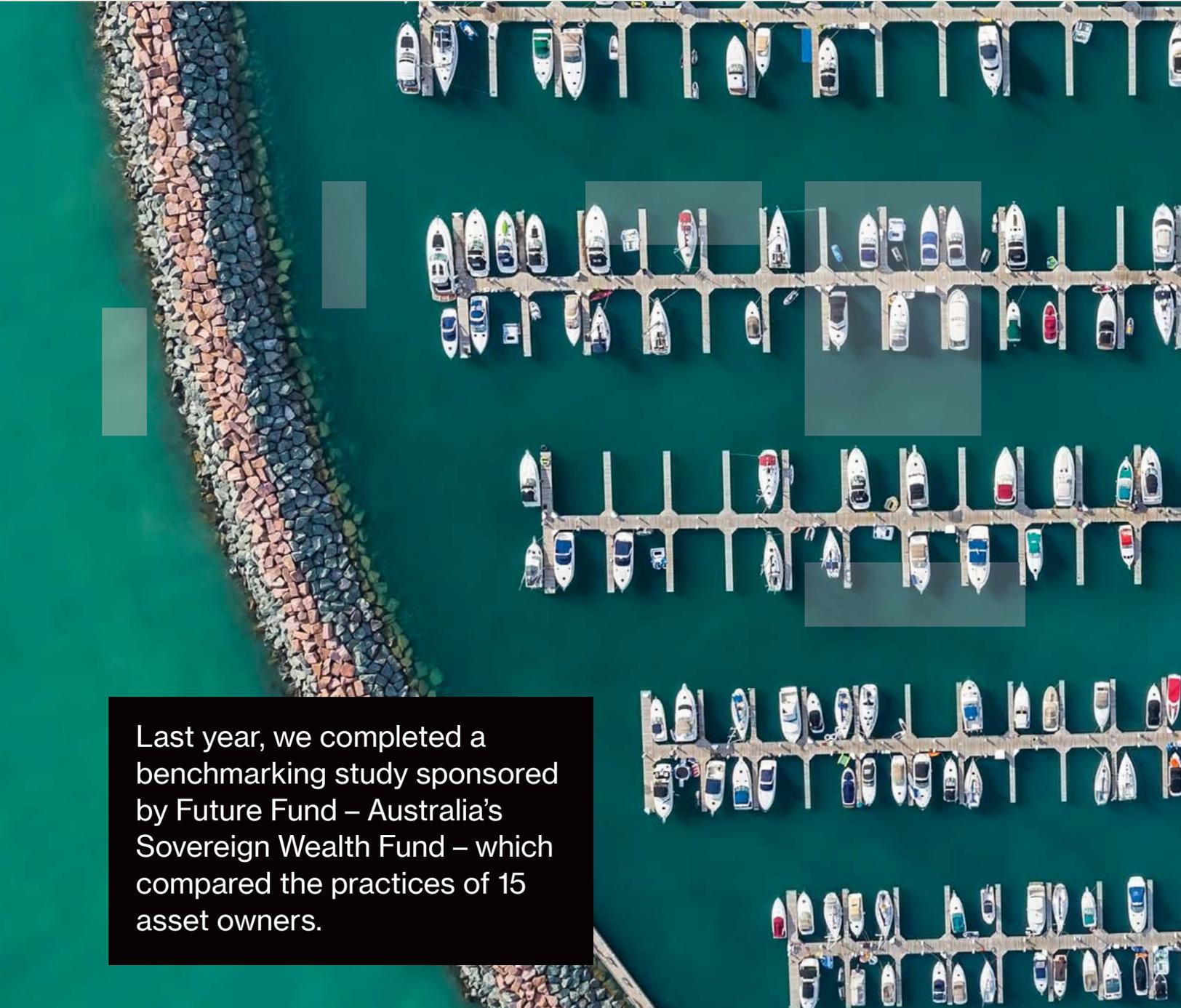


Smart leadership, sound followership – a global asset owners study

By Adam Gillett



Last year, we completed a benchmarking study sponsored by Future Fund – Australia's Sovereign Wealth Fund – which compared the practices of 15 asset owners.



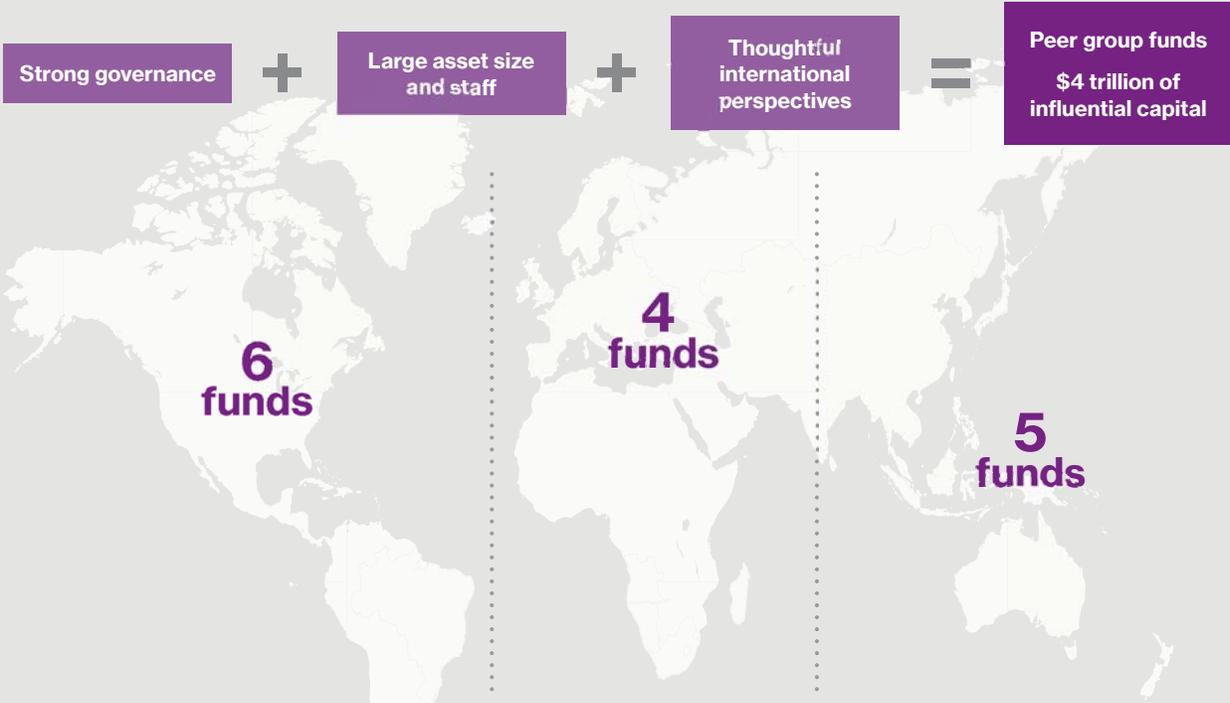
The peer group comprised 15 leading organizations, selected for their strong governance, significant size and thoughtful international perspectives. Of the selected peer group, 11 have pension liabilities to meet and four are sovereign wealth funds. Together the group represents around \$4 trillion of influential capital.

The findings of the study are drawn from a combination of interviews, a detailed online survey of the peer group, publicly available information, and opinions recorded at a symposium day held in London for the participants.

International best practice is a principle driving high standards at Future Fund and all the participants in this study. A comparison of practices across funds with reference to benchmarks can help validate the high standards targeted and achieved by these funds. It can also reveal opportunities for idea sharing, development and challenge. It became clear to us through this study that these funds were meeting their goals and accountabilities to stakeholders through stronger internal resources and smarter application.



Figure 1. The basis for selecting asset owner participants





The study participants view the challenges of meeting investment goals as greater than ever, given the volatile and uncertain outlook in capital markets. They are clear about the necessity to adapt to fast-changing, complex and often ambiguous landscapes. The qualities of self-awareness and adaptability are seen as critical.

The study produced a number of sound ideas to follow in support of international best practice, notably: improved cognitive diversity, better sustainability, improved board-executive engagement, strengthened risk management through better understanding of the ecosystem, and better balance in the mix of internal and external intellectual property (IP).

We believe these funds are emerging as smart leaders of the whole asset owner industry. We think they are creating followership opportunities in which other funds can develop sound practices consistent with these leadership exemplars. In essence, smart leadership; sound followership.

The investment challenge facing asset owners in the current environment is well-documented. The difficulty of achieving the requisite investment returns within acceptable risk bounds was readily recognized by the participants (*Figure 2*). In this context, the pursuit of best practice standards represents a realization that this level of dedication and skill is required to fulfill institutional missions and meet stakeholder expectations. It has led many funds to look for innovative solutions, and the areas described in this study represent some of the avenues that we suggest merit most attention. *Figure 3* provides a participant perspective on the areas of most potential value. Participants were also polled on the expected benefit of moving from current to best practice. The average response was of the order of 1% annually, which echoes our long-held belief that the potential value to be unlocked here is vast.

Figure 2. Taking a five-year view, the CPI + 4% annually typical peer fund goal is:

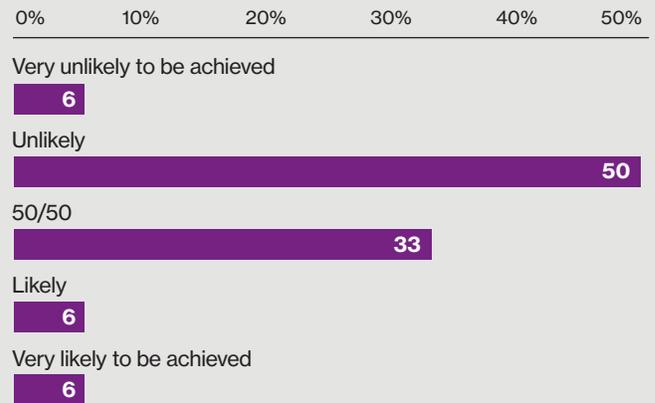
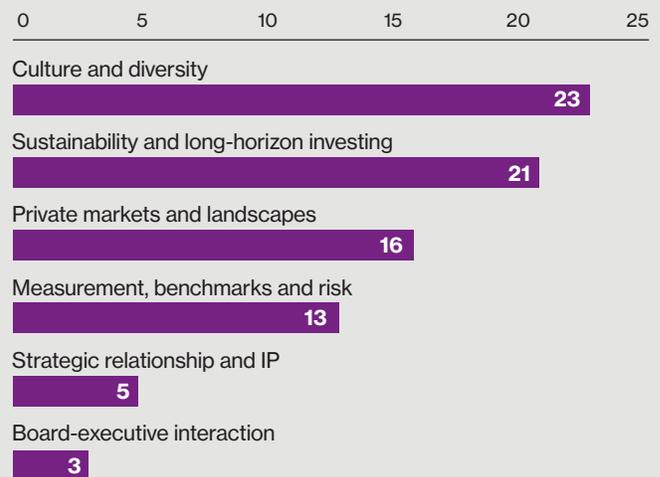


Figure 3. Moving from average to best practice would give the most value to:



Voters selected 3 in priority order
Weighted results: 1st choice = 3 points, 2nd choice = 2 points, 3rd choice = 1 point



Key commentary from the participants

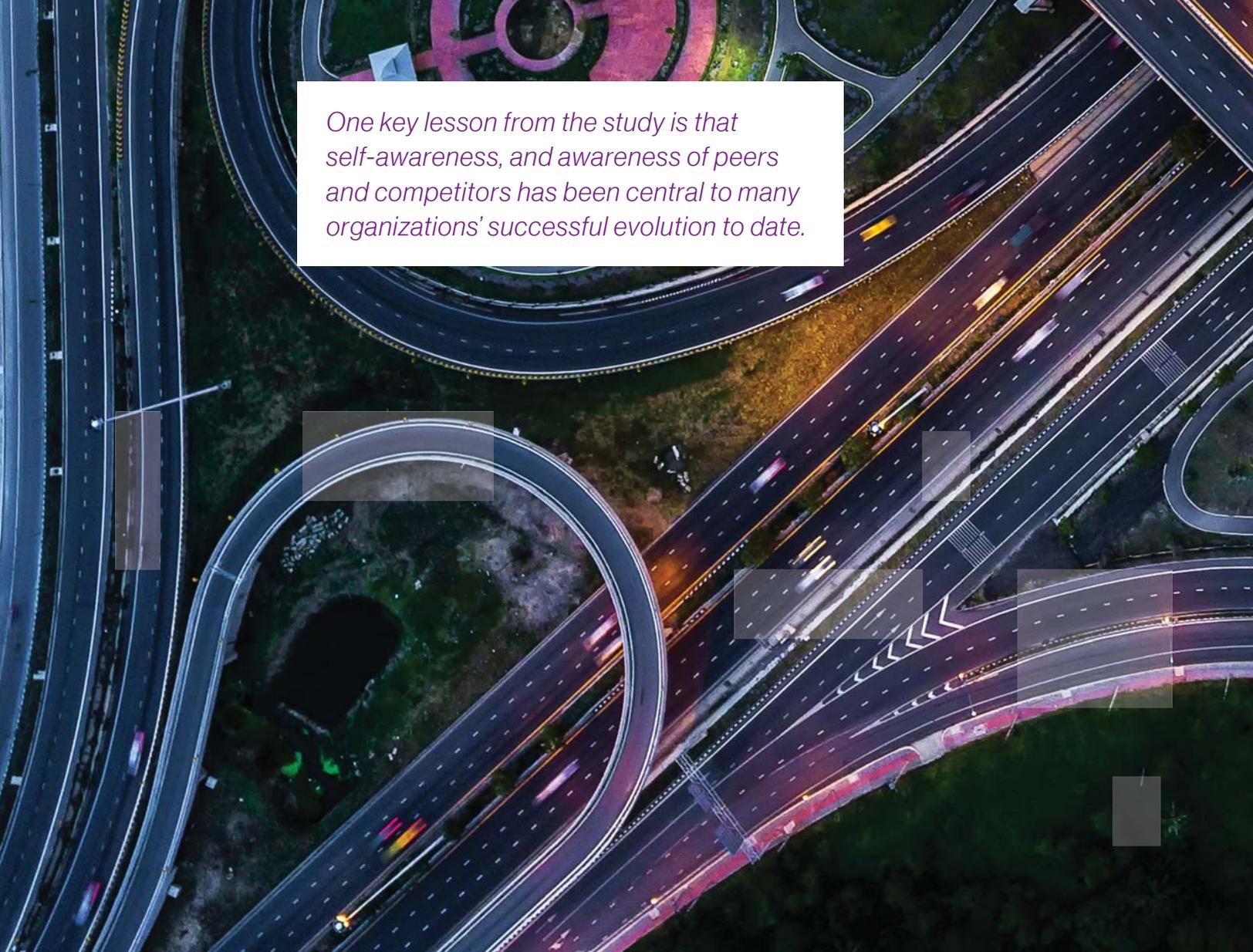
1. Cultural condition – The participant funds are struggling with the tension between staying in a flat and integrated structure (a “one organization” culture), the natural drift to multiple specialist teams, and pressures to keep to one integrated strategy at the total fund level (“one portfolio” thinking).

2. Long-horizon investing – The greatest success with long-term investing has come in situations where the link to mission is clear, and the draws of looking at short-term performance and volatility have been resisted. Sustainability is seen as a critical consideration to integrate into the long-horizon picture.

3. Stakeholders – The participant funds are very cognizant of their external profile, and greater success here is linked to a very deliberate and careful cultivation of this profile, often through a proactive and highly visible strategy. Transparency is highly significant, and board engagement is necessary too.

4. Strategy formulation – The discussion on strategy among many of the funds still starts with asset classes, even though more of the thinking is now about allocations to risk factors and return drivers.

5. Benefiting from strategic partnerships – Some participants have developed more engaged partnerships with outside firms and have seen clear benefits from the insights and know-how gathered. There is, however, potential for more value to come from such collaborations in future.



One key lesson from the study is that self-awareness, and awareness of peers and competitors has been central to many organizations' successful evolution to date.

Concluding thoughts – coping strategies are required in these challenging times

We have identified five key takeaways from the study, which we believe deserve serious consideration for all investors.

1. The importance of diversity
2. Sustainability and long-horizon investing is currently too shallow
3. Boards are having trouble being strategic
4. Risk management is key as the “business” landscape is changing in several new ways
5. Funds are evolving their mix of internal and external intellectual property

One key lesson from the study is that self-awareness, and awareness of peers and competitors has been central to many organizations' successful evolution to date. This will be more important in the future given the scarcity of investments that meet the current return and risk targets of many of the funds in our peer group.

We have described our peer group as smart leaders for the asset owner community. Their examples and the lessons from the study provide followership opportunities for all. In our view, funds that are able to show awareness, inquiry and adaptability will give themselves the best chance to succeed.

The full report is available here:
www.willistowerswatson.com/en/insights/2017/06/future-fund-and-willis-towers-watson-2017-asset-owner-study



Figure 4. Characteristics needed for positioning asset owners successfully

