

Investment Organisation of Tomorrow – Summit 2022

Pre-reading



Thinking Ahead Institute

WillisTowersWatson 

IOOT summit

The conclusions of the 2021 working group



- 1. Content section** – What the working group discussed and delivered
 - Factors affecting organisational effectiveness
 - The external forces of change affecting these organisations
 - The internal and external factors affecting them through their people model
 - The alternative pathways they can choose in their respective investment models



- 2. Interactive section** – Conversations with members
 - Summary of the IOOT business plans
 - How much the investment organisation of tomorrow needs to change
 - Conversations with group members



- 3. Discussion section** – Member views, polling, and Q&A. Where next with IOOT22
 - Further member and participant views
 - How are purposes and visions evolving in the industry?
 - The trends in workforce composition and practices at investment organisations
 - How large-scale are the movements to net zero arrangements?
 - What should be the shape and scale of the change model needed?

Investment Organisation of Tomorrow

2021 working group

- 20 C-level professionals involved with significant change
- The goal – what should effective transformational change look like?
- The change imperatives - a shift to systems-wide thinking and leadership
- Three change areas – business, people and investment model

An agenda for change

Transformational change for investment organisations

Pre-publication version | March 2022



Purpose - a word with a big future

Wider stakeholder interests factored into activities and decisions

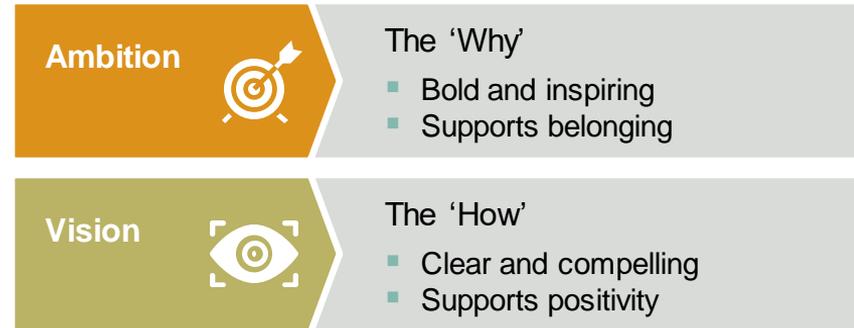
Purpose

- Why we exist, whom we serve, what outcomes we seek
“Concrete goals for the organisation that reach beyond performance and profit maximization” Henderson (2015)

Purpose is becoming more balanced

Purpose reflects ambition and vision

- The purpose speaks to the organisation’s direction, motivations, reputation and relationships



Leadership – critical to a better future

We need a better balanced and more inclusive leadership model

Our leaders' style emphasises ...

Dominance and confidence with hard power authority
Tribalist narrative ('them and us')



Serving and empathy with soft power influence
Inclusive narrative ('in this together')

Our leadership strategy tends to...

Be short-term and transactional
See things in terms of win-lose and bargaining



Be long-term and system-savvy
See things in terms of solidarity and coalitions

Our teams are structured...

In hierarchical organisational design
With divisions and siloes



In flat networked organisational design
With teams and networks

Have you a good balance of **dominant black and white** and **empathetic green** attributes?

The investment framework paradigm shift

3D investing frameworks can and should be created that balance portfolio risk, return and impacts

	Previous MPT investment framework	3D investment framework
Goals	<ul style="list-style-type: none"> Alpha focused Centred on shareholders 	<ul style="list-style-type: none"> Long-term sustainable value creation Centred on stakeholders
Strategies	<ul style="list-style-type: none"> 2D investing – risk and return Asset allocation and security selection 	<ul style="list-style-type: none"> 3D investing – risk, return and impact As before plus active ownership and policy engagement
Pros and cons	<ul style="list-style-type: none"> Has strong academic literature and endorsement Manages risk and return through simple-to-grasp quantitative framing 	<ul style="list-style-type: none"> Has growing industry and practitioner support Manages ESG and real world impact as integrated issues

The paradigm shift to ESG3.0

Total portfolio approaches provide the framework for sustainability within fiduciary constraints

4. 3D Investing - ESG 3.0*

Improving financial and sustainability outcomes within fiduciary duty

1. Systems theory

The critical thinking and tool to use to advance the sustainability field

3. Universal Owner strategies

Aiming to achieve real-world impacts on the environmental and societal system

2. Total Portfolio Approach

Applying the integration of multiple factors to align with fund-specific goals

- ESG1.0 – the SRI movement to 2005,
- ESG2.0 – the PRI 2006-2020,
- ESG3.0 – sustainability from 2020 with impact alongside risk and return



The Investment Organisation of Tomorrow – working group business plans

The foundational enablers for effective change developed in the 2021 working group

		Enablers
Culture		A. Effective culture
		B. Purpose-driven
Skills		C. Systems-thinking
		D. Aligned thinking/governance
		E. Change-capability
Technologies		F. Effective technology
		G. Collaboration commitment



The power of teams

The opportunity to apply Superteam principles to how teams are organized and function

- Teams depend on collective intelligence – we are smarter together than on our own
- Cognitive diversity strengthens collective intelligence - your team line-up and its way of working
- How strong culture and governance can turn good teams into Superteams
- The power of diversity, equity & inclusion and T-shaped teams – applying deep and wide intelligence
- How the reimagining of work is an opportunity to reconfigure the work infrastructure to support the hybrid model

SUPERTEAMS

“A Superteam is a team configured to deliver exceptional accomplishments and outcomes”

The value chain shifts

In the shift from competing for alpha to building better beta...

There should be a rise in...

- Strategic engagement – to produce the corporate change we need
- Strategic partnership – to support the innovation and idea generation we need
- Engaging with coalition organisations – to mobilise more focus and action

Supported by

- Balanced score cards – to keep score better, produce better accountability and align rewards



Some key change principles

Change is hard because it hurts. But there are some enablers that would make it hurt less

The aspirations

Vision

Compelling and inspiring case for change told many times

Coalition

Mobilising critical stakeholders into an aligned force

Process

Sure-footed and agile execution of multiple strands

The actions

- Clarity of landscape picture
 - Using the 'smouldering platform'
 - Theory of change. Feedback
-
- Right people, right seats
 - Reach out upwards and outwards
 - Succession plans
-
- T shaped skills. Change skills
 - Multi-quarter patient process
 - Keeping score. Aligning reward

Appendices

Extracts from IOOT in 2021

- Summary of conclusions
- Leadership model discussion
- IOOT business plan summaries

Investment Organisation of Tomorrow – the 2021 conclusions revisited

The shared vision: considerable challenges in change, but the change imperative is clear nonetheless.
With the critical need for strategic leadership to tie the multiple hard and soft strands together

Project focus	Conclusions
1. Purpose and vision – Multi-stakeholders increasingly frame asset owner direction of travel	<ul style="list-style-type: none">▪ Societal context has changed, stronger stakeholders have emerged, investor goals have multiplied and shifted▪ Solidarity and collective action are increasingly favoured with systems and strategic leadership being critically required
2. Investment conventions - Risk intelligence and real-world impact need to reach new levels	<ul style="list-style-type: none">▪ Investment practice is shifting, with value creation seen differently, particularly on sustainability in ESG, active ownership▪ Total portfolio thinking, 3D investing and universal ownership together define a stronger investment framework
3. Infrastructure – Asset owners’ infrastructure critical to deliver change but the soft stuff is the hard stuff.	<ul style="list-style-type: none">▪ Investment infrastructure critical for success – thinking and practice, reporting and data, resourcing and collaborations▪ We need Superteams that capture diversity, culture and governance excellence▪ The stronger value chain needed will come from stronger mindset and relationships
4. Holistic picture – To effect change on the scale suggested, the leadership needed is holistic and strategic	<ul style="list-style-type: none">▪ Successful change is premised on articulating a strong and compelling vision plus building a leadership coalition of board and executive stakeholders plus applying a disciplined change process that works on multiple strands

Theory of leadership model

The 2021 working group established certain principles for effective strategic leadership

Context: Decisions becoming more difficult

Leadership just got a lot tougher

- **Leadership has new expectations to carry, new narrative to deliver and new judgements to make at a time when uncertainties have reached a new level.** We should recognise how often decisions will not be clear-cut.
- Decisions have got more difficult through the current crisis with more complex situations, more uncertainty present and limited relevant data. This is a time to try to strengthen the coalitions supporting tough decisions with diverse counsel, dispassionate assessment and disciplined follow-through all important.

Leadership must lead the innovation process

- Crises generally create conditions for more experiments to be run and more innovations to be put into practice with a particular type of leadership mindset:
 - Pro-active mindset; and agile structure for creative ideas
 - Measurement mindset around judgement and patience
 - Marketplace/ownership mindset attuned to the needs and pain points that will frame demand

Leadership styles need to shift

- **The dominant-serving and transactional-systemic leadership vectors are important markers of leadership style where the bias to the former has clearly not worked.** There is increasing support for serving and systems leadership and complemented by flat structures/ networked teams.

Theory of leadership model (2)

The 2021 working group established certain principles for effective strategic leadership

	Context: Inclusion becoming more critical
Managing through crisis conditions	<ul style="list-style-type: none">▪ In a crisis, we watch leaders closely and place over-emphasis on their communications. We want both to be listened to and to be led▪ In response, leaders should consciously overcommunicate, but making the tone authentic and personal, with honesty about the present, and reasoned positivity about the future
Managing through new conditions	<ul style="list-style-type: none">▪ In a world of changing zeitgeist with millennials a bigger part of the mix the business case to treat the workforce with much deeper respect has become much stronger.▪ The vital signs around diversity need for it to be at least 'safe', and at best 'cherished' but the bad news has revealed how non inclusive organisations have truly been▪ The better news is that industry leaders have tuned into this subject, and publicly said how unjust things have been, have committed to act with urgency to make diversity cherished
Leadership opportunities with these re-sets	<ul style="list-style-type: none">▪ Three prime opportunities to work on<ul style="list-style-type: none">- Organisational purpose and identity re-sets – a new social contract- New ways to support and re-establish trust- Urgent attention to the sustainability nexus that links purpose, D&I progress and ESG

Investment Organisation Of Tomorrow – 2021 working group business plans

The group created multiple transformational change business plans to test their thinking

Change summary	<ul style="list-style-type: none">▪ The change plans prepared by members were both highly aspirational (ambitions to move significantly and across multiple dimensions) and highly holistic (recognition of the need to accomplish multiple enablers to achieve goals)▪ The amount of change given to core business/ people investment model shifts and to infrastructure enabling strands were similar in total – both substantial▪ The common feature of moving one notch from a current position to a target position can seem incremental but when applied to multiple dimensions it becomes transformational. There was a disinclination to be focused on a select few areas in the plans, all members saw the inter-connectedness and so emphasised the need to work on the multiple challenges together. The principle of ‘good enough’ was not being applied
Areas that seemed notable in being emphasised and repeated	<ul style="list-style-type: none">▪ Transformational change needs a coalition of leaders to come together with respect to a strong vision▪ It was agreed that organisations need to be joined up in all parts of the enterprise – to manage the way with multi-stakeholders with a worldview and version of the ‘truth’ that is right for everyone. Therefore the big emphasis on systems thinking and systems leadership resonated across many members▪ There was a surprisingly positive view of the importance of universal ownership while recognising this will involve considerable influencing work to gain traction▪ There was a notably positive view of needing <i>Superteam</i> capabilities which is premised on the size of the organisational challenges involved▪ The net-zero target states were strong with significant new commitments for all given they have all been developed in the last 12 months
Under-emphasised	<ul style="list-style-type: none">▪ The area that seemed under-discussed was technology disclosing a lack of comfort with what progress had been made and what future success looked like
Dashboards	<ul style="list-style-type: none">▪ The change dashboards were appreciated. See two following slides

IOOT 2021 working group business plans summary

Dashboard summary (member averages)					
	Change areas	(1) Current State*	(2) Target State*	(3) Target gap	Narrative
Business model	1. Multi-stakeholder ambition	3	4	1	Aims to address multi-stakeholder purpose with focus on clients, workers, society, planet and owner/sponsor
	2. Net-zero ambition	3	4	1	Explicitly commits to manage its portfolios and operations to align with Paris with net-zero carbon by 2050
People model	3. Talent/ DE&I/ Superteams	3	5	2	Develop best practices in employee experience including DE&I; superteams model; hybrid model flexibility
	4. L&D commitment	3	4	1	Builds out learning & development platform to enable employee growth and development and other learning
Investment model	5. Total portfolio thinking	3	4	1	Investment process has total portfolio emphases through alignment to goals and one-team culture and collaboration
	6. 3D investing	3	4	1	Investment process integrates the risk, return and real-world impact goals on the environment and society
	7. Universal Ownership	2	4	1	Employs strategies that build better beta through systemic engagement and joined-up management of externalities
	Sub-total	2.9	4.1	1.2	
Enablers	A. Effective culture	3	5	1	Culture is strong in client-centric and people-centric areas and is reinforced by consistent leadership actions
	B. Purpose-driven	4	4	1	Purpose is clear on ambition and vision beyond profit and drives energy, resources and focus
	C. Systems-thinking	3	4	1	Thinking is multistrand in seeing how everything connects at multiple levels while recognising power in collaboration
	D. Aligned thinking	3	4	1	Thinking and governance is joined-up, so any differences of views/opinions can be worked through via socialisation.
	E. Change-capability	3	4	1	Process and leadership competencies enable large-scale change programs to be successfully managed
	F. Effective technology	2	4	2	Technology channels decision-useful data to appropriate places and enables organisational effectiveness
	G. Collaboration culture	3	4	1	Work with external partners and providers to streamline and leverage work excellence via scaling and specialisation
	Sub-total	3.0	4.1	1.1	

Investment Organisation Of Tomorrow – working group 2022

The 2022 working group segues to consider the successful execution of the change

Executing change	Elements of change
Vision for change	1. Bigger societal role for the AO
	2. Aligned organisation and value chain
Coalition	3. Co-creator of new wealth
	4. 3D investment model
Process	5. Net zero emissions pathway
	6. SDGs using universal ownership
Leadership	7. Managing and influencing risks

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