Viewpoints

The Path to Finding Attractive Assets

Dr. Isaac Poole, Head of Capital Market Research, Asia Pacific, talks about what the Asset Research team does at Willis Towers Watson and also how the team and other specialist groups collaborate to help Asian clients.

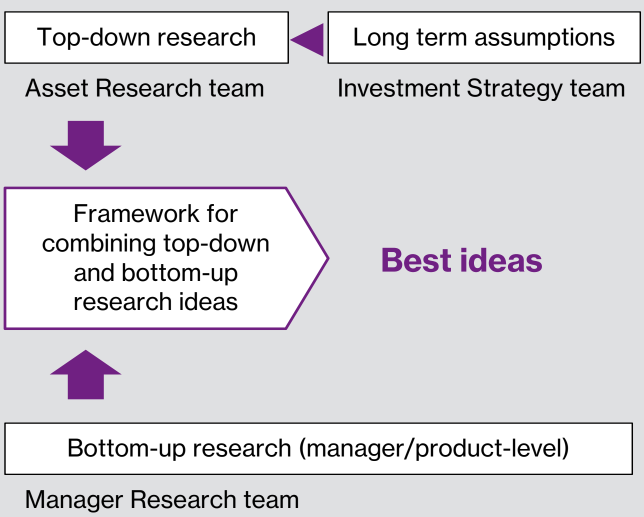
Isaac Poole

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

ISAAC: I'm an economist by background. I started my career at the Reserve Bank of Australia, the central bank "Down Under", as a graduate economist. After a couple of years I started a PhD in economics that took me to Oxford in the UK for a while. I eventually ended up working part time, first as an economist at Lloyds Banking Group in London during the Global Financial Crisis of 2007–2008, then as the head of economics at New South Wales Treasury Corporation in Sydney while I finished the PhD part time.

My wife was eventually transferred to Hong Kong. When I moved over here, I found a role with legacy Towers Watson as the Head of Capital Market Research in Asia Pacific.

Figure 1. **Research ideas joined up to build best ideas**



Which part of the research process is the Asset Research team heavily involved in?

ISAAC: The Asset Research team is responsible for developing house views across asset classes and geographies. Our top-down research complements the work done by the Investment Strategy team and Manager Research team to build Willis Towers Watson's best ideas (see *Figure 1*).

As a team, we believe that economic fundamentals will assert themselves on asset prices over a medium-term outlook. We use quantitative models and our expert qualitative insights to build out our views.

We spend a lot of time thinking about the macroeconomic outlook, globally and regionally. We carefully consider asset markets to determine the set of economic conditions those asset markets are discounting. Where our assessment differs to that discounted by markets, we try to understand why, and consider the balance of pressures around the differences. When those differences are significant, we can build a view on the attractiveness of the asset class.

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How does the Asset Research team help institutional investors identify risks and opportunities with asset classes?

ISAAC: Most of our research is focused on a five-year outlook. This is the timeframe that we think will be most useful for most of our investment clients. To that end, we publish an annual *Five-year Capital Market Outlook* (to be released in February) that gives our best estimate of the risks and opportunities available to clients over the coming five years (*Figure 2*).

We augment this with a monthly *Global Markets Overview* and a *Global Markets Monthly* publication. These provide our latest research on the key issues we think investors should be aware of. In these publications, we also share a clear set of ratings and our five-year return expectations across asset classes. Each rating and return forecast is accompanied by a clear narrative giving the reasoning behind our thinking.

We work closely with the Advisory Portfolio Group for Asia (APG Asia) on dynamic asset allocation using this research. Key members of APG Asia are portfolio construction specialists at Willis Towers Watson.

We also spend a good amount of time thinking about risk. Given our forward thinking process, we need to consider where we can be wrong. This lends itself to scenario analysis. We have considered a suite of different scenarios – both downside and upside risks – to consider the impact on client portfolios.

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Your work involves market and economic outlook that has return forecasts. The Investment Strategy team also does modelling of assets with return forecasts. What is the difference or linkage?

ISAAC: Our work complements the work done by the Investment Strategy team, and there are a lot of linkages. We take the long-term assumptions used by Investment Strategy into account when we build our own forecasts. But we are less constrained by these assumptions. As a result, our forecasts and return expectations can be useful for clients who want to be more market aware, especially given the historically low level of interest rates currently priced into markets.

Clients may want to consider using our return expectations and forecasts to dynamically bolster their medium-term portfolio construction, taking into account the modelling done by Investment Strategy.

who are worried about path-dependency (that is, an event persistently follows its legacy) and who are able to exploit medium-term mispricing in asset classes.

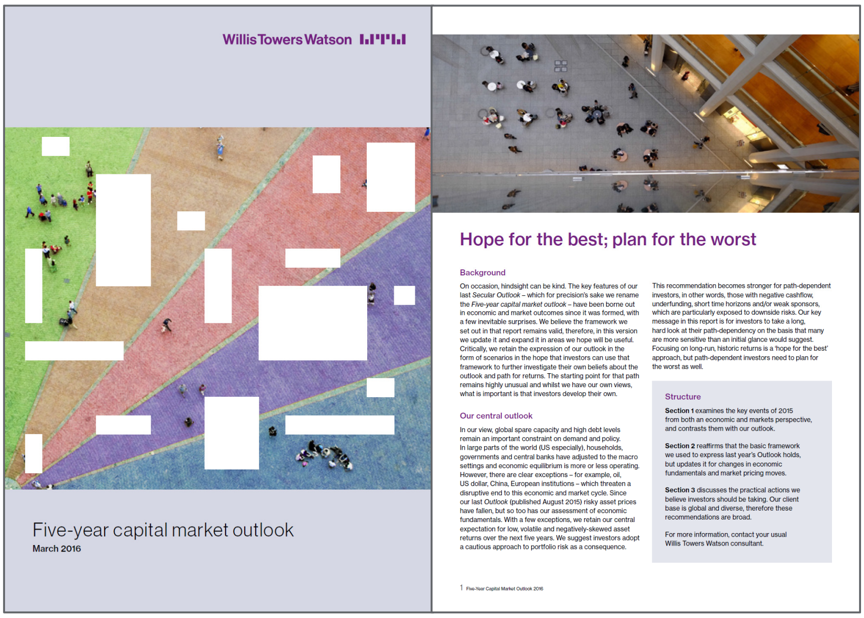
Can you share any new initiative you have been working on?

ISAAC: The Asset Research team is continuously updating and improving its processes, using new research and new techniques.

Recently, we have been working on improving our understanding of the linkages between economic fundamentals and industry sectors. We think this will improve our understanding of equity market returns.

We have also been considering return expectations over a longer timeframe than just five years. We have spent time thinking about mega-trends and themes, such as resource scarcity, climate change and demographic transitions among others. These could play out over a 10-year horizon, or longer. We expect that a deeper understanding of the potential impact of these themes on asset returns will be important for investors. ■

Figure 2. **Publications produced by the Asset Research team**

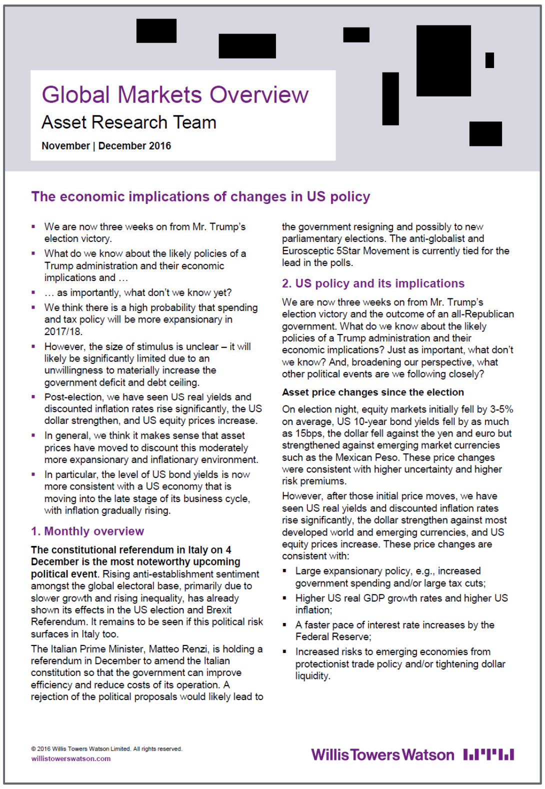


Five-Year Capital Market Outlook

The five-year capital market outlook considers the plausible distribution of outcomes that investors face over the next five years. We start by examining the key events of 2015 from both an economic and markets perspective and look at the practical implications our Outlook has for investors. Our simplified decision tree, included in this report, allows investors to apply their own context and prioritise their actions based on recommendations from our Asset Research team.

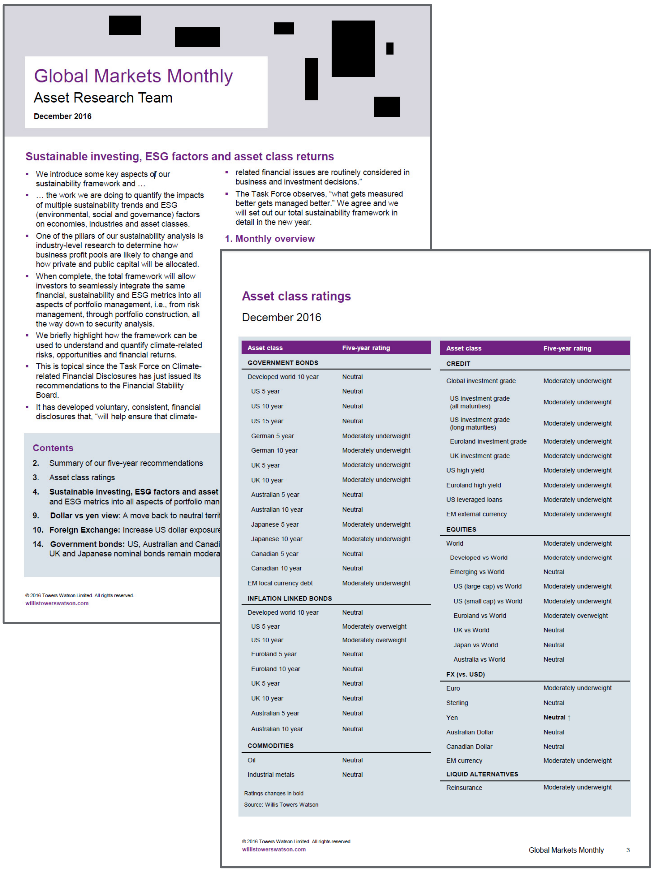
Global Markets Overview

Global Markets Overview is a monthly document that provides a high level review and outlook for markets and economies.



Global Markets Monthly

Global Markets Monthly provides indepth analysis of markets and economies together with asset class ratings and is offered to clients through paid subscription.



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 39,000 employees in more than 120 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.

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