

Viewpoints



Engage with Asset Managers to Source Best Ideas

Willis Towers Watson's **Manager Research team** seeks opportunity for clients through continually finding and assessing investment ideas. Mark Brugner, Head of Research, Asia Pacific, talks about what the Manager Research team does and how our research process works in sourcing new investment ideas.



Mark Brugner

Tell us about your background and your role at Willis Towers Watson.

MARK: I started my professional career about 20 years ago, when I joined Bank Austria (now part of the UniCredit Group) in Vienna after graduating from university. During my four years with the bank, I was able to gain exposure in the International Controlling, Group Risk Management and Treasury function of the bank. I also managed to finish my postgraduate Masters in Finance, which then opened up several opportunities for me in asset management. Ultimately, I decided to join the asset management business of the Siemens Group, where I assumed the responsibilities to institutionalize and lead its manager research function.

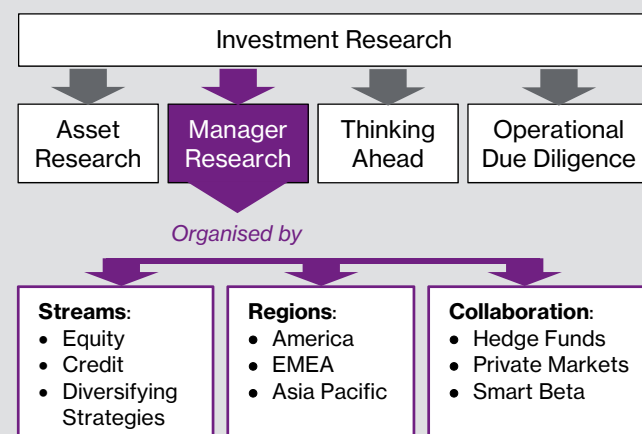
In 2008, I decided to seek a new personal and career challenge overseas. I was fortunate that my application with legacy Watson Wyatt in Hong Kong was successful, which led me to relocate to Hong Kong with my wife and my children. This move was in particular motivated by my Eurasian background, I grew up in Hong Kong during my adolescence, but also the desire to expose my daughter and son to the cultural richness and diversity of Asia.

In my current role as Head of Research, Asia Pacific, I am a link between our centralized global research function, specifically manager research, and local investment businesses across the region. Apart from engaging in investment due diligence across a variety of equity strategies for our global client base, I collaborate with other specialist groups in communicating Willis Towers Watson's investment thinking and best ideas to clients in the region. More recently, I have also taken on further responsibilities in order to bring our best investment solutions to our clients.

What does Manager Research team do?

MARK: Manager Research is one of four research groups within Willis Towers Watson (see *Figure 1 below*). Our global team of roughly 120 manager researchers aims to identify attractive investment opportunities in the market. What is deemed "attractive" are investment strategies that can be expected to deliver a compelling net return per unit of risk over the long term. Such investment propositions will generally exhibit sustainable competitive advantages versus their peers. More generally, we assign 'FREX' (Future Returns EXpectations) ratings and classify investment strategies based on our views of the likely future performance. Investment strategies being considered highly value-additive are rated as FREX 1, reasonably attractive rated FREX 2, and not differentiating from their peers rated FREX 3.

Figure 1. Investment research groups



To ascertain key attributes of the underlying asset managers, which we call “critical success factors”, our researchers employ a framework which has evolved over decades of manager research experience and by learning from the most talented investors across a wide range of asset classes. As part of the research process, we employ proprietary, quantitative methods as well as fundamental qualitative analysis to assess such attributes. Nevertheless, researchers need to ultimately apply sound judgment to qualify various strategies. As we believe in wisdom of crowds and are mindful that we can always be wrong when making decisions under uncertainty, we apply a decision-making discipline based on open discussions, mutual challenge and advocating a devil’s advocate process to minimize the risk of making poor manager calls.

As Manager Research is a dedicated and continuous research function, we maintain a list of the most compelling investment propositions across a wide range of research areas (Figure 2). This means that we are able to, at any time, provide clients intending to deploy capital in a specific asset class, with a list of candidates we believe would suit their investment objectives. This also allows us to identify potential investment gaps of our clients and actively bring new and attractive investment solutions to them. The recommendations definitely require a good understanding of the client’s requirements. As a result, manager researchers work closely with client advisors who understand the client’s requirements.

Figure 2. Outline of key research streams

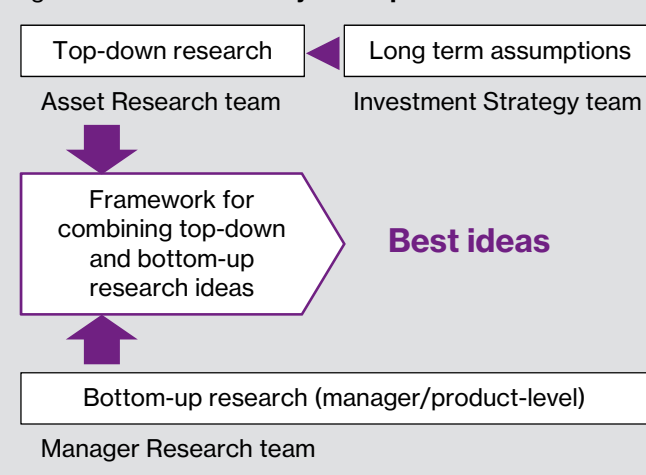
Equity	Investment opportunities predominately driven by the equity risk premium, including traditional long only equity, long short hedge funds and private equity.
Credit	Investment opportunities mostly driven by the credit risk premium, including fixed income hedge funds and illiquid credit
Diversifying Strategies	All other return drivers, including infrastructure, reinsurance, systematic strategies, real estate, real assets, macro hedge funds, multi-strategy and multi-asset funds, and any new diversifying strategies that are identified through time.

We regularly get asked how good our Manager Research function is. Apart from exceptional results of our “model portfolios”, paper portfolios researchers run across a variety of asset classes for more than a decade, we recently conducted an empirical study of the ratings we assigned to our highest conviction managers over a period of 16 years. The results show, using equity strategies as an example, that around 65% of our FREX-1 rated best equity managers outperformed the broader market, net of fees. The median value-add of the FREX-1 rated managers was approximately 1.5% per annum over 5 years, hence suggesting good predictive power of our FREX-ratings. This provides encouraging evidence that our research process works and adds value to our clients.

How does the Manager Research team’s new ideas differ from or link with portfolio construction ideas?

MARK: In constructing attractive and robust portfolios for our clients, it is critical to be able to utilize compelling and implementable investment propositions. This is where manager researchers, asset researchers and strategy consultants work hand-in-hand (Figure 3). The combination of top down and bottom up thinking determines the relative attractiveness of asset classes. As different asset classes can share similar risk and return drivers, we encourage investors to also diversify across different risk premia in constructing broad and diversified investment portfolios. Taking a client’s risk-return profile and investment requirements into account, the strategy consultants can ultimately determine the appropriate credit/equity/diversifying strategies split and combination of risk premia for the specific client. Portfolio implementation is then based on the best and effective investment ideas identified by Manager Research.

Figure 3. Research ideas joined up to build best ideas



Ongoing research efforts of asset and manager researchers ensure that any new and attractive investment ideas can be considered by strategy consultants for their respective client portfolios. In fact, we are currently working on a web-based platform called InView (Figure 4), which summarizes all of Research’s best investment ideas across different types of asset classes and investment styles, e.g. from passive or smart beta strategies to highly active investment products. This platform, scheduled for roll-out to clients globally at the beginning of 2018, gives our clients a good overview regarding Willis Towers Watson’s most compelling investment ideas.

The same can be said for asset classes and investment products that become unattractive and gets downgraded. We apply a disciplined and consistent global process to ensure that all clients globally get informed about such changes at the same time. We do everything to ensure fair and equal treatment of clients.

Manager researchers work closely with client advisors who understand the client’s requirements.

Can you outline how the team and research coverage have evolved regionally?

MARK: Willis Towers Watson has always and continues to pride ourselves for having the most in-depth knowledge on investment products, which we expose our clients to. On average, we spend roughly 200 hours from identifying a manager to finalizing a high-conviction rating of the manager. Nevertheless, despite possessing one of the most resourceful research teams in the industry, the integrity of our research process requires us to prioritize our research resources effectively.

In this respect, we have a clear preference for deep over broad product coverage, as we assign great importance to the potential risk of wrongly committing our clients' money to inappropriate products rather than potentially missing out on attractive investment opportunities which we fail to identify. The latter involves opportunity costs rather than putting our clients' capital at risk.

That being said we also need to acknowledge the scarcity of skilled managers and the ever-growing necessity to continuously find attractive investment solutions. As a result, our Manager Research team has developed a proprietary tool, called "Snapshot" (Figure 5), which helps us assign preliminary ratings to new products based on a systematic and objective methodology. As a consequence this tool helps us prioritize our further research efforts efficiently and also allows us to broaden our research coverage in a cost-effective manner. This innovative tool, which is based on the concept around "Big Data" (the recognition that the industry is currently only making effective use of only a fraction of the data that is generated on an instantaneous basis) benefits clients who continuously demand new and attractive investment ideas and/or who are constrained in their budgets. ■

Figure 4. Sample output from InView

The screenshot shows the InView interface for a 'Liquid smart beta' equity strategy. It includes a 'Browse' tab, filters for asset class, mandate, complexity, liquidity period, skill, expected deviation, and soft risk. A 'Details' section is expanded, showing sections for Characterisation, Strategy details, Risk, return and fees, Timing, Restrictions, Supporting materials, and Manager information.

Figure 5. Sample output from Manager Snapshot

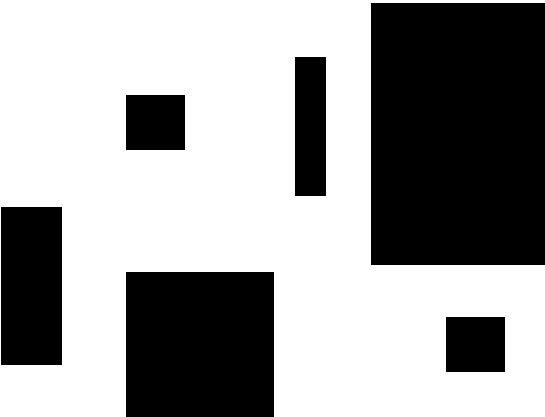
Manager Snapshot
XYZ – Global Equity Fund
Rating: Neutral

Product profile Mandate Global Equity Type All Cap - Value Approach Fundamental Screening Bottom-Up Geography Global Preferred benchmark MSCI World Equity Product inception June 2000 Primary professional Kelvin Ko Portfolio managers 10 (average 20 years experience) Analysts 50 (average 15 years experience) Firm assets \$500 billion Product assets \$5 billion Management fee 0.60%	Investment professionals Primary professional experience Portfolio manager experience Analysts experience Primary professional tenure Portfolio manager tenure	Firm and team stability Firm asset growth Product asset growth Portfolio manager turnover Analysts turnover Product critical mass
Investment summary XYZ investment philosophy is based on the belief that a company's valuation is a function of its future financial productivity (i.e., return on capital relative to the cost of capital) adjusted for associated risk. In implementing our philosophy, the portfolio management team capitalizes on inefficiencies (i.e. mispriced securities) in the world's equity markets by taking a long-term view; leveraging our individual-company analysis and global industry knowledge. XYZ's investment style is active, bottom-up and fundamentally driven, globally focused, and all-cap.	Approach/insight generation Three year risk adjusted returns Five year risk adjusted returns Seven year risk adjusted returns	Opportunity set Active share Product capacity
	Portfolio management Downside protection Risk level Portfolio turnover	Alignment Significance of product to firm Ownership Fairness of fees

Key: Positive (Green), Neutral (Grey), Negative (Purple)

Please note:

This document was prepared for general information purposes only and should not be considered a substitute for specific professional advice. In particular, its contents are not intended by Willis Towers Watson to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. As such, this document should not be relied upon for investment or other financial decisions and no such decisions should be taken on the basis of its contents without seeking specific advice. This document is based on information available to Willis Towers Watson at the date of issue, and takes no account of subsequent developments after that date. In addition, past performance is not indicative of future results. In producing this document Willis Towers Watson has relied upon the accuracy and completeness of certain data and information obtained from third parties. This document may not be reproduced or distributed to any other party, whether in whole or in part, without Willis Towers Watson's prior written permission, except as may be required by law. In the absence of its express written permission to the contrary, Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on the contents of this document including any opinions expressed herein.



About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 territories. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.