

The future you choose today

A new way of thinking about time horizons

As far as crises go, so much has happened in 2020, but we are perhaps only just beginning to understand the longer-term impacts of COVID-19 and think about time horizons and priorities.

It is worth pausing to reflect on how your organisation has fared, and what measures might add value in the short to medium-term. Longer term, your organisation will likely need to adapt to fundamental shifts in how we operate as an industry, investors, employers, and as a society.

Positioning for success – simplifying the task

It's helpful to break down issues into manageable parcels. To do this we suggest categorising them in two ways: the relevant time horizon, and the relevant element of the organisation.

“

The future depends on what we do in the present

- Mahatma Gandhi

We define the different horizons as follows:

Short term: Issues we can deal with reactively as they arise and the 'quickly visible' actions of change or strategic project implementation.

Medium term: Change issues that can be clearly seen coming and forecasted for but often take multi-stage thinking or multiple quarters/years to implement.

Long term: Issues we can see coming but their dimensions are not yet clear. Also, issues we can plausibly imagine but it's hard to know whether they are coming.



Constituent models of an asset owner organisation

Investment organisations today are complex and have moving parts that stretch well beyond investment decision-making and implementation. To better understand this complexity, we find it helpful to think of an asset owner managing within and between six heavily interdependent models.

Using a framework such as this allows an organisation to more easily 'digest' what is required to be successful in all elements of their business and to drive change in multiple areas at once.

Business Model

- Organisational strategy
- Stakeholder / client value proposition
- Market positioning and opportunity
- Pricing / cost management



Client Model

- Objectives and appetite
- Performance standards
- Client relationship management
- Client value proposition



Governance Model

- Mission, vision and values
- Organisational strategy
- Decision rights and accountabilities
- Oversight and review



Investment Model

- Beliefs and principles
- Investment decision making frameworks
- Portfolio construction and management
- Investment implementation and execution



People Model

- Organisational design
- Culture
- Leadership
- Employee value proposition



Operating Model

- Investment operations
- IT platforms and infrastructure
- Risk and compliance
- Data



The short term

COVID-19 has set off disruptive forces of change across each of our six models in which some quick to implement solutions could meaningfully impact near term outcomes. How has your organisation fared? Here are some example questions to reflect on.

The Business Model

- Has your cost structure been robust to market volatility? Can it stand another leg down in markets or customer withdrawals?



The Client Model

- Have you been able to provide appropriate information and advice during this period to help clients understand impacts on their financial position and available options?



The Governance Model

- Have you been able to hold your nerve through market volatility?
- Have your resources been focused on the issues that are most impactful?
- Have you been able to address issues arising and make needed decisions efficiently and effectively?



The Investment Model

- Has portfolio performance been consistent with your expectations?
- Have you been able to take advantage of market disruptions or have you been forced sellers to manage liquidity?
- Has anything emerged in strategy implementation that has surprised you?



The People Model

- Has your team been resilient and drawn together through this environment?
- Have you identified any gaps in your team composition, either in terms of competencies required, people being in the right roles or the size of the team?



The Operating Model

- Has decision-making been supported with appropriate and timely information?
- Have your outsourced partners stayed resilient and delivered in line with your expectations?



The medium term

COVID-19 has the potential to cause long lasting disruption to almost every aspect of our lives. A potential silver lining to this uniquely stressed moment is an opportunity to reshape and reimagine the world we emerge into.

Here are some ways these forces of change might impact your organisation over a three to five year horizon.

The Business Model



- **Strategic reviews of comparative advantages** leading to M&A offering stronger business models with respect to cost base, diversity of client base and operating model

The Client Model



- Ensuring that members receive **appropriate financial advice** and that their assets are invested with a **stronger understanding of their financial position and risk appetite**

The Governance Model



- Greater focus on **mission and comparative advantage**
- **Stronger decision-making** learning from global best practice
- Greater use of mandates and approaches that are **less governance intensive**

The Investment Model



- More joined up thinking and co-ordinated action via a **total portfolio approach**
- A more **holistic view of risk** balanced through a scorecard approach to portfolio quality
- Greater appreciation of externalities like **climate change** and other **sustainability risks**

The People Model



- Greater focus on **good culture, strong leadership** and **clear purpose**
- Tailoring the **employee experience** and improving access to diverse talent

The Operating Model



- Greater consideration of uncompensated **business and operational risks**
- Increasing **emphasis on technology** that enhances collaboration, as well as comprehensive data and risk analysis

The long term

Looking beyond the typical strategic planning horizon the future is highly uncertain, but isn't completely unknowable.

We can think of three types of long-term issues:

- Those that are "inevitable": the trajectory seems firmly established and will roll on for years if not decades to come (e.g. climate change; demographics; super industry consolidation)
- Those that can be seen coming but the dimensions of which are not yet clear (e.g. we know AI is developing but we don't know what it means)
- Those that can be plausibly imagined but it's hard to know whether they are coming or not (e.g. capitalism as we know it is replaced).

The challenge – VUCA

When we think about the long term, one of the challenges is the VUCA nature of the investment environment – **V**olatile as the situation can change rapidly and in unexpected ways; **U**ncertain in that there are limits to what we can know about the situation; **C**omplex given multiple moving parts and non-linear interactions create feedback loops and discontinuities; and **A**mbiguous because data is open to multiple interpretations, is noisy and may be misleading, objectives are never fully specified.

In practice, this often leads to one of two things:

1. We suppress uncertainty by focusing on one possible version of the future, or
2. An endless number of possible futures confuse and paralyse us. Because we cannot calculate all the possible futures we stick with our status quo views.

Preferring narratives to probability

To navigate between these two undesirable states and better prepare for the unexpected, it is helpful to use scenarios as a thinking and discovery process.

Human brains prefer narratives to probability. Narratives can provide a more intuitive understanding of why things happen and how they are connected to each other. Stories are much more effective when communicating than facts and numbers.

Scenario learning also creates a psychological safe zone for members of the team to openly challenge the house view, the official future, or to counter the HiPPO effect (highest paid person's opinion). And, as opposed to predictions, scenarios encourage rather than suppress conversation which, in turn, fosters shared and collective understanding.



Balancing horizons and priorities

Competing horizons need to be balanced with competing priorities across the business. The right mix of models and horizons is what often helps define the most successful organisations. Here is an example process to triage items:

Capture – capture all items on your to-do list that fall outside of business-as-usual type activity. Anything requiring more than 10 hours to implement falls into the change bucket.

Clarify – align the captured items with corresponding models and horizons. Most items will naturally fall into the short or medium term. Where items do not fit neatly into one model, highlight all they influence.

Evaluate – triage items to assess whether you might have struck an appropriate balance:

- Is there one model in your list that is more dominant than others?
- What is the impact/effort assessment of each item? If an initiative touches/improves multiple models has it been given the same weighting or prioritisation?
- Are there any large gaps in your list? If so, why do you think that might be?

The importance of understanding long term strategy goals and ensuring short/medium term actions line up with these is paramount: you need to understand where you are heading (e.g. what does the decade ahead look like) to ensure that all your steps are taking you in the right direction.

Horizon management – the right agenda at the right time

How does this focus on balancing different time horizons affect the sustainability and longevity of an organisation? Investing time into getting the right things on your agenda at the right time can solve issues that hold back your organisational performance:

- **Too much short-term focus** – good for BAU but can mean your organisation is lacking in innovation and growth. Coupled with a lack of long-term vision or goals it can be challenging to know where you are heading or, indeed, if it is in the right direction.
- **Too much long-term focus** – future trends are interesting to discuss but hard to lock down or take definitive action on. A firm with a significant focus on the future runs the risk of just never getting on with things, not generating any perceived benefit or value in the short term and being too focused on theory and the unknown. How does that help you and your people now?
- **Inefficiencies over time horizon** – taking actions now that don't line up in the long term might mean re-doing work, changing tack halfway through a project, changing process or completely shutting a project down to start a different one. Equally, long-term ambitions must be feasible and implementable now. Without this feedback loop, even the best designed future model will never be realised
- **Focusing on the wrong things** – if issues aren't triaged and considered holistically how will you know you're doing the right thing or adding the most value? The 'loudest' actions might not be the right ones
- **Don't get left behind** – customer and partner needs change, as do opportunity sets. If you aren't in tune with these aspects across all horizons you run the risk of being irrelevant and unconnected to a changed industry. Avoid being left behind by remembering that best practice is an evolving standard.



Adapting and thriving

In the darkest hours, there are opportunities for the strongest investment organisations to adapt and thrive. This framework aims to help you think through the breadth of issues across your organisation and has been drawn from our experience in working with investment organisations globally across a number of 'defining moments' of our industry.

So, what can you do next? Some ways we work with asset owners include:

- **Governance health check:** a high level review of governance based on 12 best practice factors designed to help Board and Executive level understanding of key areas for improvement
- **Beliefs:** the crisis has led a number of Boards to question their investment teams on whether the beliefs that guide their investment decisions remain valid
- **Investment committee effectiveness review:** there are a number of processes, structures and traits that support effective decision-making, especially in the rapid shift to a virtual setting

- **Culture review:** as the crisis has put the focus on how the organisation supports its people, it has highlighted areas for improvement with respect to culture and leadership
- **Strategy:** balancing focus on the short, medium and long horizon issues across the organisation to ensure that effort is directed to the urgent and important appropriately
- **Scenario learning:** we offer a broad and independent perspective to facilitate a psychologically safe discussion, allowing teams align their understanding of risks and opportunities in the current environment.

We have ready-made materials relating to these areas so please don't hesitate to contact your Willis Towers Watson consultant for further detail. We look forward to continuing to work with you to deliver the best possible outcomes for all stakeholders.



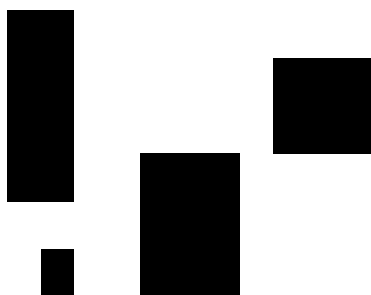
For more information, please contact your Willis Towers Watson consultant or:

Jessica Melville

Head of Strategic Advisory, Investments
E: jessica.melville@willistowerswatson.com

Rebecca Bannan, CFA

Senior Investment Consultant, Investments
E: rebecca.bannan@willistowerswatson.com



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