

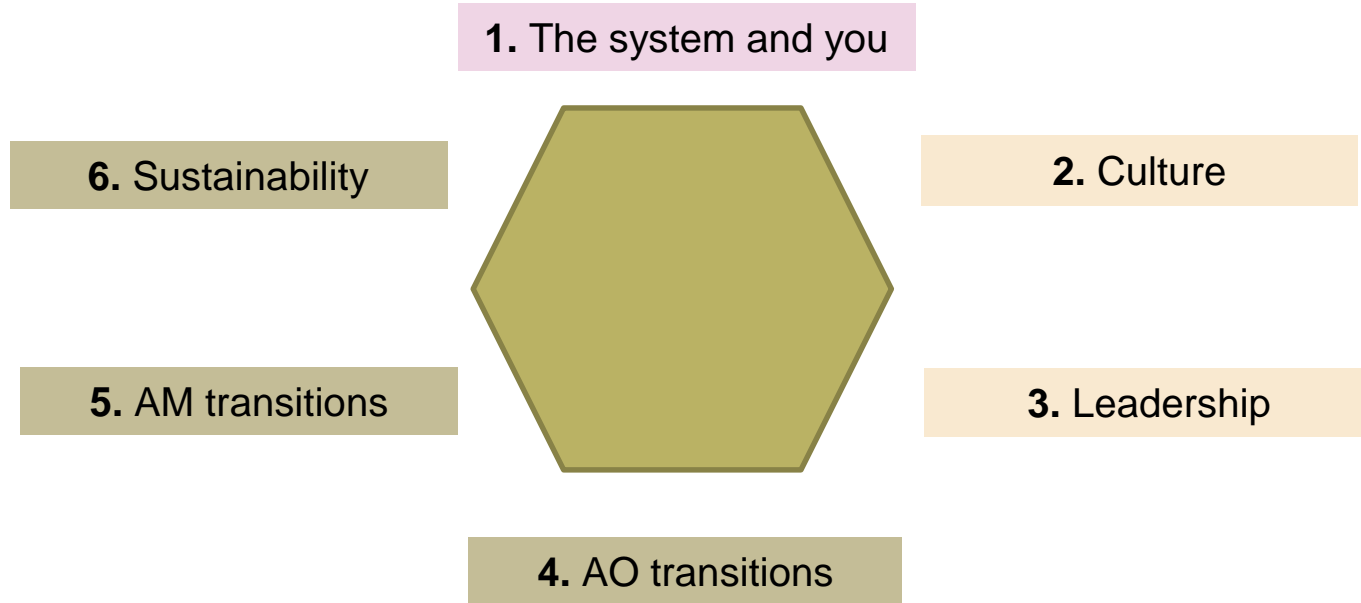
Coronavirus crisis – wider perspectives

Roger Urwin – June 2020 – Thought piece on the investment industry outlook



Defining moments

“There are decades when nothing happens, there are weeks when decades happen.”



Our world is optimised for efficiency not resilience

A few high-level perspectives

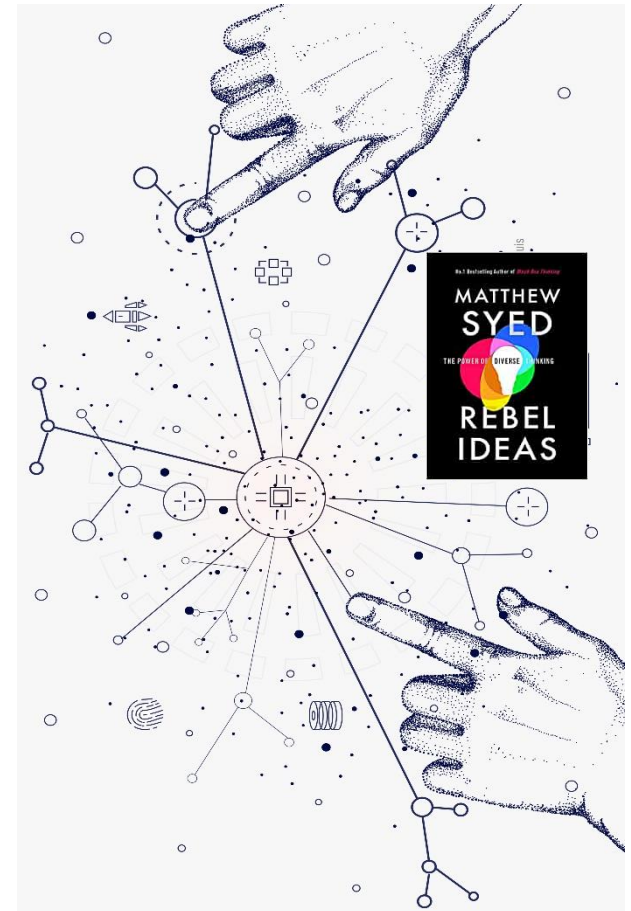
- We are personally experiencing *anxiety, vulnerability, isolation and grief*
- But they can be matched by *resilience, routine, purpose and positivity* along with *human connections*; and *perspective*
- Communication opportunities are much elevated – more frequent, personal and inspiring communication get us to better places
- Our system is vulnerable and calls out a new challenge for *sustainability* to create a corporate and financial system that is resilient and just
- Good news. Bad news. Who knows (*Sufi origin*)



Systems framing of the issues

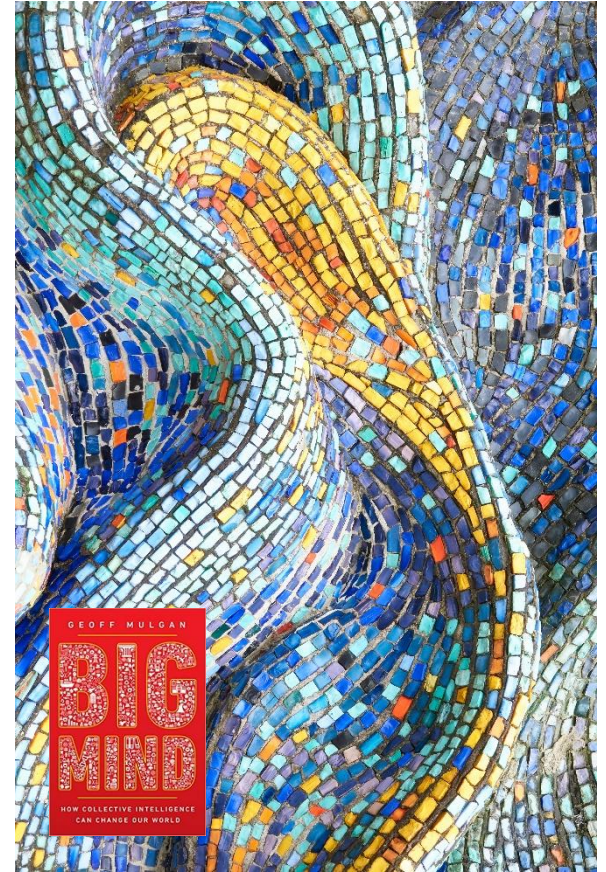
1. Putting the person into the picture

- Systems theory tells us that if we change one thing in the system we change everything – think butterfly effect – *everything connects* and *behaviours matter* – see *Syed Rebel Ideas*
- The person is at the centre of a health, well-being, jobs, climate, society, environment, economics and politics ‘system’
- Increased workplace attention to wellness and mental health and to T-shaped careers
- There are silver linings from the crisis in the workplace like the WFH model
- Some organisations are stepping up and exploiting this opportunity



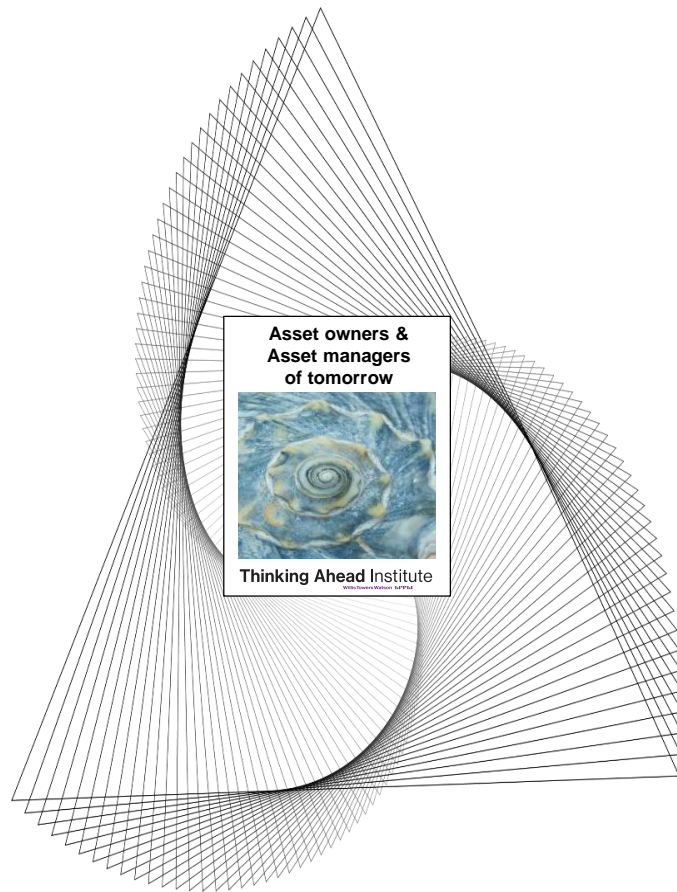
Organisation issues

2.	Organisational culture evolving	<ul style="list-style-type: none">▪ Purpose needs to step up in the organisational setting▪ Other cultural edges will emerge: innovation, openness, resilience
3.	Leadership styles emerging	<ul style="list-style-type: none">▪ Leadership defined as the acts of <i>anyone</i> who steps out of their regular tasks to influence others▪ Leadership needs to read the situation and mix the critical elements between dominating and serving attributes



Industry issues

4.	Asset owners transitioning	<ul style="list-style-type: none">▪ The problems of finite governance confronting the almost infinite demand for governing are everywhere▪ The stresses on pension funds will be varied – some mild, some bad, some existential
5.	Asset managers transitioning	<ul style="list-style-type: none">▪ As for the GFC, the work-out will be very stressful, and no doubt bigger this time▪ The transfer of tasks to technology will speed up



Sustainability issues

6. Sustainability with new realities

- Sustainability should come back stronger, wider and deeper – but will it?
- The coronavirus crisis can map to a more purposeful investment industry with a better grasp of how to manage short- and long-term horizons, but will it?



Climbing to the new view

- Systems perspectives
- Scenarios, likelihoods, impacts
- The soft stuff is the hard stuff
- Adapting and pivoting
- Innovation and managing change
- Resets – climate, inequality, capitalism?



Appendix

Micro context

1.	Putting the person into the big picture
2.	Organisational culture evolving
3.	Leadership styles emerging
4.	Asset owners transitioning
5.	Asset managers transitioning
6.	Sustainability confronting new realities

1. Putting the person into the big picture

Systems perspective and how it relates to people

- Systems theory tells us that what matters is governed by the multiple subtle ways that things work and connect in which people play reflexive roles (everything connects and behaviours matter)
- The big system interconnections are health, well-being, organisations, climate, environment, economics and politics which mark out *sustainability confronting new realities* in our new normal
- This thinking extends to how pandemic systems affect our lives and health; how our systems may brutalise our planet; how if we get it right the financial system can lay the foundations for wealth and well-being to be more fairly and resiliently distributed. People will respond more in future to purpose as a motivating force

Organisation perspective and how it relates to people

- Increased attention to wellness and mental health in work context and work life integration are coming memes
- Our industry is talent-centred – the quality of its work and the value created correlates with its collective intelligence
- Workforce stress, engagement and effectiveness will be much debated, in the aftermath and in new normal modes of working derived from an extraordinary test and learn experiment that came about because of extraordinary times
- **Careers can be managed – by incorporating flexibility; applying good values; thinking like a futurist; playing by future rules; being T-shaped**
- **There are possible silver linings from the crisis to the world of work here:**
 - WFH/remote working can find an improved sweet-spot that is more engaged, inclusive and efficient
 - D&I gets the boost from knowing the whole person not just the work persona, work life integration arrives
 - Meetings and travel may shift a notch or two down, without affecting efficiency–
<https://www.top1000funds.com/2020/04/rising-to-the-challenge/>
 - Global diversity up a notch as global meetings improve focus
 - Learning and development models get tech-sharpened
- In times of crisis some organisations are stepping up and exploiting their edge. Both *asset owners and asset managers have new normals* they will have to transition to

2. Organisational culture evolving

Values	<ul style="list-style-type: none"> There are three sets of values that describe certain personal preferences or 'core values' that produce positive work behaviours: Caring and kindness Truth and fairness Loyalty to groups In a time of life and death, the caring and kindness value is more to the fore than ever before; as is loyalty to our colleagues to reach out and support in many ways Corporate values are varied as well but there are three clusters that are essential: Purpose and meaning Inclusion and belonging Leadership and serving Organisations have significant dilemmas to manage, and need to be guided by a purpose and mission that respects its colleagues as the one essential element to delivering the mission
Culture and leadership are critical	<ul style="list-style-type: none"> Our well-being critically depends on the richness of the current <i>culture and leadership</i> that we are experiencing in the multiple settings we inhabit (government, employer, home, etc) This culture and leadership will be changed by the circumstances we are living through and by the responses we make, and we have the chance to make these better and not to waste this crisis
Culture thesis	<ul style="list-style-type: none"> Leadership and culture work well together. Good culture produces better behaviours and organisational outcomes in concert with good leadership . If better culture can emerge from our current adversity, it will do so with more purpose, resilience and leadership There will be boosts to strong-cultured organisations. That includes those with values of wider purpose, greater inclusion and caring leadership; and the organisations that showed their leadership and cultural mettle during the crisis (early examples showing up, but this is still to be fought for) Purpose needs to step up in the organisational setting. We need to see profit simply as a result of pursuing purpose and something that helps support that purpose . Other cultural edges will emerge: innovation, openness, resilience. Culture should arrive at to the top of the leadership and board agenda

3. Leadership styles emerging

Leadership comes to the fore

- Leadership is broadly defined as the acts of *anyone* who steps out of their regular tasks to influence others
- Leadership in our industry narrative has typically meant dominant* and accomplished operators whose powers were granted from high up
- But there is a movement towards serving* and quietly inspiring leadership types where powers are granted from lower down (think health workers)
- **In crisis times the dominant leadership style can be an edge, it mobilises confidence, it increases speed**

Leadership attributes that have a bigger field of play

- **Speaks out.** People crave strong leadership shaped from rich values; leaders can go wider in their messages
- **Draws on legitimacy.** Speaks within the sphere of competency and legitimacy
- **Is empathetic.** Leaders should feel close bonds with their followers and demonstrate genuine understanding
- **Shows the courage necessary.** Courageous leaders support change
- **Is clear and consistent on values.** Organizational values should be in sync with actions; authenticity is critical
- **Delivers from a mix of leadership styles*.** Reading the room and pivoting on the dominant-serving style axis

*Two leadership styles	Dominant, confident and support-demanded	Serving, empathetic and support-volunteered
Motivations of the leader	Control and authority over followers producing hard power	Respect and admiration from followers producing soft power
Motivations of the follower	Extrinsic motivations particularly in hierarchical structures	Principally intrinsic motivation particularly in flat structures
Mindset of the leader	Seeks shorter term business plan goals Seeks transactional relationships Explains things through simple cause and effects	Seeks longer term cultural and vision goals Seeks stronger and deeper relationships Explains things through complex two way feedback constructs
Mindset of the follower	Able to mobilise confidence from anxious followers,	Less able to mobilise confidence from anxious followers

4. Asset owners transitioning

Hard transitions

- AOs will rebalance and adapt strategies in ways we cannot yet determine
- High level governance issues – matters of strategic significance like about solvency – have mushroomed. **But the problems of finite governance confronting the almost infinite demand for governing are evident**
- *(see Asset owner of tomorrow | Boards are having trouble being strategic)*
- This supports investment mandates and approaches that use less governance like OCIO and solutions products
- The investment macro will take a very long time to settle with the dominant paradigm being ‘pricing model uncertainty’ with a lot of ‘it’s different this time’ thinking
- Savings and pensions contributions will grow short-term but are likely to suffer over time without a big reset of their value proposition
- **The stresses on pension funds which in many cases are extreme will lead to benefit changes and DB to DC moves**

Soft transitions

- Regulatory easement for pension funds is hard to anticipate but likely. It will be most felt in DB
- The attractions of pension funds going forward will reflect issues on new normal conditions where the need for monetary solutions of a new radical type will have profound significance
- License to operate questions will be raised more
- Governance is particularly important:
- **Balance the urgent with the important.** We must work on the critical short-term agenda but do so showing respect for the critical issues in the medium and long term. Do not lose sight of the longer-term
- **Try to see around corners.** Investment committees can weaponize their skill through anticipating trends
- **Reprioritise.** Staying true to core principles but simultaneously adapting to new priorities
- **Communicating deeper, wider, better.** IC communications must pick up pace in crises
- **Live your values.** Purpose and vision

5. Asset managers transitioning

Hard transitions

- There has been a large toll on client portfolios and AuM as a result
- The big macro thought is how assets have fared in a world optimized for efficiency not for resilience. That issue will be worked on sector by sector with major re-pricing implications.
- **As for the GFC, the work-out will be very stressful, and no doubt bigger this time**
- The asset manager business model is under big pressure, responses will definitely involve headcount reductions
- The acceleration of the pathway for technology to streamline further.
- More consolidation and merger deals are likely in the future mix
- AM's have to address operating rebalancing before adjusting their strategy (see Asset manager of tomorrow | Successful asset management firms don't dodge industry realities)
- The pay transitions will be particularly difficult and painful to manoeuvre

Soft transitions

- Data, technology and artificial intelligence are big disruptors. The place of innovation in culture and execution is highly significant.
- The criticality of purpose, openness and staying power/resilience to culture too
- The pricing and value of IP evolving with new IP collaborations and relationship models
- **Value is central to purpose, trust is central to value. But trust is weak and will get weaker following market falls**
- The dimensions of trust and its potential to add value can be explored much more.
- Trust is defined by three characteristics
 - By the trust-value relationship: trust cannot exist without value, value without trust is unsustainable
 - By the client-firm combination: the willingness of the client to trust, the worthiness of the organisation to be trusted
 - **By the measures of trust in brand, track record, professionalism and values**

6. How sustainability must confront new realities

A matter of trajectory	New realities starting with new financial pressure
<ul style="list-style-type: none"> Sustainability has been 'the very slow moving but unstoppable train' that had started to pick up pace, largely driven by climate change But It has temporarily lost its momentum with the distractions and disruptions from COVID In COVID-19 we have a personal, evident, fast crisis that is more than matched in long-term significance by the climate crisis which is by contrast impersonal, contested, slow But you can argue it's only a matter of time before sustainability comes back stronger. There are a number of factors that connect the current crisis to sustainability <ul style="list-style-type: none"> The virus suggests how inter-connected are our life and economic systems Climate change turns up the probabilities behind pandemics Well-rated ESG companies have been of better 'quality' and performance resilience through the crisis The economic consequences of the crisis increases the need to address inequality Large asset owners can apply reset principles to their strategies, by applying universal owner thinking, building sustainability policies from Total Portfolio Approaches (TPA) and aiming for real-world system-level impacts 	<ul style="list-style-type: none"> But you can also argue possibly that if the world comes back with all guns blazing at inequality, the mantra then may have no time for the distraction and luxury of sustainability. The example is of preferences for renewable energy if fossil fuel prices stay low For sustainability to come back stronger it will have to adapt to new public policy circumstances. This supports a likely increased role for corporations to play in the energy transition The investment challenge of tomorrow will be sustainable organisations that harness people and technology to create value in a wholly integrated sustainable investment system We should re-evaluate society's central priorities consistent with a sustainable future for humanity in which well-being ranks higher The target is to map the current crisis context to a new version of sustainability and a more purposeful investment industry able to develop better societal wellness and avoid the tragedy of the horizon The concepts of resets for climate change, inequality and capitalism are on the table

Appendix

Macro context

Current	Impact in system interventions			Impacts in system factors				Future
	You	Organisation	Government	Society	Environment	Globalisation	Technology	
Old normal	----->	----->	----->	----->	----->	----->	----->	New normal
New normal	Agility and connection important <----->	Culture and purpose rise up agenda <----->	Big government comes back <----->	Society rebounds/ evolves <----->	Health and wellness emphasised <----->	Some de-globalising occurring <----->	Healthcare focus is set to grow <----->	<i>New supra normal</i>

Disruption

- System impacts create massive disruption leaving organisations/individuals with limited control
- System changes introduce big sources of 'rough justice' that governments and society struggle with
- Organisations and individuals are either the disruptors or the disrupted

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