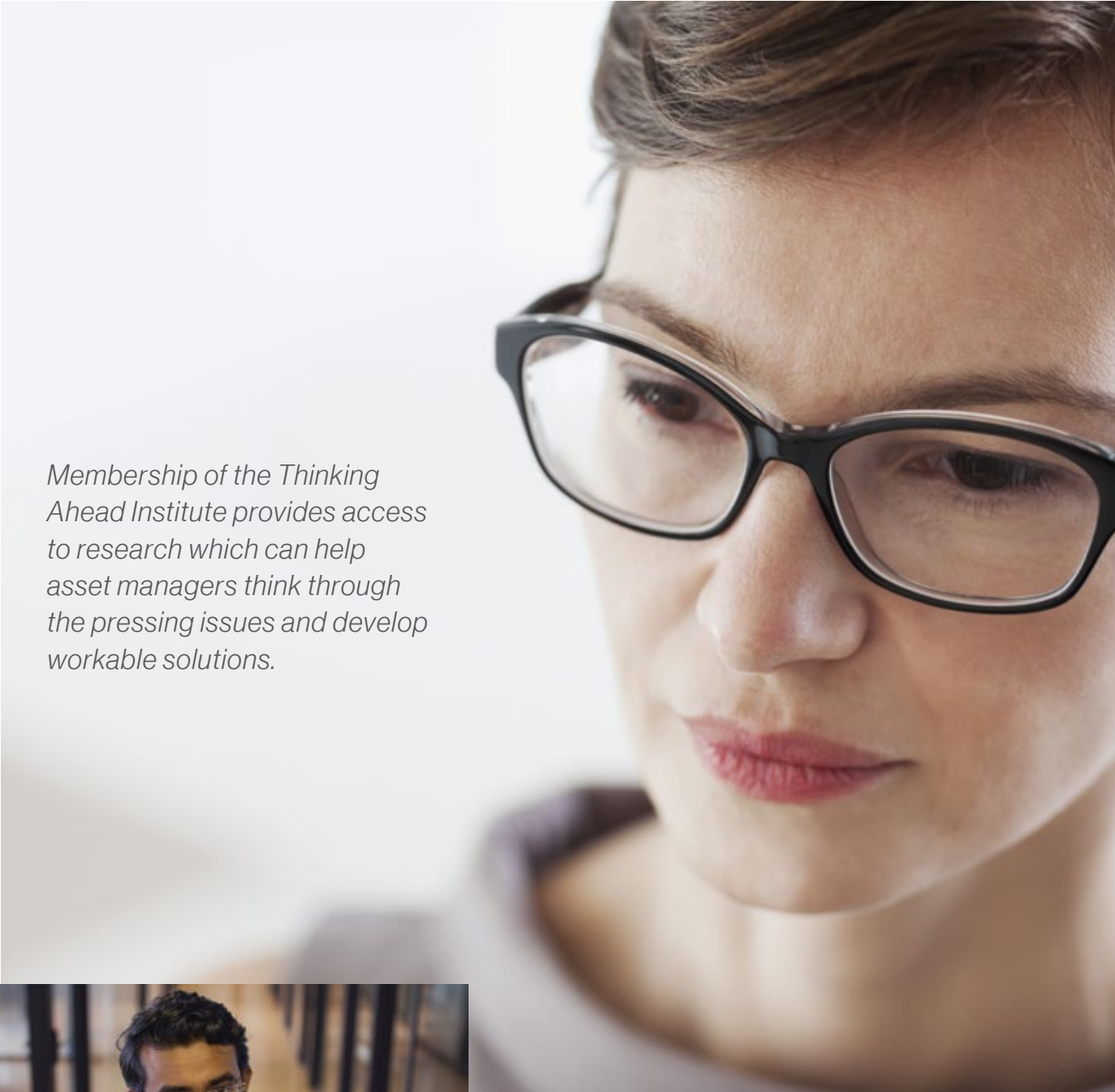
**Chief executive officer/chief investment officer.**

The Institute hosts an annual CEO and CIO dinner to talk about the future of asset management. Past conversations have ranged from organisational culture and issues relating to compensation and diversity, to active, factor and index tracking (and the associated shift in the skills mix), to whether the industry needs to entirely reinvent its purpose.

**Chief investment officer.** Research relevant for CIOs includes stronger investment theory, better decision making, stranded assets and investment as an ecosystem.

**Product development.** Research working groups and papers on the future of DC, sustainability, and long-term mandates.

**Client service.** The opportunity to meet and interact with some of the largest institutional investors in the world, understand their needs and, potentially, collaborate with them.



*Membership of the Thinking Ahead Institute provides access to research which can help asset managers think through the pressing issues and develop workable solutions.*



# Supporting stronger asset management

Two examples of recent research work streams, below, are influencing the thinking and processes of the Institute's asset manager members.

## Value creation

We do not believe that value creation by asset managers is purely about outperforming market benchmarks – even though the great majority of the industry acts as if it is. In *Connecting the dots: understanding purpose in the investment industry*, we lay out a path for better articulating the industry's purpose, and for understanding how value is distributed among stakeholders. In the follow-up paper *Mission critical: understanding value creation in the investment industry*, we define what value creation is, and lay out a vision for how the investment industry can better work for the benefit of end-savers.

We believe understanding what value creation is (and what it is not) is a key element of the Institute's broader work stream on sustainability and long-horizon investing, work which will continue through 2019 and beyond. This includes development of a value creation code and a workshop to help organisations articulate their purpose and wider impacts, as well as to identify the steps that organisations need to take to move forward.

## Culture

Culture is the collective influence from shared values and beliefs on the way the organisation thinks and behaves. The Thinking Ahead Institute rolled out a culture assessment framework for members in 2017. This framework has been adopted, for example, by Willis Towers Watson's manager research team and incorporated into its due diligence process. Within the Thinking Ahead Institute, we've created a workshop that has allowed us to work with organisations in order to assess culture, to create a direction of travel and a vision for moving it on, and a roadmap for maintaining and strengthening the culture in order to make that vision a reality.

Although good culture can take many forms, we feel there are some common indicators, such as strong leadership that distributes power, a healthy balance between employee value proposition (EVP), client value proposition (CVP), and diversity.

*"Understanding what value creation is (and what it is not) is a key element of the Institute's broader work stream on sustainability and long-horizon investing..."*



# 10 reasons to join us

In a nutshell, here's why you and your organisation should consider joining the Thinking Ahead Institute:

1. Identify and **solve key strategic problems** that your organisation faces, or will face
2. Collaborate and **network with leading investment organisations** from across the globe
3. Stay at the leading edge of genuinely **innovative investment thinking**
4. Benefit from **high-quality research** allied to useable tools
5. Access to a sounding board and **strategic insights** through annual 1-2-1 meetings and workshops
6. Potentially **improve your investment processes** and strategy, and operational effectiveness
7. **Test your strategies, governance and culture** against the best in the business
8. Achieve **personal stretch** through taking part in effective and productive working groups
9. Invitations to **high-quality events** providing relevant information on a range of topics
10. Be **part of the solution** the investment industry needs

# Thinking Ahead Institute research papers

## Decision-making

- How to choose?
- Better decision-making: a toolkit

## Enhancing DC

- DC: the movie
- Lifetime income – the DC system's missing design feature
- Proposing a stronger DC purpose

## Value creation

- Connecting the dots: understanding purpose in the investment industry
- Mission critical: understanding value creation in the investment industry

## The asset industry of tomorrow

- Smart leadership, sound followership
- The asset owner of tomorrow
- The asset manager of tomorrow

## Long-horizon investing

- The search for a long-term premium
- Converting the 99 (beliefs)
- What you think you become: building a long-horizon mindset
- Patience: not merely a virtue, but an asset
- Investing in equity factors for the long run – co-authored with Amundi Asset Management

Thinking Ahead Institute

How to choose?

A primer on decision-making in institutional investing



Thinking Ahead Institute

Better decision-making: a toolkit

December 2018



Thinking Ahead Institute

DC: the movie

It's a Wonderful Life, or Other Twist?



## Sustainability

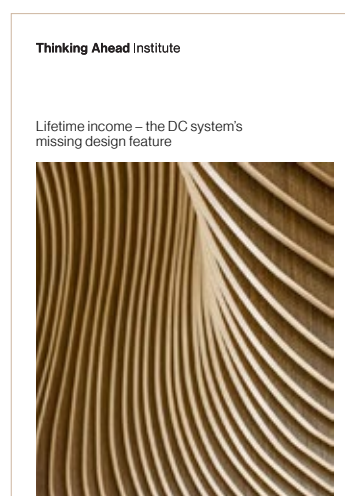
- Sustainability beliefs: a new measurement tool
- Sustainability portfolio construction: connecting risks to asset class returns
- Sustainability investing in practice: case studies

## Investment as an ecosystem

- System thinking and investment – introducing the ecosystem perspective
- Ecosystem: case studies

## Others

- The impact of culture on institutional investors
- Here be dragons – a compendium of short investment insights written in 2017
- Wot we wrote – a compendium of short investment insights written in 2018





# 2019 research streams

The Thinking Ahead Group's investment beliefs influence the research agenda by providing initial thinking and alignment with our mission of benefiting the end saver. But it is the Institute members who prioritise the research, add new topics to it and populate the research working groups. The working groups have proven to be a powerful way of engaging and collaborating, as well as producing ground-breaking research and practical tools. Our current research agenda includes:

## Sustainability – making value creation real

Sustainability is becoming an ever-more-important theme for the investment industry. It's a subject close to the heart of the Institute and we'll be pursuing a number of related initiatives this year, including Institute including a series of webinars and Institute summits.

Building on the value-creation work of 2018, we'll be launching a code and a workshop to help organisations articulate their purpose and wider impacts as well as to identify the steps that organisations need to take to move forward.

As well as building on and promoting our research on sustainability, value creation and long-horizon investing, we will selectively aim to fill perceived industry research gaps in these areas. In particular, we will be forming a working group to look at understanding and measuring the impact of sustainable investment.

## The asset classes of tomorrow

In 2017 we wrote about *the asset owner of tomorrow*, and in 2018 on *the asset manager of tomorrow*. This year we turn our attention to the changing nature of capital markets and will, through a working group, conduct an in-depth exploration of how markets may be evolving into something very different from what we have grown used to.

## Total portfolio approach (TPA) and universal ownership

TPA combines a greater focus on investment goals with a hyper-integrated portfolio management structure. This year we plan to explore the way TPA is being applied in practice, through a collaboration of international peers in a study of current and future asset allocation practice. In addition, we are building an Institute working group to develop clarity around best practices in this area.

Universal ownership is the recognition by the largest asset owners that they are – in effect – exposed to capital markets in aggregate. This perspective has implications for where governance efforts should be focused and for how externalities are treated. In 2019, we will explore what this means as an increasing number of leading institutions are embracing the universal owner mind set.

## Defined contribution – nudging's not enough

2019 is the defined contribution working group's third year. The group's focus is moving on from retirement income solutions to member engagement. Specifically: what are the principles for when to use the nudge approach – and when not to? How can the system be structured to minimise poor long-term decision-making? How can segmentation be made more effective?

## Continuing work

We will publish our thoughts on the role of scenarios in investment planning – and how to avoid their misuse; that paper flows from 2018's work stream on the VUCA\* world. We also test our methodology that has come out of our work on fundamental return attribution which breaks down a portfolio's returns into those resulting from changes in market sentiment and those resulting from growth in intrinsic value.

\*Volatile, uncertain, complex, ambiguous

If you would like more information about the Thinking Ahead Institute or would like to discuss membership, please contact Paul Deane-Williams on 01737274397 or email him on [paul.deane-williams@willistowerswatson.com](mailto:paul.deane-williams@willistowerswatson.com)

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### About the Thinking Ahead Institute

The Thinking Ahead Institute was established in January 2015 and is a global not-for-profit investment research and innovation member group made up of engaged institutional asset owners and service providers committed to changing and improving the investment industry for the benefit of the end saver. Currently, it has over 40 members around the world and is an outgrowth of the Thinking Ahead Group which was set up in 2002.

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