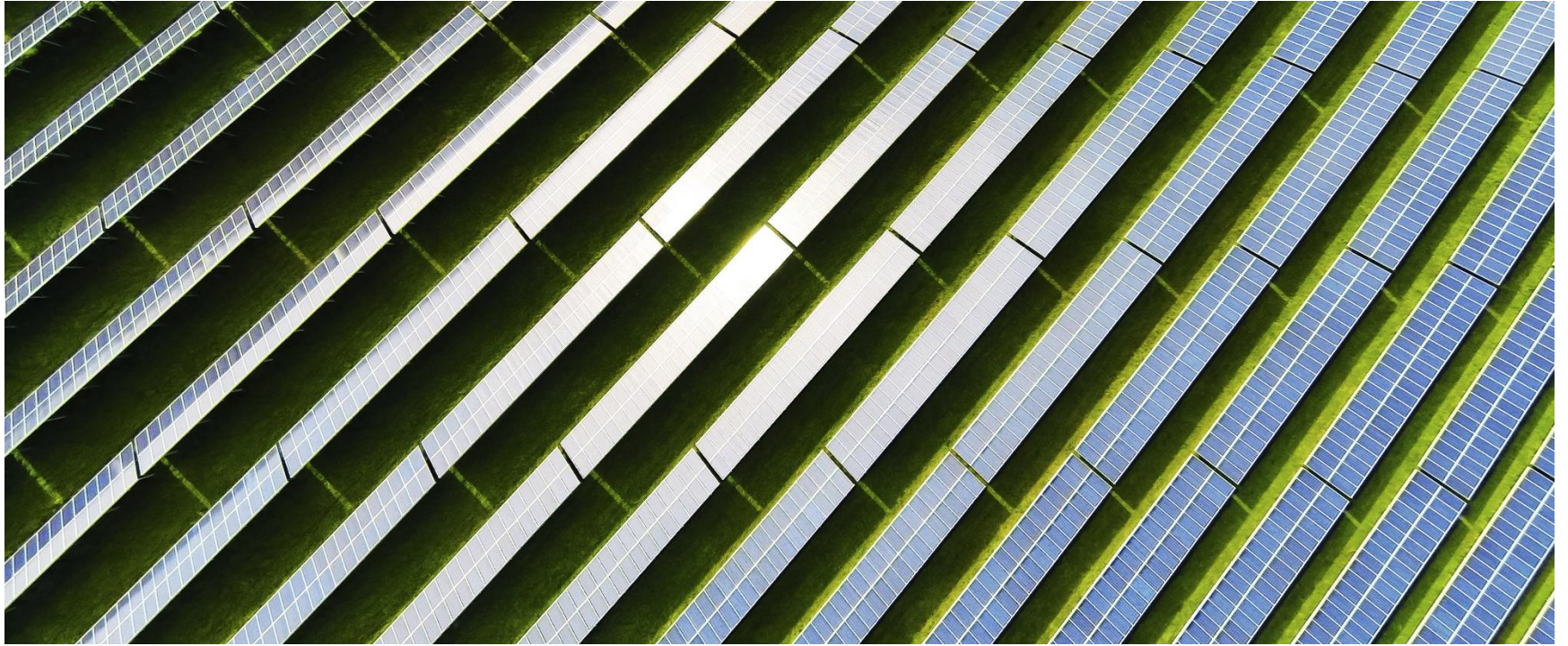
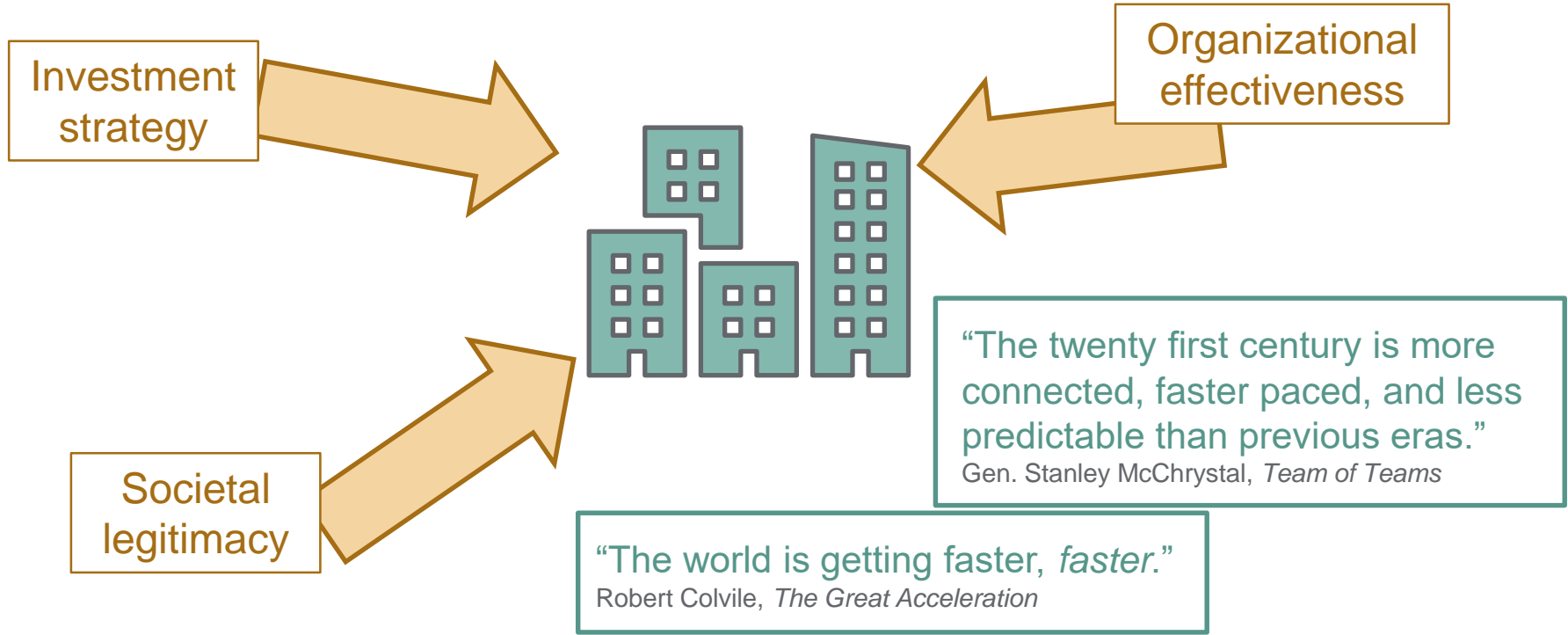


New investment models for a changed world

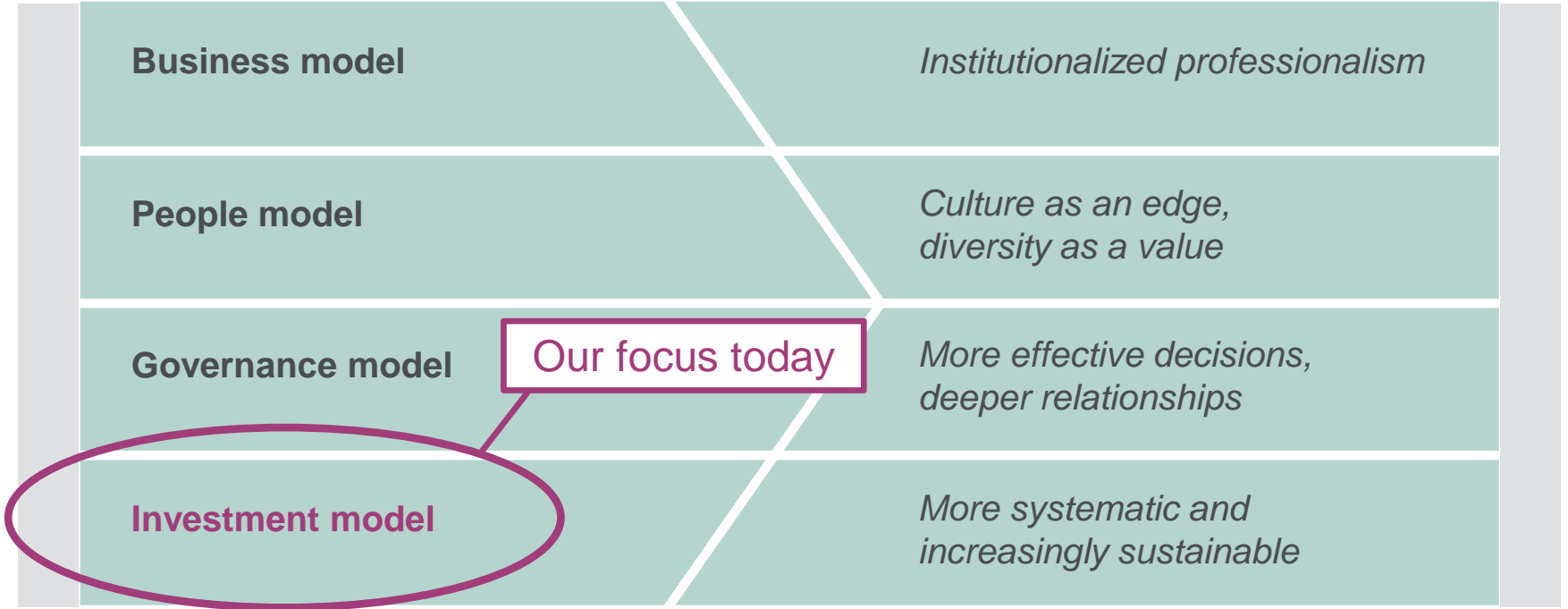
Toronto breakfast | September 19, 2019



Backdrop: the industry is being challenged on multiple fronts



The response involves shifts in all aspects of the organization



The total portfolio approach

1. I am **familiar** with this topic, and **positive** about its value **18%**
2. I am **familiar** with this topic, and **neutral** about its value **0%**
3. I am **familiar** with this topic, and **negative** about its value **0%**
4. I am **moderately familiar** with this topic, and **positive** about its value **45%**
5. I am **moderately familiar** with this topic, and **neutral** about its value **9%**
6. I am **moderately familiar** with this topic, and **negative** about its value **9%**
7. I am **unfamiliar** with this topic **18%**

Understanding the impact of sustainability activity

1. I am **familiar** with this topic, and **positive** about its value **55%**
2. I am **familiar** with this topic, and **neutral** about its value **27%**
3. I am **familiar** with this topic, and **negative** about its value **0%**
4. I am **moderately familiar** with this topic, and **positive** about its value **18%**
5. I am **moderately familiar** with this topic, and **neutral** about its value **0%**
6. I am **moderately familiar** with this topic, and **negative** about its value **0%**
7. I am **unfamiliar** with this topic **0%**

The evolution of the global investment opportunity set

1. I am **familiar** with this topic, and **positive** about its value **36%**
2. I am **familiar** with this topic, and **neutral** about its value **27%**
3. I am **familiar** with this topic, and **negative** about its value **0%**
4. I am **moderately familiar** with this topic, and **positive** about its value **18%**
5. I am **moderately familiar** with this topic, and **neutral** about its value **18%**
6. I am **moderately familiar** with this topic, and **negative** about its value **0%**
7. I am **unfamiliar** with this topic **0%**

The balanced scorecard approach

1. I am **familiar** with this topic, and **positive** about its value **25%**
2. I am **familiar** with this topic, and **neutral** about its value **8%**
3. I am **familiar** with this topic, and **negative** about its value **0%**
4. I am **moderately familiar** with this topic, and **positive** about its value **25%**
5. I am **moderately familiar** with this topic, and **neutral** about its value **17%**
6. I am **moderately familiar** with this topic, and **negative** about its value **0%**
7. I am **unfamiliar** with this topic **25%**

Structure of discussions

Total
portfolio
approach

Sustainability

Global
opportunity
set

Balanced
scorecard
approach

1. We will share some thoughts

2. A polling question

3. Some prepared thoughts

TPA: Jonathan Simmons, OMERS

Sustainability: Wei Xie, OPTrust

4. Open discussion

The total portfolio approach

- Total portfolio approaches cover a spectrum of approaches with three broad characteristics:
 - they are dynamic – they operate in real-time governance
 - they start with goals – very clearly specified investment goals
 - they employ one joined-up process – a competition for capital amongst all investment opportunities
- Three primary areas of advantage over traditional SAA



The total portfolio approach

- The key challenges are governance-related:
 - the board's relationship to the strategic asset allocation
 - how do you monitor progress and measure success?
 - scale, resourcing and specialization

The total portfolio approach

The total portfolio approach will become more important in the next 5-10 years (better understood, more influential, better implemented, more widely accepted, more widely adopted)

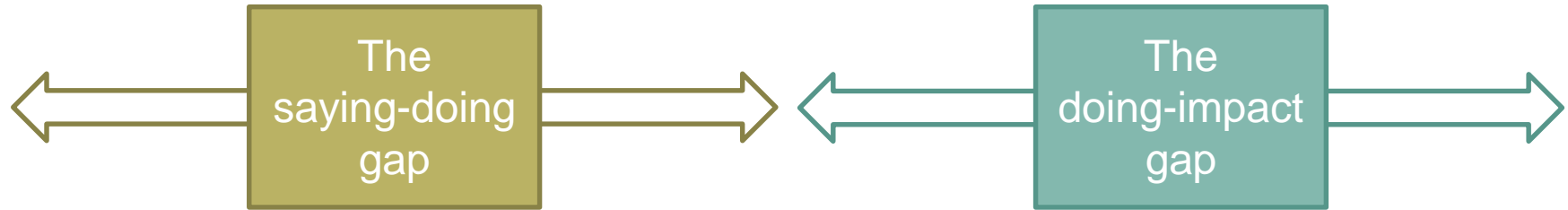
1. Strongly agree **23%**
2. Agree **54%**
3. Neutral **15%**
4. Disagree **8%**
5. Strongly disagree **0%**

The total portfolio approach

Suggested discussion areas:

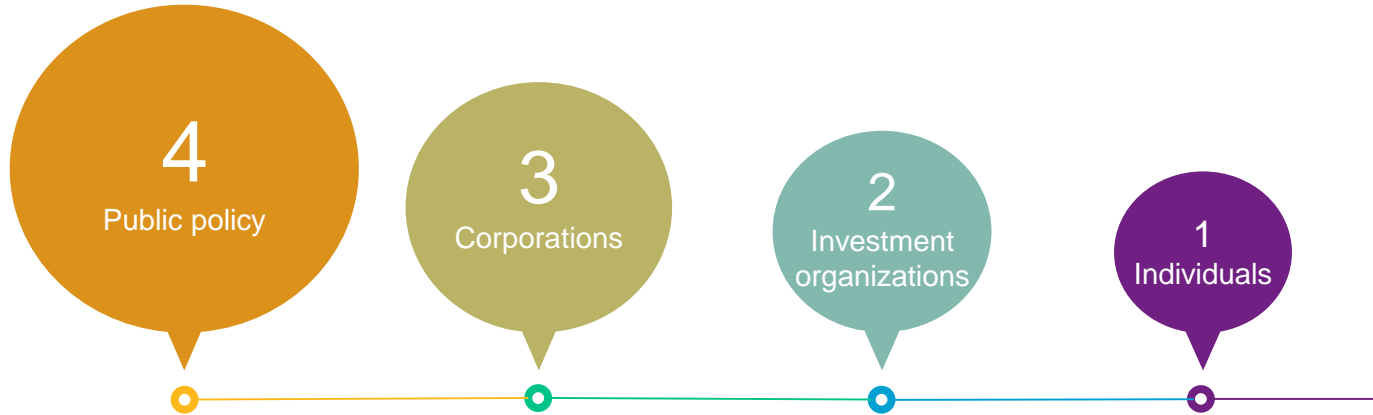
- A better understanding of objectives
- Governance blocks
- Mindset and culture
- Data and risk challenges
- Sustainability in the context of TPA

Understanding the impact of sustainability activity



Understanding the impact of sustainability activity

The 4-3-2-1 PIN code for a more sustainable economy:



Understanding the impact of sustainability activity

1

DEFINE YOUR GOALS

Get strategic clarity on purpose, mission, values and goals and then build beliefs

2

UNDERSTAND YOUR BOUNDARIES

Which stakeholders is value being created for and for which is it being destroyed?

3

MEASURE YOUR IMPACT

Collect data, measure what is meaningful

4

UNDERSTAND THE VALUE CREATED

Improve your decision-making, build your narrative

5

COMMUNICATE!

Be transparent by reporting on the value created

- Expectations and best practices around stewardship activity are evolving



Understanding the impact of sustainability activity

The investment industry has a social duty to do a better job of stewardship, to create a better-functioning market and a more sustainable economy

1. Strongly agree **20%**
2. Agree **60%**
3. Neutral **20%**
4. Disagree **0%**
5. Strongly disagree **0%**

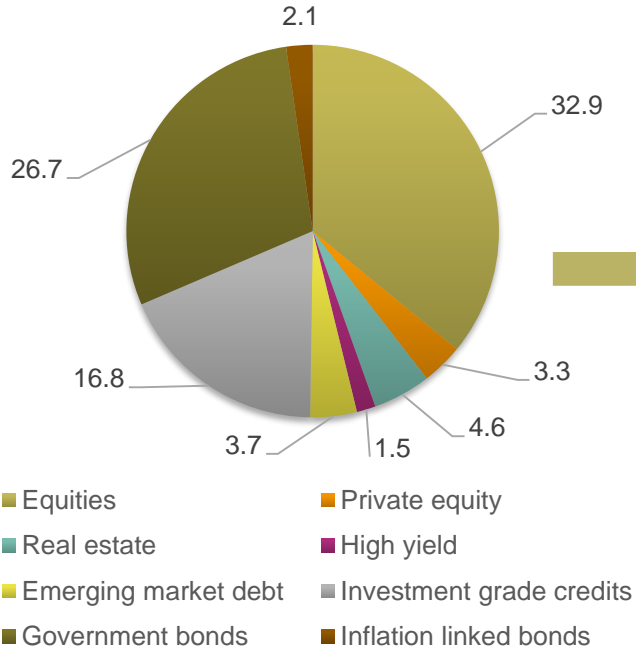
Understanding the impact of sustainability activity

Suggested discussion areas:

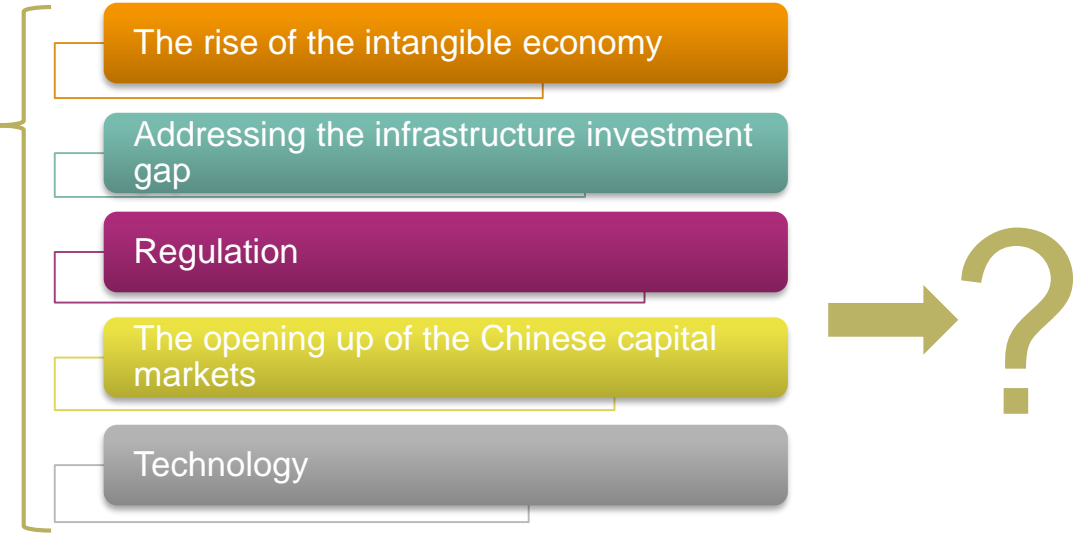
- Purpose: what is our responsibility for our impact?
- The value creation boundary
- Stewardship
- Standards
- Fiduciary constraints
- Sustainability beliefs
- Communicating value created
- Data constraints – fixable/non-fixable

The evolution of the global investment opportunity set

Global market portfolio **2012** (USD trn)



How will the investable universe for institutional investors evolve over the years and decades to come and what are the important implications for investment organizations?



Source: "The global multi-asset market portfolio 1959-2012", Doeswijk, Lam and Swinkels, FAJ, 2014

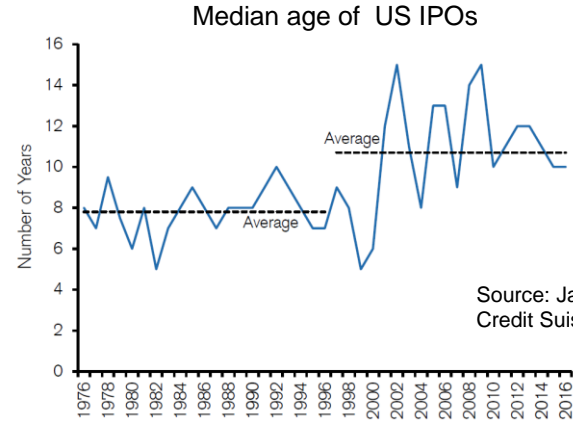
The evolution of the global investment opportunity set

Public and private markets
Is becoming a public company a *need* or simply a *choice* for businesses reaching certain scale but still wanting to grow?

The opening up of China

Supply.
Demand.

What is different about China?
Which future paths are more (and less) likely?



The balanced scorecard approach

Kaplan and Norton key concepts

- 'Balanced scorecards translate a series of coherent performance measures into a common goal'
- '..while the multiplicity of measures may seem confusing, scorecards contain a unity of purpose'

Balanced Scorecards applied to investment

- Performance should not be 'dumbed down' to one measure
- Balanced scorecards can integrate soft (process) and hard/outcome concepts
- Relevant to managers, consultants and trustees/sponsors



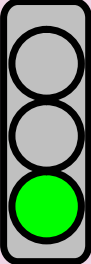
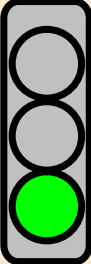
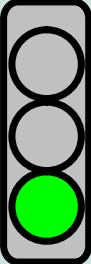

The measure is incompatible with goals. This requires more detail and discussion.

The compatibility of the measure is open to question. This measure needs to be monitored closely.

The measure is compatible with goals. No further scrutiny may be necessary.

*Tell me not
what you know,
but what I need
to know*

Balanced scorecard for monitoring an asset manager

<p>Principal target measures – 20%</p> <ol style="list-style-type: none">1. 2018 performance (target of CPI +5%)2. Last 3 years performance3. Since inception target4. Money-weighted performance since inception 	<p>Process measures – 30%</p> <ol style="list-style-type: none">10. Future skill rating11. Quality of meetings / front-office work12. Quality of admin/ back-office work13. Effectiveness as owner rating 
<p>Support measures – 30%</p> <ol style="list-style-type: none">5. Performance vs index comparator6. Performance vs peer comparator7. Income performance8. Prospective income performance9. Historic income performance 	<p>Risk measures – 20%</p> <ol style="list-style-type: none">14. Diversification guidelines15. Historic volatility vs target16. Prospective volatility vs target17. Soft risk18. Capacity constraints19. Risk model breakdown20. Contribution to total risk budget 

Balanced scorecard for monitoring value creation

		Financial metrics	Non-financial metrics
Value creation is an increase in the stock of monetary and non-monetary resources...			
Human			Improvements in employees' skills and motivations to innovate; increased alignment with company purpose
Intellectual			Improvements in knowledge-based intangibles such as intellectual property, protocols and systems
Social and relationship			Improvements in the organisation's relationships with other stakeholders; the ability to share information to enhance the organisation's and collective well-being
Natural			Improvements in environmental resources and processes that support the prosperity of the organisation (eg bio-diversity land, health of the investment ecosystem)
Manufactured			Improvements in physical objects used in the production of services (eg technological infrastructure, office space)
Financial	Margin/growth; return on capital / cashflows		
...used to create future wealth and well-being for stakeholders...			
Shareholders	Increased return on capital; continued authorisation to operation; minimization of regulatory breaches		Improved trust and transparency
Employees	Fair and transparent pay; competitive benefits		Autonomy; sense of belonging / collegiate atmosphere; training to improve skills
Customers	Compounded wealth; longevity protection; conversion of wealth to consumption		Risk management; financial planning; trust built (enter hopeful / exist satisfied)
Other investment firms	Mutual financial benefits due to the development of long-term relationships (eg more efficient payment transfer systems)		Participation in networks to promote and improve industry improving social licence to operate
Government	Ability to pay taxes; adhere to, or improve on, regulations/guidance		Good citizenship: government viewed as a value-adding partner (regulation, apprentice schemes, social safety net)
Society	Minimisation or recovery of externalities		Maintenance of social licence to operate (may also lead to financial outcomes)
Planet	Minimisation or recovery of externalities		Improved environmental handprint
...as judged by observers, mindful of the passage of time.			

Specific KPIs to meet these high level goals should be determined by each organisation.

The balanced scorecard approach

Balanced scorecards can significantly enhance asset owners' ability to understand and manage their progress

1. Strongly agree **18%**
2. Agree **55%**
3. Neutral **27%**
4. Disagree **0%**
5. Strongly disagree **0%**

The balanced scorecard approach

Suggested discussion areas:

- Is the payoff worth the effort?
- How much are they used?
- Governance issues
- Should we advocate for greater use?

What have we learned?

About...

Investment
strategy

Societal
legitimacy

Organizational
effectiveness

About...

The total portfolio approach, the advantages and the governance implications

Value creation, the doing-impact gap and the effectiveness of sustainability activity

The evolution of the investment opportunity set and what this means for investors

The balanced scorecard approach, the advantages and the barriers to adoption

Limitations of reliance

Limitations of reliance – Thinking Ahead Group 2.0

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