

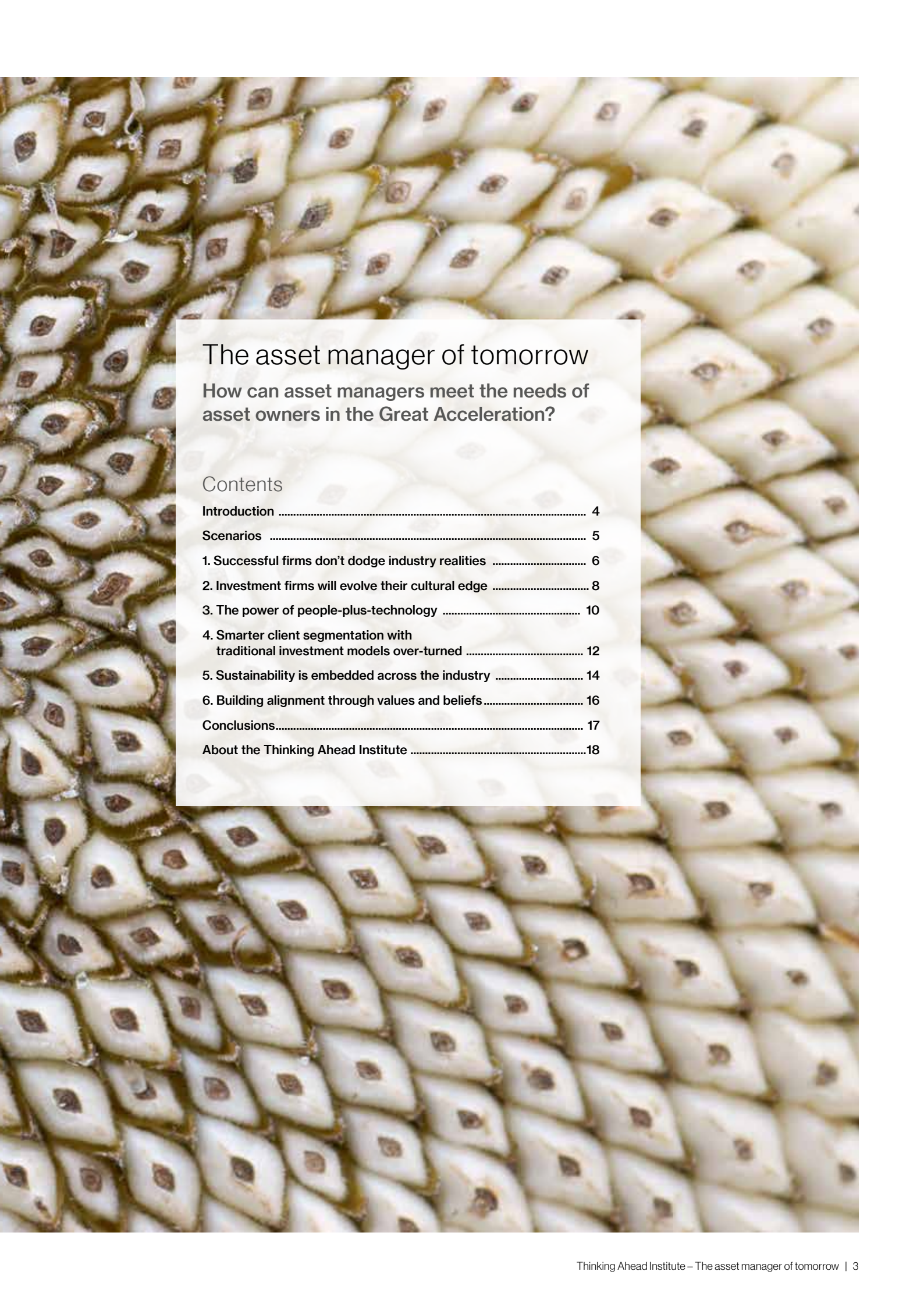
Thinking Ahead Institute

The asset manager of tomorrow

How can asset managers meet the needs of asset owners in the Great Acceleration?







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Introduction

The CFA Institute – the professional body that speaks for 160,000 investment professionals globally – published 'Investment Firm of the Future' in May 2018.

The CFA Institute has a mission statement that is quite significant to our investment industry:
To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

This CFA mission is certainly complementary to the Thinking Ahead Institute which aims to improve the investment industry for the benefit of the end saver¹.

So its publication of Investment Firm of the Future is helpful to frame certain thoughts within the Thinking Ahead Institute on the investment challenge ahead. Our work is conditioned by our view of the inevitability of accelerating change and hence we have put that idea into the subtitle referencing the Great Acceleration².

We have used the CFA Institute's work in parts below with appropriate attribution but have developed our thinking in the specific context of the asset managers and their critical roles with asset owners. We see this research as complementary to the publication of *Asset owner of tomorrow*.

¹ Roger Urwin is involved with both Institutes and was a co-author of the CFA Institute studies 'Future State of the Investment Profession' and 'Investment Firm of the Future'.

² The Great Acceleration was the term coined by Robert Colvile in which a coming together of mega trends in technology, geopolitics, demography, climate and societal zeitgeist. He refers to the world getting faster faster, a situation brought on by accelerating technological change.

Scenarios

We use the CFA scenarios as starting points to this research. These scenarios have proved robust in their usage in the last 12 months and have been used within our Institute events. We see the following principles as helpful

1. The scenarios are within the range of possible pathways and tell stories about possible future states; they are definitely not forecasts
2. They facilitate improved thinking about the VUCA conditions (volatile, uncertain, complex and ambiguous) facing investment industry organisations
3. They help our thinking on both descriptive and normative futures
4. They require periodic refreshes – we think reconsidering annually is about right – getting clarity on the pathway actually taken on the scenario pathway and its underlying causes
5. They should help organisations to advance a better strategy and roadmap than would have occurred absent the scenario thinking - to be more robust and resilient as a result.

The CFA scenario time horizon is 5-10 years – near-term enough to attract attention, long-term enough to be valuable to strategy. Good strategy seems to us to involve planning and executing a one-year business plan using a strategy that is well-informed by the 5-10 year future.

The scenarios line up with shifts that are relevant to the components of investment firms' key DNA which we can divide into issues about their business model, operating model, people model, investment model and distribution model. All of these will need to flex with new circumstances and in some cases will have to change more substantially.

The paper considers the overarching business model issues in section 1. The people model is discussed in section 2 with a consideration of culture. In section 3, the operating model is explored with particular regard to technology. In section 4, we show how the combination of distribution and investment models produce the current focus on outcomes and suggest new investment strategy trends. In section 5 we explore the sustainability issues within the investment model.

We close with the key steps for asset management firms to take as underpinned by consideration of values, beliefs and purpose.

Scenarios suggesting possible futures



Fintech Disruption

New technologies promote new business models; disruption and creative destruction are endemic; challengers do better than incumbents; major disruptions to the world of work



Parallel Worlds

Different segments - by geography, generation and social group - engage in society differently; a higher baseline for financial services participation with wider dispersion of product preferences



Lower for Longer

New normal low interest rates and returns become embedded for the foreseeable future (five-ten years) accentuated by lower levels of global growth and higher levels of political instability



Purposeful Capitalism

Capitalism's way of working evolves; the investment industry raises its game with more professional, ethical and client-centric organisations acting in aligned-to-purpose ways

1. Successful firms don't dodge industry realities

Financial headwinds. The idea that asset management firms in aggregate in the next 5-10 years face weaker revenue growth and contracting margins is well-established.

Investment firms are caught by a number of trends here, all mapped out in the CFA scenarios:

- Deepening disruptions from traditional and non-traditional competition; particularly arising from the digital economy and the democratisation of data – as captured in fintech disruption scenarios
- Quickening changes in societal norms and people's wishes both as members of the workforce and of society which show up in the investment firm business model: at one end, in attracting, developing and retaining talent; at the other end, in addressing end investor demand patterns - as captured in parallel worlds scenarios
- Systemic issues in economic growth and capital market pathways; concomitant issues in value chain disruption – as captured in lower for longer scenarios
- Secular changes to the culture and expectations of the investment industry role – as captured in purposeful capitalism scenarios

Change. The speed of change will be mediated by many factors with technology supporting the Great Acceleration (as discussed in '[Asset Owner of Tomorrow](#)') and a 'speeding up in the speeding up'.

We subscribe to the Bill Gates view that 'We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.'

Asset management firms should have the opportunity to see the future as a choice to be taken *with foresight* rather than an outcome to be experienced *with hindsight*. The practice of many firms is centred on execution of one year business plans. This is running existential risks given the frog in boiling water conditions that appear to be developing.

The successful firm should build its future out of an agile blend calling for *stability where possible and adaptability where necessary*. Being agile reflects the ability to understand the landscape, read the changes ahead, and apply the shifts needed.

The stability principles come from a strong and effective culture, discussed in Section 2.

The adaptability principles are more likely to be drawn from the following areas:

- Smarter ways of working with technology – discussed in section 3
- Deeper know your client/customer principles – discussed in section 4
- Integration of sustainability into the investment model – discussed in section 5
- Cohesion in values, beliefs, purpose and actions – discussed in section 6
- Increased traction from more effective strategic relationship and partnership models – discussed further at several points

Value creation. Asset management firms in common with other corporations will need to reimagine both whom they create value for, and how they do so. They will need to be more client-focused, and seek to meet diverse needs across the entire client life cycle. They will need to create value with and for a wide range of stakeholders (notably, employees, clients, investors, partners, and communities).

We think asset management firms need to see 'value' differently. This includes both *the what* and *the how* of value creation in the investment industry chain – with more use of collaboration and co-creation models. For example, many systematic investment models bring together asset managers, asset owners and index providers in a collaborative product.

The core value proposition of asset management firms is delivering wealth and well-being outcomes. This will increasingly reflect how well outcomes can be engineered and delivered. This is not easy to achieve without stronger partners. For the asset owner, this is building a small number of highly strategic relationships. For the asset manager, it is finding better ways to be strategically valuable to their clients.

Customer value proposition. The successful firm will be able to build and demonstrate its client value proposition (CVP). CVP is the outcome of culture and leadership, policies and actions that deliver value to clients in all services and products. It emanates from a combination of sources.

- It starts with a track record of meeting clients' performance expectations but this sits with the capability to support performance expectation in future, and the management of capacity to secure this
- It includes professional purpose and strong values and high trust levels being maintained consistent with this
- It involves strong client empathy and strong client service being practiced and measured.
- It is likely secured through ownership, internal reward and co-investing models that align to client interests.

We suggest investment firms should do more to measure their CVP and its complementary twin EVP discussed in Section 2. EVP is the outcome of culture and leadership, policies and actions that attract, retain and develop associates and teams.

2. Investment firms will evolve their cultural edge

Employee value proposition. All organisations have developed with a characterisation as ‘machines’ with attendant de-personalisation. Through this lens their effectiveness will often seem to come from organisational design and strategy more than people factors.

But we will increasingly see the importance of considering organisations through a living organism lens. In this model we can build a human and cultural emphasis that is overdue (see McKinsey).

The employee finds human and financial value in the employee experience. This finds its way into the employee value proposition (the EVP, the complement of the CVP) which marks out human motivations in the autonomy, mastery, purpose³ and belonging areas that psychologists have identified as critical positive influences on workers. The force binding these together is culture. The much quoted aphorism comes to mind: ‘culture eats strategy for breakfast’.

Culture. We take the view that anything can be measured. That includes culture which while being intangible can still be measured in ‘soft data’ terms⁴. Here the soft measure you get in assessing culture is subjective and partly self-reported with potential for issues of bias and accuracy. Those are challenges but they still leave room for significant meaning in the measures used (see TAI | [The Impact of Culture on Institutional Investors](#)).

Culture is demonstrably an important contributor to the outputs and outcomes of investment firms because these are inherently people businesses. But the difficult-to-measure and difficult-to-understand nature of culture has resulted in lower levels of attention.

Perversely, many firms are so hard-wired to the use of precise measurement that they omit culture altogether in their strategy treating it as a non-controllable item. The dangers of this are particularly apparent when organisations confront growth and other change as these

put even effective cultures into mean regression. In these situations, it is only with considerable increases in the leadership energy and focus applied to culture that you can maintain its quality and consistency (see TAI | [The Impacts of Culture on Institutional Investing](#)).

Similar to the CFA, we see culture as a big differentiator in determining the successful firms of the future. This list of attributes of effective culture is important and these figure in Willis Towers Watson manager research principles:

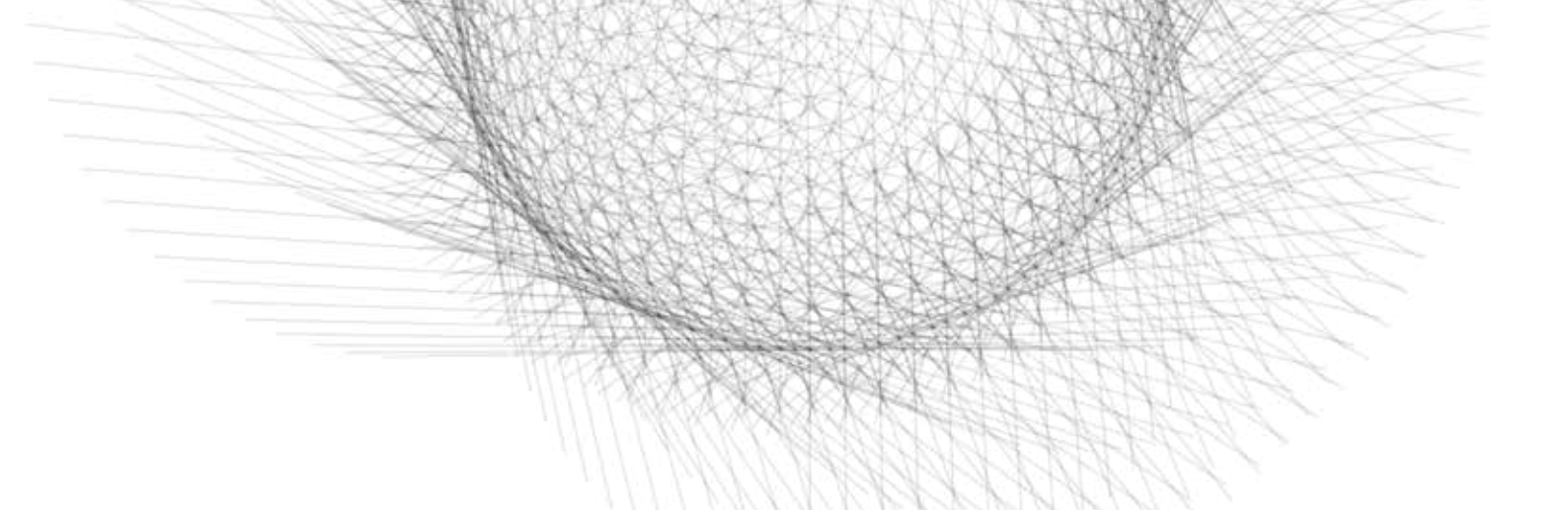
- cultural strength (clear and strong agreement on what constitute good behaviours)
- culture synching with vision and strategy (clear linkages and feedback loops)
- leadership action to embed culture (culture as an action verb as well as a descriptive noun)
- associate ownership of culture (culture embedded at all levels)
- the resonance from inclusiveness and professionalism (with fairness critical to everything)

Professionalism and culture. Clients come first is an overworked phrase. How authentically this is put into practice is central to this aspect of good culture for asset owners to watch out for. This means being assiduous with delivering a clear client value proposition. Asset managers can hide behind how subjective this may seem but there are soft measures that should be sought in client audits and client satisfaction scores to drill into this. What gets managed gets measured.

Diversity and culture. The case for diversity and inclusion is derived both from a business case and a cultural case, but they are inter-connected. The business case is based on diversity enhancing the influence of minority team members through differentiation, persistence and coalitions - producing more cognitive effort and wider perspective to arrive at novel solutions or come to more

³ The Dan Pink book ‘Drive’ is focused on autonomy, mastery and purpose.

⁴ Soft data is data that uses measurement to identify the characteristics of something that is inherently intangible or inaccessible and does so using subjective assessments – often through polls of opinion.



informed decisions. If this is your belief (and it is ours, albeit with some context to be added⁵), it becomes natural that you would wish your culture to be meritocratic and inclusive. We think diversity is an important aspect of the culture of the asset manager of the future.

Sub-cultures. Attempts to pin the culture down in large and complex organisations finish up with a number of sub-culture issues – by function, by geography, and within other slices of the organisation. Sub-cultures may be quite a positive force within a same where possible, different where necessary organising principle. This is because culture is most powerful as owned and practiced by associates at all levels and often it is a sub-culture that works best at the grass roots of the organisation.

Clearly there is a sweet spot to be aimed for. For example, take a global firm that accepts local cultural dominance and does not advance any global shared values. Such a firm will struggle with earning pay-offs from cultural diversity or brand identity.

Culture change. How can culture be changed? With difficulty. It helps to understand motivation in theory and practice and recognise differences of type here (see Deci and Ryan). Intrinsic motivations are those that are directly and freely entered into. Extrinsic motivations are those that are indirect and pressured into.

So doing something because it is inherently interesting or rewarding (like a passionate interest in investment markets) is intrinsically motivating. But doing something because some other factor (like a bonus) is instrumental in producing a separable positive outcome is extrinsically motivating.

Motivations provide incentives and people respond to incentives is a key economics principle. Both motivations work, but intrinsic motivations are deeper and more long-lasting. Let's take some examples

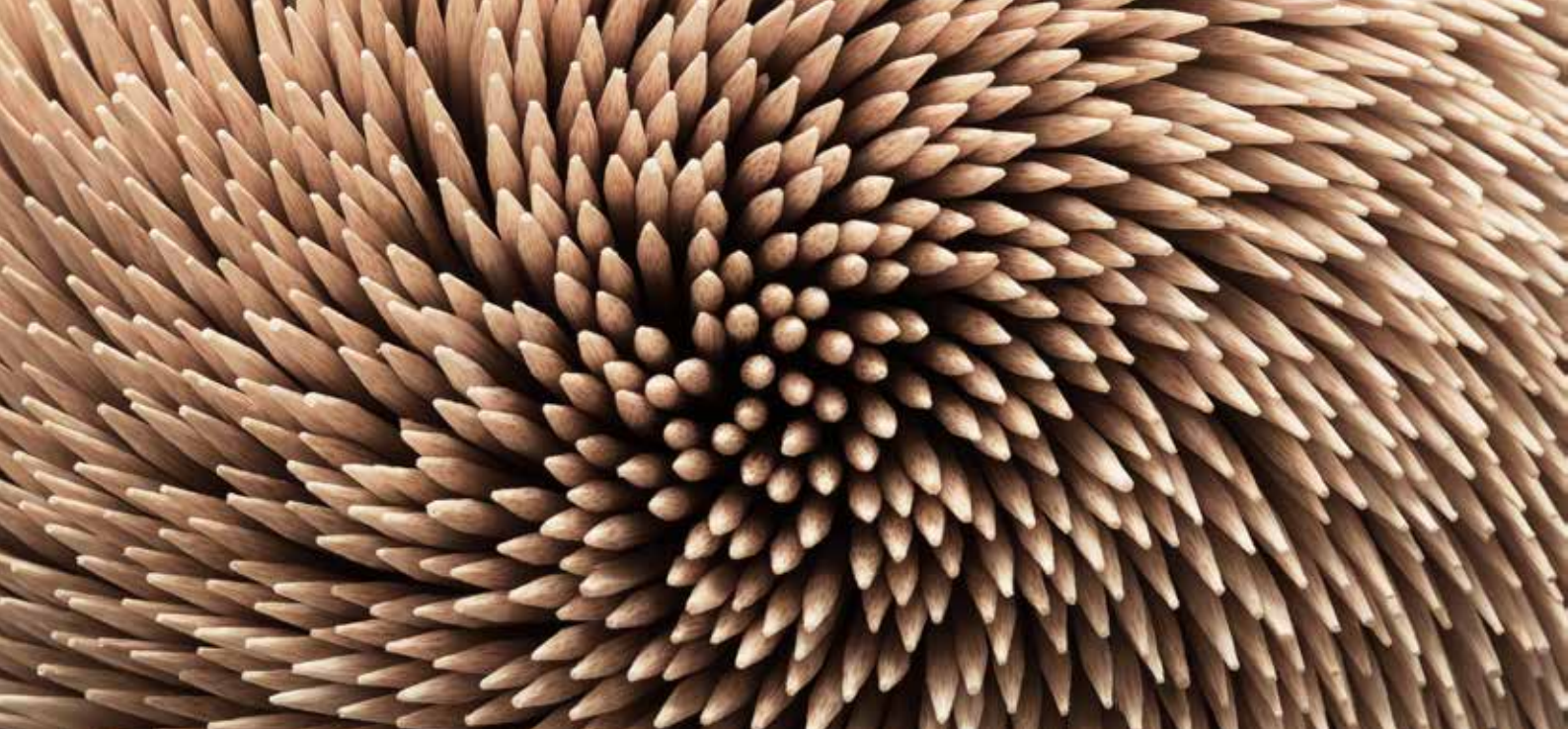
Example 1. **Performance reviews.** Increasing the weighting of culture in the performance review. Culture is de-centralised and so can be embedded in the incentive structure. Such factors can be telling in the performance reviews of leaders. Culture can be measured. This is extrinsic motivation at work.

Example 2. **Communication.** Leadership can focus its communication on the current or desired new culture particularly with story-telling and passion. That is highly motivational if well done. This is substantially an intrinsic motivation at work.

Example 3. **EVP change.** To try to build the stronger EVP by addressing the employee experience. The positive dimensions of employee experience come together in feeding talented people with a blend of autonomy, mastery, purpose and belonging. This is a beacon that many firms may want to light, but to make genuine change here is generally a slower process involving a lot of energy.

Culture and technology. The employee experience at many corporations in other industries is running aground due to technological disruption. It seems likely that asset management has this challenge to come, particularly in addressing human and technology and data combinations. Can people learn to welcome technology as something that makes them perform better, or will they see it as something that competes with them? We explore this in Section 3.

⁵ Diversity comprises surface-level attributes (gender, etc) and deeper-level acquired attributes (differences in knowledge, experience, ways of thinking, etc) and this context affects the cognitive diversity applied in problem solving. Cognitive diversity is generally seen as important in the context of complex and explorative tasks. The benefits of diversity where the tasks are simpler and execution focused are arguable.



3. The power of people-plus-technology

Disruption. In the technology area, a few quotations go a long way.

- Disruption enables a larger population of less-experienced people to do more sophisticated things – Clayton Christenson
- Digital means change, choice, innovation, speed, and people-centricity – Pearl Zhu
- Data is the new oil – multiple sources
- If you don't understand how to treat data with respect, you will get eaten alive – Luke Ellis
- Success today requires the agility to constantly rethink, reinvigorate, react, and reinvent – Bill Gates

The focus should be on the combination of these factors because the challenge for asset management firms is about people-plus-technology.


Is there the 'Uber moment' in asset management that transforms the business model with simplicity, speed, scale and synergy advantages after which nothing is the same?

Asset management is one of the last industries to be disrupted. That is because it is an industry that depends so heavily on regulation, complexity and long-term experiences. It does not lend itself easily to the worldwide wish for simple and speedy that is leading most disruption. But technology will surely over time be able to support greater transparency of value, better utilisation of assets, increased democratisation of savings and lower costs.

Digital. Digital is simply a shorthand for a way of doing things that builds technology into the whole production process and client experience and aims to create value in both legacy and innovative areas. The technology is mostly software; it includes big data and AI applied to predictive and prescriptive analytics; and cloud computing. The digital transformation of asset management is underway, but the industry still has far to travel. It is reasonable to project massive transformational change on the industry in the next 5-10 years at a scale much bigger than all that has gone before.

Data. Using data to take better decisions must deal with people and process biases. Indeed all data has issues on subjectivity and potential bias from accuracy, adjacency, and interpretation – ideally reliability scores should be attached with an indication of provenance. For example, take Bridgwater's 'believability scores' that weight the contributions of meeting participants.

It is critical to understand what the data does and doesn't mean and to think through what the data should and shouldn't be used for. For example, take the data in ESG areas which are often seen as extra-financial. These measures are mostly soft but they have future financial significance. The degree of significance varies substantially by the provenance and context concerned.



Reflexivity is a model of how organisations learn through feedback loops. The behaviours and actions of teams affect the organisation and its system of working for better or worse; these results of the system feed back into new behaviours and actions.

T-shaped people. We have a term we prefer for the talented all-rounders that will be most effective working with technology – ‘T-shaped people’ – a term with origins back to McKinsey. Our work on the T-shaped skills needed in asset management firms suggests it involves wider knowledge and subject disciplines, deeper relationships and connections, situational fluency and being smarter on delegations. This delegation craft is knowing what you know and what don’t know and what tasks and to whom you can delegate to maximise the co-creation of value.

Agility. Agile ways of working are growing in various industries and businesses. This has been extensively tested in the software field but has spread more broadly into high-technology companies like GE and Spotify and banks like Barclays and ING. The organisational structure uses smaller networked teams to replace hierarchies; and empowerment and accountability to replace command and control leadership. It seems that these models have a bright future and will be effective in asset management situations (see BCG | The Digital Metamorphosis 2018).

Agile working involves flatter self-managed teams with empowerment and ‘reflexivity’.

Reflexivity is a model of how organisations learn through feedback loops. The behaviours and actions of teams affect the organisation and its system of working for better or worse; these results of the system feed back into new behaviours and actions. The loops come at different orders of learning. They can be first order and lightly iterative; or heavier and model changing; or transformative and game-changing. Most asset management organisations will use the lightly iterative loops but the higher order loops with model changes and beyond are less common. Many asset management organisations may have very large challenges to come including existential issues. They will need ability with higher order loops of learning.

Technology impacts. We see the biggest differences that technology can make in the foreseeable future in two areas: in machine learning applied to portfolio construction with use of big data; and in improved segmentation of clients and client customisation with a theme in delivering better solutions and outcomes. This is discussed in Section 4.

4. Smarter client segmentation with traditional investment models over-turned

Solutions and outcomes. In the asset owner space the investment focus has to date been oriented to the component parts of an end investor's solution. For example take asset management revenues in 2017, mandates across active, passive and alternatives – we consider these as components - added up to 90% of the total; mandates across multi-asset, diversified growth, LDI, target date, and OCIO – these 'solutions' mandates comprised only 10% of the total (Source: BCG).

Many asset owners are adept in the assembly of a strategy, but it is increasingly an over-complex approach for smaller less well-resourced funds. The CFA report describes the growing preference for discretionary mandates that offer 'solutions' by being a complete match with an end investor's goals. Such mandates 'accentuate the fiduciary responsibility implicit in this approach'. This means mandates that are closer in to true measures of success. For example, meeting pension fund solvency needs and addressing DC participant goals for income in retirement.

In particular, we see the OCIO category (also referred to as fiduciary manager) having increasing traction with smaller funds. Currently smaller funds have governance difficulties and their delegations are fragmented. They see increasing merit in the greater co-ordination and goal clarity that an OCIO manager brings.

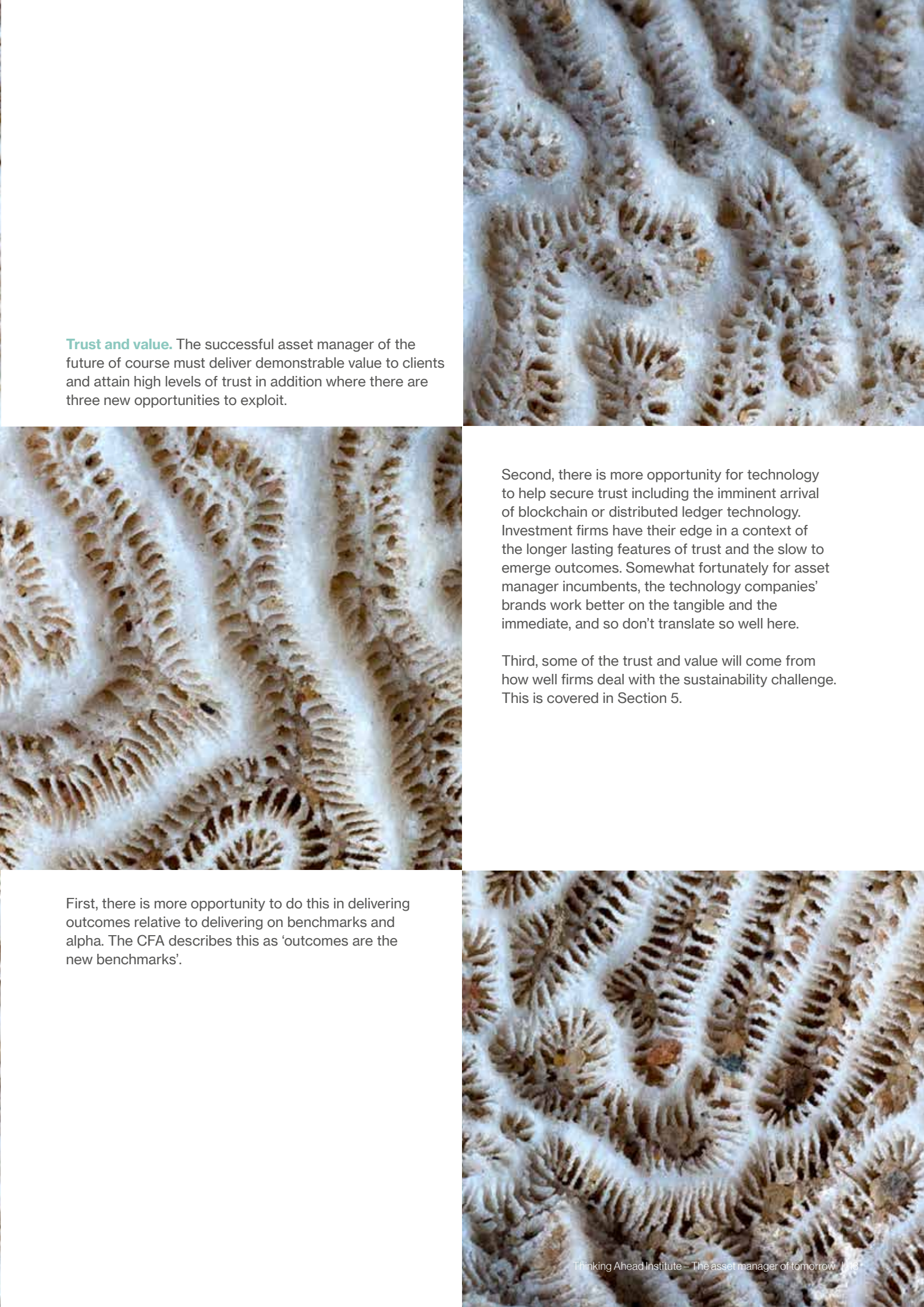
To meet client expectations with solutions approaches there will need to be innovation in multi-asset methods and this may entail a couple of changes of emphasis, notably with benchmarks-based approaches giving ground to goals-based approaches and strategic asset allocation (SAA) giving ground to total portfolio approaches (TPA).

TPA – Total Portfolio Approach. Total portfolio approaches have been evolved in particular by notable asset owners like CPPIB, Future Fund, NZ Super and Railpen with a continuous and dynamic focus on achieving explicit investment goals; with decision rights that reside with the CIO-ship subject to Board risk guidance; and implemented real-time through a competition for best ideas to achieve these goals.

The advancement of TPA methodologies are important as they seem to address the scale difficulties that many asset owners have. This will depend on the quality and integrity of the governance to achieve the requisite trust and value. The model can also apply to extend customisation into wealth, retail and DC environments.

Systematic investing. A number of changes to the investment model are evident and are showing up in current trends. We can expect more systematic investing in public market. For increasing numbers of asset owners, this is likely to be the core active strategy used. The disciplines in the methods used, lower costs and lighter governance all seem increasingly attractive.

Private market investing. But a bar-bell structure is popular with sophisticated asset owners. This supports high concentrated portfolios in public market active management. Increasingly it incorporates private market investing where all signs currently suggest higher weightings are desired. This is despite the relatively opaque and 'clunky' methods of investing that are characteristic of private investing. No doubt it will be more transparent in future, and probably less expensive, but as it is a human process without too many systematic features, expect the gradient of change to be a slow one.



Trust and value. The successful asset manager of the future of course must deliver demonstrable value to clients and attain high levels of trust in addition where there are three new opportunities to exploit.

Second, there is more opportunity for technology to help secure trust including the imminent arrival of blockchain or distributed ledger technology. Investment firms have their edge in a context of the longer lasting features of trust and the slow to emerge outcomes. Somewhat fortunately for asset manager incumbents, the technology companies' brands work better on the tangible and the immediate, and so don't translate so well here.

Third, some of the trust and value will come from how well firms deal with the sustainability challenge. This is covered in Section 5.

First, there is more opportunity to do this in delivering outcomes relative to delivering on benchmarks and alpha. The CFA describes this as 'outcomes are the new benchmarks'.

5. Sustainability is embedded across the industry

Sustainability as a disruption. Sustainability in investing is a case of disruptive change. First, the investment model is different. Second, it involves firms making significant changes in process and reporting. Third, regulatory change is involved and growing significantly. Fourth, sustainability introduces challenger organisations into the industry mix. Finally, the technology component is large, particularly bringing significant amounts of new data and data issues into the investment model.

The changes required from inside the asset management firm are hard to accomplish because we have a lot invested in the present and natural apprehensions exist about an uncertain future. Many commentators have doubted the advancement of the sustainable investing model expecting it to stall. We see it differently. We see it accelerating.

Sustainability in investing. The fundamental aspect of sustainability in investing is how ESG factors can be appropriately integrated into the investment process respecting the way that extra-financial factors are risk factors and can have material financial consequences.

The ancillary aspect is about 'responsibility' for portfolio impacts which seems to be evolving into a model that puts 'impact'⁶ alongside risk and return. This dual facet – financial value and non-financial values is difficult to integrate.

Change. Change responds to quality of vision, leadership coalition and process in an organisational setting. Not all of these are in abundant supply among asset management firms so here is an opportunity for leadership and differentiation.

Change can come from 'good to great' or from 'burning platform' motivations. Initially the more natural position is good to great, but at some stage firms may have to deal with burning platform crises arising from accidents that are the equivalent of the BP Gulf of Mexico event. The reputational dangers from investing in controversial companies are unpredictable, volatile and growing. We may need better strategies for acting upon such lurking dangers.

Universal ownership. Sustainability always has three parameters that are the foundations to the investment models used

- Working within a social license, defined by beneficiaries and regulation, and influenced by peers
- Working under considerable fiduciary pressure to put financial interests first, short-term and long-term
- Being responsibility-minded to reflect member values without compromising their financial interests

By contrast, universal ownership goes further with three additional attributes:

- Universal owners are very large, long-term holders of index-like portfolios that are exposed to the entire market and economy – they will want to build most of their strategy from the market betas
- Universal owners are owners of a significant slice of corporate externalities that risk being internalised to their funds' net cost, short-term or long-term – they will want to develop strategies that lessen those likely costs
- Universal owners see both the value and utility of their sponsor/member wealth – they will want to integrate their financial and extra-financial exposures by both within-the-system and change-the-system actions – they will want to explore how their scale affords them opportunities to influence the system positively.

GPIF has set out its universal ownership credentials this way: *'We operate as a Universal Owner. We have the inconvenient truth of modern portfolio theory: the more diversified we are, the less exposed to volatility we are but the more vulnerable we are to systematic failure, So we have to pay attention to how the whole portfolio system can be sustainable. It's why we are paying attention to ESG.'*

⁶ Impact is best seen as the footprint of the investments in question, particularly the spillovers or externalities arising from them. Hence, environmental, social and governance impacts are considered.



While universal ownership opportunity lies mostly with asset owners, where asset managers have discretion over whole funds their mandate can potentially be seen as one of a universal owner. This suggests that OCIO roles can be seen this way.

We also suggest that passive funds being long-term holders are in a similar position. Larry Fink of BlackRock sets it out like this. *'As a fiduciary, BlackRock engages with companies to drive the sustainable, long-term growth that our clients need to meet their goals'*.

In a world in which societal systemic issues seem to be building (we are thinking of climate change, inequality, cultural integration, populism and others), it follows that asset owners and asset managers will be expected to act with some pro-social orientation (with considerable limits from fiduciary interpretation). The most obvious place where this will be played out is under the universal ownership mantra.



6. Building alignment through values and beliefs

Change processes. Confronting change for asset management firms is hard and getting harder. Investment landscapes and client contexts are more complex. Views of leaders in these conditions gradually become more spread out. And the decisions required are more complex, involve more competing issues and are increasingly contested.

A rational response to the change challenge starts with the quality of foundational thinking and processes. An example of foundational thinking is ensuring the organization draws on well-judged and well-socialized values and beliefs. These have substantial relevance to all investment firm challenges – from portfolios to products, client execution to service, and throughout the business model.

It is hard to understate the benefits of bringing process rigour to this area – we can find three particularly clear pay-offs:

- The framework helps contribute to achieve focus, edge and coherence in all decision-making allowing teamwork to rise and individual disruption to fall
- It supports time-efficiency particularly if the process cuts down the time spent revisiting difficult subjects and provides a defence to behavioural biases
- Documented values and beliefs help decisions to be subject to greater transparency and greater institutional memory for the benefit of beneficiaries and stakeholders

Example: Baillie Gifford. The Baillie Gifford 'Our Beliefs' document has a number of straightforward principles but these three are more differentiated:

- We should be actively engaged shareholders of the companies in which we invest
- Our firm must be an engaging and progressive place to work
- Our actions and behaviours should support society as a whole

Example: CalPERS. CalPERS beliefs were created in 2013 and have had significant traction in CalPERS investment strategies. Three of their ten beliefs are particularly well-differentiated:

- Long time investment horizon is both a responsibility and an advantage
- Long-term value creation requires effective management of three forms of capital: financial, physical and human
- Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error

Example: Netflix. The 'Netflix Culture Deck' is one of the most referenced and downloaded business documents of all time. It grew over an extended period of time through feedback and iteration to be a guiding light to Netflix's business ethos and edge. Some examples of its narrative:

- The actual company values as opposed to the nice-sounding ones are the ones that count
- You listen well, rather than reacting fast, so you can understand better
- You treat people with respect independent of their status or degree of disagreement with you
- You keep us nimble by minimizing complexity and finding time to simplify.

We are continually struck by how many differences of perspectives in organisations are poorly understood within leadership at these organisations and left unresolved. For maximum success, asset management organisations need a better awareness:

- Self-awareness: Understanding of organisational capability by breadth and depth
- Industry awareness: Understanding of what others are doing and why.

Purpose. Purpose is often tacit and contested in asset management firms. Clarity of values and beliefs creates the conditions for purpose to be clear. We see vision, strategy and culture as the core elements of an asset management firm; we see values, beliefs and purpose as the driving forces behind them.



Conclusions

We cite these six attributes as critical requirements for success⁷

1. Strong culture. While recognizing one size does not fit all with culture, asset owners crave a culture of professionalism in which commitment to competency and client loyalty are the defining values
2. Technology commitment. A commitment to the considerable time and money necessary to introduce better technology
3. Technology-savvy leaders. This is a very human craft with T-shaped people – well-qualified all-rounders – particularly suited.
4. Well-positioned business models. Firms need to align themselves to benefit from the new trends in asset management in which the biggest growth area is in investment solutions.
5. Recognition of comparative advantage. Firms need to be good at knowing what they are good at. And outside that, collaborating with or outsourcing to partners.
6. Dealing with change. This involves the ability to step away from legacy systems and thinking and to reject the natural temptation to deny the problem.

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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 collaboration and change in the investment industry for the benefit of savers.

It was established by Tim Hodgson and Roger Urwin, who have dedicated large parts of their careers to advocating and implementing positive investment industry change. Hodgson and Urwin co-founded the Thinking Ahead Group, an independent research team in Willis Towers Watson, which was created 15 years ago to challenge the status quo in investment and identify solutions to tomorrow's problems.

What does the Thinking Ahead Institute stand for?

- Belief in the value and power of thought leadership to create positive investment industry change
- Finding and connecting people from all corners of the investment industry and harnessing their ideas
- Using those ideas for the benefit of the end investor.

The membership comprises asset owners and asset managers and we are open to including membership of service providers from other parts of the industry. The Thinking Ahead Institute provides four main areas for collaboration and idea generation:

- Belief in the value and power of thought leadership to create positive investment industry change
- Working groups, drawn from the membership, and focused on priorities areas of the research agenda
- Member seminars
- One-to-one meetings with senior members of the Institute.

About the Thinking Ahead Institute

The Thinking Ahead Institute seeks to bring together the world's major investment organisations to be at the forefront of improving the industry for the benefit of the end saver. 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\$12 trillion.

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