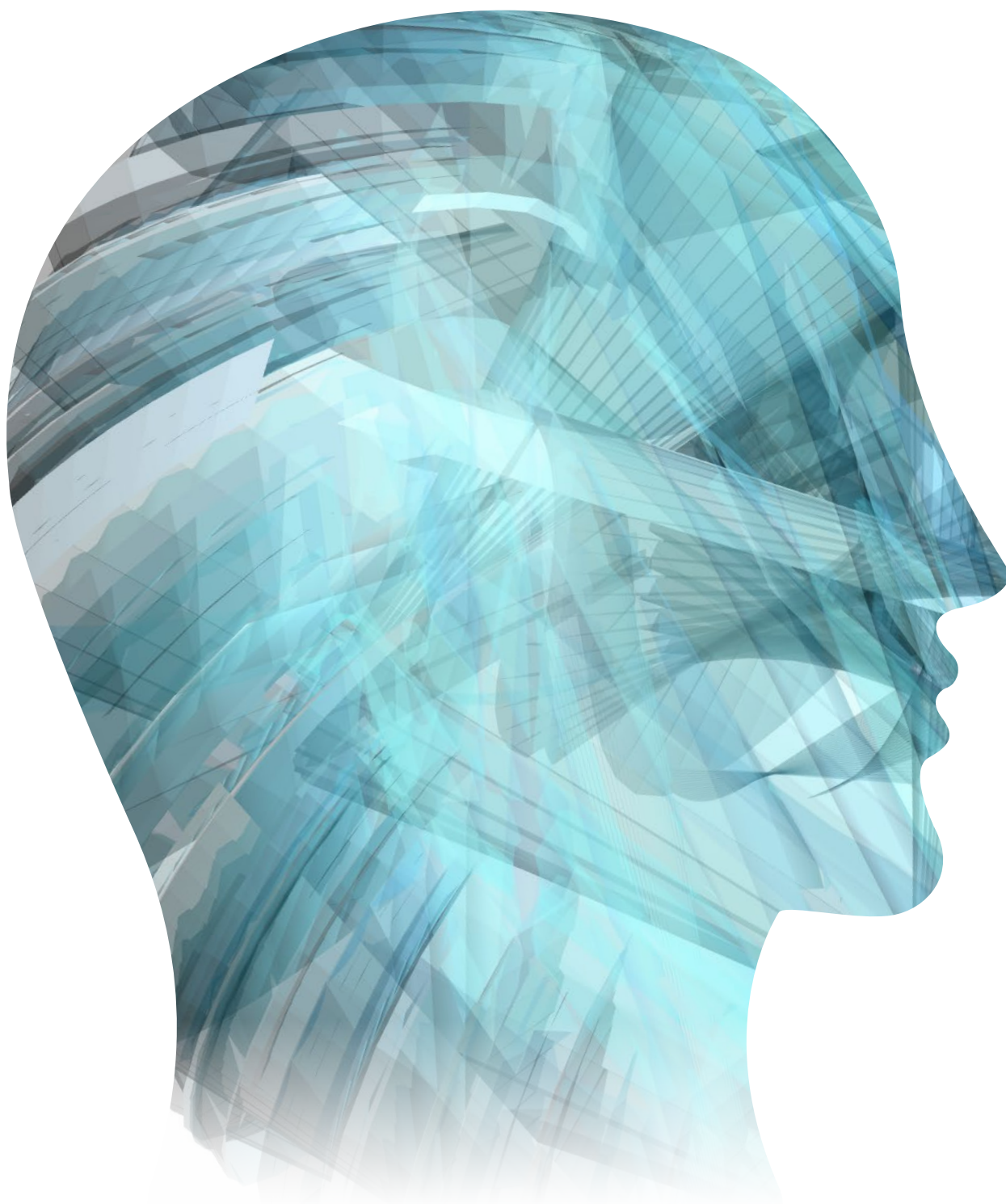


**Thinking Ahead** Institute

Integrated report 2019





# Thinking Ahead Institute

Integrated report 2019

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# Welcome to our 2019 integrated report

## Five years

2019 was the fifth year for the Thinking Ahead Institute. In the spirit of the <integrated reporting> framework this report covers multiple time periods, not just the 12 months of 2019. However, if you choose to use the words ‘thinking ahead’ to define you, then there is limited scope for retrospectives. The pressure is to be forward looking. In that spirit, the Thinking Ahead Group, the executive to the Institute, put itself through a strategy refresh process during 2019 in order to be ready to tackle the next five years.

Our heart remains with the end saver and the public good. We still believe the investment industry can deliver a better customer value proposition, in part through purposeful organisations operating effective cultures that empower their leaders to be more innovative and to address issues such diversity and inclusion and sustainability. But our heads see the environment changing around us. The transition from ‘normal’ to ‘pandemic’ was wrenching and disorientating. We will shortly face another transition to ‘post-pandemic’, with little clarity over what that might look like. We doubt it will exactly resemble the recent ‘normal’. And, despite the temporary reprieve, the climate crisis will continue.

Our two sustainability events in November 2019 were both sobering, but also inspiring – there are many in our industry who want to play their part in bringing change. It isn’t just climate change of course. The loss of biodiversity, to us at least, has non-linearity written all over it. To date we have been able to wave goodbye to numerous species of flora and fauna with no apparent impact on our quality of life.

At some point the continued extinction of more species will become obviously negative for us – our food, waste recycling and disease fighting capabilities all depend on healthy ecosystems.

Then there is the massive and multi-dimensional problem of inequality. We have deep sympathy with those who argue that this is the world’s most important problem. It has been said that, as far as the coronavirus is concerned, we are all equal. While a contextual statement, it is important not to forget that the wealthy will lose their jobs at a far lower rate than the low paid; and they will self-isolate in greater comfort and better mental health. The most urgent current problem, then, is controlling the pandemic. After that we will need to restart the economic machine. It would be a tragedy to do so without simultaneously tackling climate change – because that, too, will disproportionately hurt the poor.

So, to unite our heads and our hearts we decided to add a second purpose statement. So, for the next stage the Thinking Ahead Institute will be about:

**Mobilising capital for a sustainable future.**

In short this means continuing to drive sustainability forward in all its forms and providing you, our members, ways to be more effective whether through the power of culture, or adopting total portfolio thinking or helping prepare you and your teams for a different world order. Thank you for your support and we hope you are also excited by the next stage of the journey!

## The Thinking Ahead Group team



Nikki Brown



Nicky Cowan



Paul Deane-Williams



Jess Gao



Marisa Hall



Tim Hodgson



James Price



Roger Urwin



Liang Yin



# Overview of the Institute

The Thinking Ahead Institute is a global not-for-profit research and innovation hub that connects members from around the investment world to harnesses the power of collective thought leadership and bring these thoughts to life. Since establishment in 2015, over 60 investment organisations have collaborated to bring our vision to light through designing fit-for-purpose investment strategies; working towards better organisational effectiveness and strengthening stakeholder legitimacy. This is achieved through:

- **Research:** papers, thought pieces, principles, tool kits
- **Collaboration:** seminars, communication, research working groups
- **Private action:** 1-2-1 meetings, workshops, projects.

### The Thinking Ahead Group (TAG)

TAG is the full-time executive of the Institute and we maintained 8.4 full-time equivalent colleagues in 2019. Please see our [website](#) to meet the team.

Our members influence the research agenda and participate in working groups and events and have access to proprietary tools and a unique research library.

### Institute members by year they joined

2015	Amundi	APTITUDE INVESTMENT MANAGEMENT	Investment Managers	Oak Pension Asset Management Ltd BARCLAYS	CORONATION TRUST IS EARNED	first state super	futurefund Australia's Strategic Wealth Fund
	Federated Hermes International	Ninety One Private Equity Asset Management	LANSLOWNE PARTNERS	QIC	QSuper	RPM RAIPEN	WELLINGTON MANAGEMENT
2016	CHANGING EMPLOYEE PERSPECTIVES	DHL Group Retirement Plan	FIRSTRAND	MFS Investment Management	S&P Dow Jones Indices A Division of S&P Global		
2017	RAILIE GIFFORD	Fidelity INTERNATIONAL	HSBC Bank Pension Trust (UK)	nest	OPTrust	PGB pensionsdienst	
2018	AllianceTrust INVESTMENT FOR OPERATIONS	BlueBay Asset Management	intel	Lloyds Banking Group Pensions Trustees	LPP Local Pensions Partnership	QMA A PGM company	NSW tcorp
2019	AberdeenStandard Investments	CAPITAL GROUP AMERICAN FUNDS	CLAC better together	CQS	HESTA	Unilever Company	Unilever
2020	WELLS WARREN ASSET MANAGEMENT	BT Pension Scheme	LifeSight Willis Towers Watson				





# Research

In this section we summarise the research effort in 2019 and the research papers produced. At the end of this section we list a few practical applications of the 2019 research, some mainly aimed at asset owners and others at asset managers.

## Sustainability – making value creation real

Every investment decision we make has an impact on the economy and therefore wider society. We believe that the framing of investment and fiduciary duty is moving from the simple optimisation of risk and return to include a third dimension of understanding, measuring and communicating impact. Building on the value-creation work of 2018, we developed guidelines and a workshop to help organisations: articulate their purpose; understand the value they create; and develop practical actions to meet their wider goals. Our research paper featuring case studies from seven investment organisations, *Sustainability: understanding impact and value creation, An investors' guide to communicating value created*, was released early 2020.

## The power of culture study

In 2019 we built out our work on culture and launched the power of culture study with the aim of:

- Improving the narrative on culture in the investment industry
- Identifying ways that culture can be measured and managed
- Making the link between strategy and culture more tangible and achievable.

The study was designed to help sharpen organisations' competitive edge through innovations around leadership, diversity and inclusion as well as supporting greater purpose and better outcomes for their employees and clients. Alongside the study we updated *the impact of culture on institutional investors* research paper.

## The asset classes of tomorrow

In 2017 we wrote about the *asset owner of tomorrow*, and in 2018 on the *asset manager of tomorrow*. In 2019, we turned our attention to the changing nature of capital markets, and conducted an in-depth exploration of how markets may evolve into something very different from what we have grown used to. The working groups produced three research papers:

- **Private equity** – this paper focuses on the role of public and private equity markets and explores how the investment opportunity set of institutional investors might evolve in the years to come
- **Chinese capital markets** – this research sets out to identify and answer eight key questions around accessing Chinese capital markets
- **When securitisation meets blockchain** – this research looks at how potentially blockchain technology can revolutionise investment opportunity sets for the decade to come.

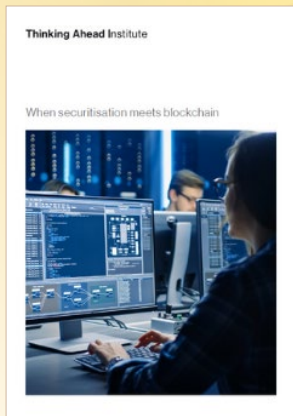
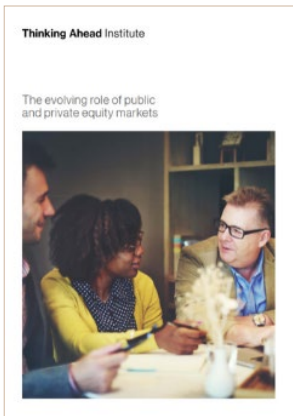
## Total portfolio approach and universal ownership

The total portfolio approach (TPA) combines a greater focus on investment goals with a hyper-integrated portfolio management structure. In 2019, we explored the way TPA is being applied in practice, through a collaboration of international peers and published a study of current and future asset allocation practice. In addition, we assembled an Institute working group to develop clarity around best practices in this area.

## Defined contribution – nudging's not enough

2019 was the defined contribution working group's third year. Its focus moved 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?

This resulted in the research paper *DC: the engagement tree* and is the culmination of our collective, holistic assessment of DC. Also produced during the year was a global peer study entitled *Shifts for the DC organisation of tomorrow* in which we painted a picture of the changing face of DC around the world, drawing on the insights of the organisations that are defining the next generation of best practices.





Practical applications for asset owners

- Think about your total equity exposure – you can benefit from extending the opportunity set to cover the entire business spectrum, both public and private. It is plausible that the current private equity investment model will undergo a structural shift, away from the current playbook and use alternative implementation methods such as ‘passive’ direct investing (*The evolving role of public and private equity markets*)
- Consider extreme risks. This can be useful in helping to design more robust investment portfolios and more robust risk-management processes. The starting point is to introduce greater diversity across as many return drivers as possible and then to explore various hedging strategies (*Extreme risks 2019*)
- Effective member engagement is critical for a stronger DC system but remains a challenging issue for many funds. The future of DC is likely to be hyper-customised, with increased focus on individual participants, and funds need to improve their governance to fully embrace this (*The DC engagement tree*).

“The future of DC is likely to be hyper-customised, with increased focus on individual participants...”

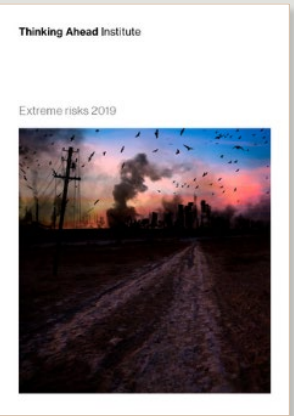
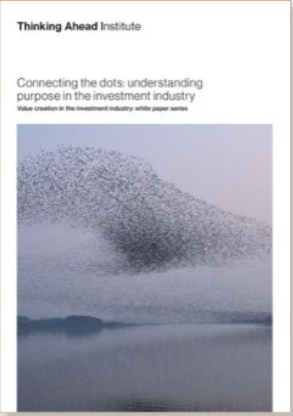
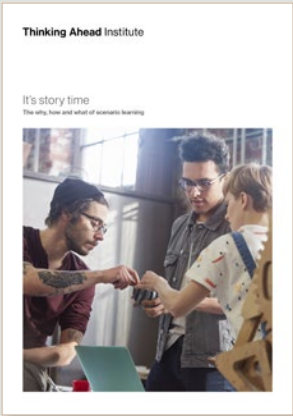
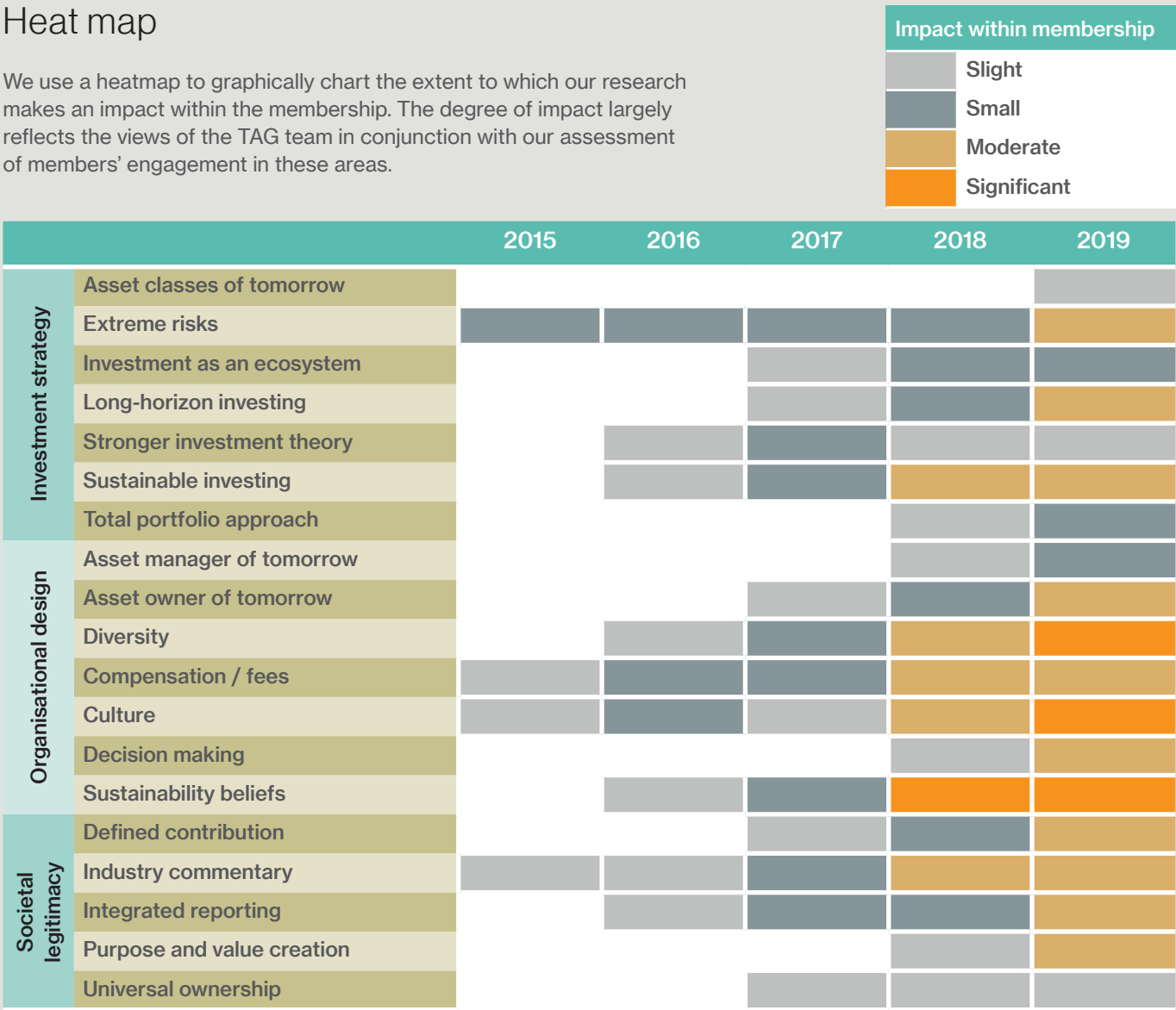
Practical applications for asset managers

- Culture is a unique ingredient in the struggle for competitive advantage among institutional investment organisations. Culture should be assessed, measured and managed over time but it takes focus, patience, leadership and process. We have built a toolkit for organisations to help them build a clearer description of their culture without recourse to stereotypes (*The impact of culture on institutional investors*)
- A comprehensive articulation of value creation should acknowledge: (i) the monetary and non-monetary value created; (ii) for which stakeholders is value created (and destroyed); (iii) how value accrues to different stakeholders over multiple time horizons; and (iv) how much value is at risk of being reversed in the future (*Mission critical: understanding value creation*)
- Sustainability has become an unavoidable issue. Leading firms will be the ones who manage to close not only the *saying-doing* gap, but also the *doing-impact* gap, which is the shortfall between the desire for a more sustainable economy and the ability to create it. Robust sustainability beliefs are central to successful long-term outcomes (*The world's largest 500 asset managers*).

“Sustainability has become an unavoidable issue. Leading firms will be the ones who manage to close not only the saying-doing gap, but also the doing-impact gap...”

Heat map

We use a heatmap to graphically chart the extent to which our research makes an impact within the membership. The degree of impact largely reflects the views of the TAG team in conjunction with our assessment of members’ engagement in these areas.



# Member assessment

We believe that it is important for the Institute to be able to assess itself to ensure that it is continually improving and learning from member feedback. This year we asked members to complete a short survey in four parts: two score questions to assess levels of agreements, and two free-form questions.

**1** How well do we score in influencing the industry:

- The Institute's research is highly regarded, influential and widely cross-referenced in the investment industry
- The Institute is effective in promoting a better and more sustainable investment industry for the public good through events, trade media and social channels.

**2** How well do we score in creating member value:

- High-quality research and events, with usable content, are delivered in an engaging way
- The Institute provides a useful forum to members for wider industry engagement
- Members are using or adopting some of the content and innovations developed in the Institute.

**3** What were any Institute highlights for you during the year?

**4** Please identify improvements we could make to provide better member value.

The Institute scorecard

Member responses in the two score categories:

Score for 2019	Minimum score	Maximum score	Average scores	Weighting	Weighted score
Influencing the industry	4	10	7.4	50%	
Creating member value	6	10	8.0	50%	
Overall					7.7 / 10

Out of 10: 1 = strongly disagree and 10 = strongly agree

Member responses to the two free-form questions – converted into word clouds – complete our scorecard.

Grouped by theme: Highlight Improvement





# How the Institute creates value

## Six capitals

The International Integrated Reporting Council (IIRC) states that the primary purpose of an integrated report is to explain to financial capital providers how an organisation creates value over time. They suggest a combination of quantitative and qualitative information, and a consideration of six capitals. The capitals are stocks of value that are affected or transformed by the activities and outputs of an organisation. An organisation's business model draws on various capital inputs and shows how its activities transform them into outputs. Below we provide some further brief comments against the six capitals suggested by IIRC's framework.



### Financial

- As noted, the running costs are funded by member subscriptions with Willis Towers Watson paying a significantly higher subscription and being the balance of-cost provider. We have reduced the subscription rate for the last three years. Our stewardship of the financial resources is available to members on [thinkingaheadinstitute.org](http://thinkingaheadinstitute.org).



### Intellectual

- We maintain a network of academic partnerships with both formal and informal (ie individuals supportive of our work) elements, including Pembroke College at the University of Cambridge, the Santa Fe Institute and project-by-project work with Gordon Clark of Oxford University. In addition, academic experts from other leading universities have presented at Institute events, for example Professors Tim Lenton, Mike Berners-Lee and David Karoly from Exeter, Lancaster and Melbourne respectively. Through our working groups and workshops, we benefit from the experience of a wide range of asset owner and asset manager practitioners as they co-create our research.



### Human

- The TAG team, responsible for content and delivery, has extensive experience and a strong history of thought leadership
- We believe that inclusion and diversity are key to building a fairer culture and a stronger and better business model. We actively implement turn-taking where everyone's voice can be heard and use techniques from our [better-decision making](#) research to harness the power of cognitive diversity to improve our collective intelligence
- TAG actively fosters a culture of continuous learning, and supports the making of mistakes as evidence of progress. Researchers in particular are expected to read widely, share thoughts, and contribute to the development of colleagues. The team meets regularly to test ideas and learn from each other and also regularly engages with external academics, industry practitioners and multi-disciplinary experts to improve their knowledge. We believe the value of the human capital for each member of the team increased over 2019.



### Social and relationship

- Social and relationship capital is extremely important as the Institute is a collaborative network. Key components for success are enlightened self-interest (the concept of 'give and get'), and 'house rules' to promote a culture of trust and collaboration, particularly at events. Further we hold ourselves to high standards of honesty, openness and transparency so that we fully play our part in maintaining strong relationships within the Institute
- As noted above, the working groups are a fundamentally important mechanism for maintaining and growing social and relationship capital with our members. Additionally, we have increased our use of digital platforms and social media to directly engage with the end saver as well as to make our research content more accessible. Also, we have developed a digital platform for members to directly engage with each other and Institute research via videos and podcasts.



### Natural

- Our air travel uses natural capital. We let each team member use their own discretion about offsetting the carbon. Our self-assessment would claim a highly indirect, currently-low-level, but positive and growing contribution to the return on natural capital primarily through our research on sustainability, value creation, long-horizon investing and integrated reporting
- We aim to reduce our air travel significantly over the next five years
- With the aspiration to be carbon neutral in future we have made more effort to make our events more sustainable by providing links to electronic versions of research documents to reduce paper use, providing a vegetarian menu, and reusing as much as possible between events.



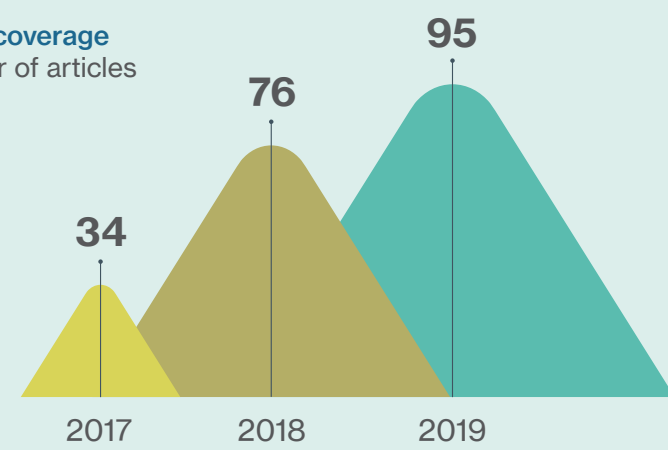
### Manufactured

- We do not view our use of manufactured capital as material, nor do we produce any.



# Key Institute statistics

Media coverage  
Number of articles



Member growth

Year	2015	2016	2017	2018	2019
Total	31	38	41	46	45
Asset managers	18	21	22	28	23
Asset owners	13	17	19	18	22



Media coverage in the following publications:

- The Financial Times
- Top1000Funds
- Pensions & Investments
- Investment and Pensions Europe
- The Financial Standard
- The Actuary
- Institutional Investor
- City A.M
- Institutional Asset Manager
- Professional Pensions
- The Business Times
- The Independent
- Private Equity International
- Private Debt Investor
- Investor Daily
- Deal Street Asia
- Funds Europe
- Private Equity News
- Citywire Wealth Manager
- The Straits Times
- Singapore Business Review
- Pensions Age
- Actuarial Post
- Consultancy UK
- Opalesque

### Thinking Ahead Institute website

**Total visits**

2019

2018

2017

81,818

14,647

8,883

### Events

2019 events attendee status

105

Asset owners

323

Asset managers

15

Other

443

Total attendees

### Top 5 publications visited for 2019

P&I 300 – research survey

4,063

Global Pensions Asset Survey – research survey

3,269

P&I 500 – research survey

2,838

Extreme risks – research paper

2,592

Shifts for DC – research paper

1,312



# 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 seeks to bring together the world's major investment organisations to mobilise capital for a sustainable future. Arising out of Willis Towers Watson's Thinking Ahead Group, formed in 2002 by Tim Hodgson and Roger Urwin, the Institute was established in January 2015 as a global not-for-profit group comprising asset owners, investment managers and service providers. Currently it has over 40 members with combined responsibility for over US\$12trn.

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