Sustainable investment

Translating thinking into action

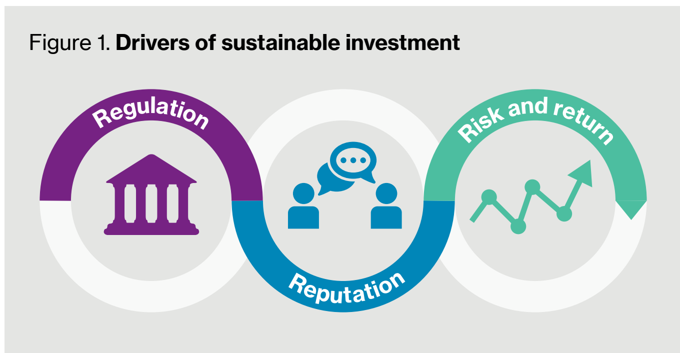
Sustainable investment is an unstoppable train

It is fundamentally about improving investment outcomes – better returns and lower risk.

Sustainable investment has gathered significant momentum in recent years. While the reasons for this are well rehearsed, it is important to note that they show no signs of slowing up *(Figure 1).*

Reputational risks and opportunities along with evidence of improved risk-adjusted returns come together with significant public awareness and media mainstreaming to power sustainable investment up many asset owners' agendas. Indeed a lot of investors have already started to make significant progress in this area.

Figure 1. **Drivers of sustainable investment**



Sustainable investing is about long-term, finance-driven strategies – not to be confused with ethical investing. It is central to long-term investment outcomes and can be a key part of asset owners' investment approaches.

In this paper we:

- Provide an overview of the pressures asset owners are facing to consider sustainable investment
- Share how Willis Towers Watson has made sustainable investment central to our investment process and solutions
- List immediate, practical actions asset owners of all sizes can take to embed sustainable investment in their approach

Regulatory and societal framework

Asset owners are increasingly facing pressure from regulators, industry bodies, mainstream media and wider society to consider the future impact of their investment decisions.

Regulators' growing impact

Regulation is increasing globally. In the European Union (EU), for instance, regulation has increased, amplified with a call from the European Commission's Capital Markets Union for a "deep reengineering" of the financial system to support sustainable economies. (Note: Please see Empirical evidence, page 10, for all source material referred to in this article.) European Parliament has called on pension funds and financial institutions to divest from fossil fuels in order to align investments with the Paris climate agreement 2-degrees target — an agreement among nations to keep global temperatures below 2 degrees Celsius in warming. Also, under the new Institutions for Occupational Retirement Provision II directive, pension providers are required to carry out a triennial self-assessment of risks, covering "new or emerging" risks, which includes those related to the use of resources, the environment and asset depreciation due to regulatory change (one aspect of "stranded assets").

Globally, regulators are also pointing their compass in the same direction, with prominent initiatives such as the Task Force for Climate-Related Financial Disclosures (TCFD) as well as the release of new stewardship codes across the world, including in the EU, Australia, Brazil and Japan, to name but a few.

In the U.S. under the Obama administration, the Department of Labor (DOL) released guidance[1] saying that environmental, social and governance (ESG) considerations may be appropriate if two investments have similar characteristics in other traditional financial factors. The DOL under the Trump administration recently released a Field Assistance Bulletin (FAB) in April 2018 that redefined the language associated with ESG investment considerations in retirement plans.

The bulletin states that ERISA fiduciaries must place the economic performance of the plan above all else when providing retirement benefits. ESG factors cannot be looked at in isolation. However, the DOL states that in some cases ESG issues for a company present "material business risk or opportunities," and in these cases, ESG factors should be treated as economic considerations.[2]

The DOL has also long held that plan fiduciaries should engage in traditional and customary proxy voting activities when prudent. In the recent bulletin, the DOL states that the pursuit of shareholder engagement should first conclude that "a reasonable expectation of enhanced economic value" will arise from the engagement, after taking into account the costs of doing so.

The FAB goes on to discuss the proper approach to take when thinking about adding ESG investments into a 401(k) plan lineup. "A properly diversified ESG-themed investment alternative could be added (e.g., in response to participant requests) if, when judged solely on the basis of economic performance, it would be equal to or superior to alternative investments under the plan."[2] While not clear, the FAB might be read to suggest that such an ESG-themed investment should augment rather than be a substitute for other non-ESG-themed investment alternatives on a plan's platform. It's important to note the latest FAB does not replace the Obama-era guidance. Rather, it tries to ensure that plan sponsors are focusing on the financial aspect of the investment.

Sustainable investment is mainstream

Pressure has come from the end saver (such as pension fund beneficiaries) for institutions to consider sustainability topics that are important to them – think of the fossil-free campaigns at universities across the U.S. and the U.K. Multiple surveys conducted indicate growing interest in sustainable investing. A 2016 survey by Natixis Global Asset Management of 951 U.S. employees in defined contribution (DC) plans resulted in 74% saying they would like to see more sustainable-type investments in their retirement plan offering.[3]

It is not unusual to see mainstream media headlines highlight ESG issues – data privacy at Facebook and corporate scandals such as Wells Fargo and Uber, as well as industry-wide topics including executive compensation, board diversity and supply chain management. Indeed, many sustainability-related issues are very much in the general public consciousness, perhaps none more so than climate change. It was recently described as "the single biggest urgency" for investors by Adrian Orr, former CEO of the New Zealand Superannuation Fund, widely recognized as one of the leading global asset owners.

Selected sustainable investment activity

- United Nations (UN) Sustainable Development Goals – a set of 17 global goals to frame all UN members' agendas and political policies to 2030 (January 2016)[4]
- US SIF released their 2018 trends report showing that broad sustainable investment assets grew to $12 trillion at the start of 2018, a 38% increase since 2016 (October 2018)[5]
- Task Force on Climate-Related Financial Disclosures (TCFD) report and final recommendations (June 2017)[6]
- Launch of U.S. Investor Stewardship Group (January 2018)[7]
- The DOL released a Field Assistance Bulletin (FAB) in April 2018, which stated that ERISA fiduciaries must place the economic performance of the plan above all else when providing retirement benefits, and ESG factors cannot be looked at in isolation. The bulletin goes on to say that ESG-themed investment alternatives could be added based solely on economic performance.[8]
- Principles for Responsible Investment (PRI) – compulsory service provider reporting and watch list for 185 signatories to make improvement or face being delisted[9]
- Sustainable Finance High-Level Expert Group final report and action plan (January 2018)[10]
- European Parliament call on pension funds and other institutions to divest fossil fuels to align with 2 degrees (October 2017)[11]
- California Public Employees Retirement System (CalPERS) invests $1 billion in ESG Global Equity Portfolio (April 2018)[12]
- Bloomberg becomes first U.S. corporate plan to sign on to PRI and adds ESG-focused fund to the plan lineup (October 2017)[13]
- A 2017 survey by the Chartered Financial Analyst Institute found that 73% of the portfolio and research analysts polled take ESG issues into account.[14]
- The U.S. Government Accountability Office, the investigative arm of Congress, issued a report stating "Asset managers and state and municipal plans using ESG strategies report enhanced risk management and other benefits." (May 2018)[15]

A top priority – of what we do and how we do it

Put simply, we believe that over the long term, an investment approach that integrates sustainable investment effectively will outperform one that does not. Therefore, we continue to strengthen and expand our activities in this area.

Our beliefs

At Willis Towers Watson, we have long believed in the importance of sustainable investment. We also believe that integrating sustainable investment into the entire investment process – from setting the mission and objectives, through asset allocation, portfolio construction and manager selection, to monitoring and reporting – is the best way to realize the full value available here.

Our investment beliefs clearly articulate this. In our view, sustainable investment is central to successful long-term investment outcomes and can be a key part of asset owners' investment approaches. Sustainable investing encompasses long-term, finance-driven strategies that integrate ESG factors and stewardship. This reflects good risk management and supports a robust investment industry. We believe that the principles underlying sustainable investment form the cornerstone of a successful long-term investment strategy.

The supporting evidence for this approach is compelling. (See Empirical evidence on page 10.)

Willis Towers Watson beliefs
We believe that sustainability issues have a material financial and nonfinancial impact on risks and outcomes. Our full philosophy and approach to the subject is outlined in "Sustainable investment and stewardship – our position."[16]

Turning beliefs into action

We have long been a leader in the area of sustainable investment, but we recognize there is always more that can be done. To this effect, we continue to strengthen and expand our sustainable investment activities across our business.

Fiduciary management and pooled fund solutions
Full and partial delegation gives clients access to solutions where our best ideas and implementation are realized, and where parts of our sustainable investment research can be integrated.

Manager research

Our focus here is on identifying the best strategies and products in the market capable of delivering outstanding investment results for our clients. We work hard to find these products, but crucially we also work to create new solutions where we feel there is a genuine need and no suitable solution exists.

The notion of sustainable investment is fundamentally engrained in our research process, which is centered on finding asset managers able to deliver a sustainable competitive advantage.

This commitment is demonstrated via our:

- Approach to sustainability being fully integrated within our assessment of managers (our Future Return Expectation [FREX] rating) rather than as a separate ESG rating created by a different team. However, we also provide an assessment of the sustainability credentials of our highly rated strategies via our "Sustainable Investment" reports. These reports focus on the ESG integration and stewardship credentials of asset managers, carried out at a product level and tailored by asset class and investment strategy; this includes, for example, an analysis of how equity managers have voted on issues at their investee companies.
- Identification of niche ideas to take advantage of attractive long-term themes – including those identified above, as well as topics such as cybersecurity and social housing.
- Creation of two new innovative ESG fund solutions, in collaboration with a manager and index provider, where we felt there was no suitable solution available to address client needs. These soon-to-be-launched solutions comprise an adaptive cap strategy applying an ESG overlay, and a multifactor ESG approach, both of which are suitable for defined benefit (DB) and DC schemes in the U.K.

While our work will continue to evolve over time, we are giving particular focus this year to working with the world's largest (often index-focused) managers on their effective contribution to a well-functioning investment system, not least through their stewardship activities.

Asset research

A key component of tackling the sustainable investment challenge for asset owners comes at the risk management and portfolio construction stages of the investment process. Our dedicated asset research team is exactly focused on these areas, working on how best to integrate sustainable investment at these crucial points. Last year, in conjunction with the PRI, we investigated the "megatrends" (large-scale, transformative developments that will impact our economies, businesses and societies) that are most important to global investors, in order to better understand the associated risks and opportunities.

Building on this, we have several key initiatives under way, including:

- Climate change scenarios to be applied to asset and liability modeling
- Portfolio resilience and sustainability scoring
- Reverse stress-testing tools to focus on individual investor risk tolerances and their exposure to sustainability trends

Thinking Ahead

As ever, our Thinking Ahead Institute[17] – a not-for-profit think tank set up by Willis Towers Watson with the sole purpose of changing the investment industry for the benefit of the end saver – has been at the forefront of research and innovation in this field. Over the course of 2017, sustainable investment was a key focus, and the Institute produced three major publications:

- "Sustainability beliefs: a new measurement tool"[18]
- "Sustainability portfolio construction: connecting sustainability risks to asset class returns"
- "Sustainability portfolio construction case studies"

The beliefs tool in particular gives users a clear insight into the issues that an effective beliefs exercise would address, as well as very useful peer benchmarking data.

In addition, the Institute carried out flagship research into quantifying the "long-term premium," exploring the skill sets and mindsets needed to effectively exploit the premium available.[19]

Collaborating to drive positive change

The Thinking Ahead Institute is one of many collaborative initiatives that we believe are important to drive change in the industry. There is great power in collective action raising standards and improving outcomes for end savers. These initiatives offer organizations like us, and asset owners like you, the opportunity to extend sustainable investment actions and impact alongside like-minded investors.

Other key initiatives and collaborations we have undertaken include:

- Signatories to the UN PRI
- Willis Towers Watson's "1 in 100 Initiative," through which we successfully worked with the G20 Financial Stability Board, Bank of England, U.S. Treasury, IAIS and other authorities to propel reform on the disclosure of near-term climate and natural-disaster-related risks by financial institutions culminating in the creation of the Financial Stability Board Task Force on Climate-Related Financial Disclosures; contributed to the consultation by the task force in developing its guidelines and signed the final public statement published in June 2017 backing its recommendations.
- Founder members of the Diversity Project, an investment industry initiative to attract and retain diverse talent in the industry.
- Tier 1 signatory to the U.K. Stewardship Code
- Worked with the Federal Insurance Office, White House Office of Management and Budget, and selected U.S. city regions on Insuring Resilient America, a program exploring how insurance-related capability can build resilience to climate risk and natural hazards, including work on developing financial instruments called resilience bonds.
- Employed the services of Hermes EOS to undertake public engagement on our behalf; encouraged further dialogue on particular topics including carbon/stranded assets, corporate ESG disclosure and board governance.
- Members of ClimateWise, an alignment of leading insurers and brokers, convened by the University of Cambridge Institute for Sustainability Leadership (CISL) to enhance societal resilience to climate risk.

Further details of our efforts can be found in our publication "Collaborative initiatives – working together to address the sustainability-related challenges in investment."[20]

Practical actions asset owners of all sizes can take right now

Sustainable investment is sometimes dismissed as a topic only large asset owners can accommodate. However, we believe that this is largely a fallacy, as there are several immediate, practical actions available to all investors.

We recognize that the interpretation and application of sustainable investment principles will vary according to the context of each organization. This context includes governance budgets, objectives and operating models, among others. Nonetheless, below are some of the actions that all investors can and should take:

Learn more

- Undertake training on sustainable investment, including the regulatory and legal context

Understand your current position

- Review existing sustainability policies
- Conduct a sustainable investment beliefs exercise to examine and benchmark current beliefs – the TAI beliefs tool shows what this could look like and includes useful peer benchmarking data
- Request sustainable investment reports for your managers (available for highly rated strategies) to better understand their approach to ESG integration and stewardship practices

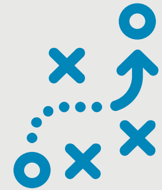
Portfolio considerations

- Assess your portfolio's current exposure to climate change risk and understand your portfolio's carbon footprint
- Incorporate ESG integration and stewardship practices as a decision criterion when selecting new managers
- Find out about new ESG-focused fund solutions – currently or soon to be available – and how they improve upon the status quo for passive equity or factor investing
- Consider availability of the long-term premium and how your portfolio might be better positioned to take advantage of this
- Consider targeted private market investments that exploit attractive long-term trends

Get involved

- Explore the research of the Thinking Ahead Institute, and become more knowledgeable about industry trends
- Join and help shape collaborative initiatives such as the PRI, and sign up to your national stewardship code

Articulate your sustainable investment stance



- Decide fund positioning and incorporate the sustainable investment stance and actions into investment policy documents

Hold third parties to your standards

- Encourage your existing managers to improve their approach to ESG integration and stewardship, and be prepared to replace them if they don't
- Ask your managers how they integrate ESG factors, to give examples of how it has affected decisions they've made, and to show you their stewardship data (such as an equity manager's voting records)

Delegate the implementation of your beliefs

- Minimize the governance demands involved in amending and integrating sustainable investment beliefs by considering partial or full delegation
- Consider the use of an overlay stewardship expert such as Hermes EOS either directly or via a delegated solution

Integrating sustainability into the investment process

1. **Select fund positioning:** Consider mission and beliefs across a range of financial and nonfinancial factors. Articulate mission and beliefs, and document in a policy.
2. **Develop a risk management process:** Ensure that the balance between investment risk and funding represents a sustainable and robust strategy for all stakeholders. Carry out specific stress tests linked to long-term macro-scenarios.
3. **Portfolio construction:** Account for material sustainable risks and opportunities. Identify strategies across asset classes and alpha/beta spectrum to manage these risks and exploit opportunities.
4. **Implementation:** Actively engage with fund managers. Monitor managers' practices versus policies, and work with them to evolve their activities in this area.
5. **Monitoring:** Ensure activities are mission consistent and meeting expectations through regular reviews of progress versus plan, periodic updates of macro-scenario analysis, and regular reviews of manager ESG and stewardship activities.

Figure 2. **Integrating sustainability into the investment process**

In conclusion

The momentum behind sustainable investment is powerful and building. However, it is vital to be able to harness and translate it into affirmative investment actions that capture the potential of the subject. We believe all investors have a part to play here, and inaction comes with significant risks. While it is often tempting to focus on best practice and what leading asset owners are doing, we believe it is equally, if not more, important to highlight what all asset owners can and should do. The practical actions outlined here represent a starting point and a call to action that we hope will drive real change.

Further information

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[1] https://www.dol.gov/sites/default/files/ebsa/2016-31515.pdf

[2] https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01

[3] https://www.im.natixis.com/us/esg/esg-strategies-in-retirement

[4] https://www.un.org/sustainabledevelopment/sustainable-development-goals/

[5] https://www.ussif.org/files/Trends/Trends%202018%20executive%20summary%20FINAL.pdf

[6] https://www.fsb-tcfd.org/publications/

[7] https://isgframework.org/

[8] https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01

[9] https://www.unpri.org/signatories

[10] http://www.europarl.europa.eu/news/en/press-room/20171002IPR85129/cop23-the-eu-should-ratchet-up-its-climate-goals

[11] http://www.europarl.europa.eu/sides/getDoc.do?type=MOTION&reference=B8-2017-0534&format=XML&language=EN

[12] https://www.ai-cio.com/news/calpers-invests-1b-esg-global-equity-portfolio/

[13] http://www.pionline.com/article/20171012/ONLINE/171019940/bloomberg-becomes-first-us-corporate-plan-sponsor-to-sign-principles-for-responsible-investment

[14] https://www.cfainstitute.org/en/research/survey-reports/esg-survey-2017

[15] https://www.gao.gov/products/GAO-18-398

[16] Sustainable investment and stewardship – our position," Willis Towers Watson, 2017. Available here: www.towerswatson.com/en-GB/Insights/IC-Types/Ad-hoc-Point-of-View/2014/02/Sustainable-investment-and-stewardship

[17] Thinking Ahead Institute brochure, available here: www.thinkingaheadinstitute.org/about-us/overview

[18] Thinking Ahead Institute sustainability beliefs tool, available here: www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2017/11/Sustainability-beliefs

[19] Thinking Ahead Institute long-horizon premium research, available here: www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2017/05/The-search-for-a-long-term-premium

[20] Willis Towers Watson collaborative initiatives brochure, available here: www.willistowerswatson.com/en/insights/2018/03/collaborative-initiatives

Empirical evidence

While data history is limited and results vary, evidence tends to point toward a moderate long-term risk-adjusted return advantage for approaches that integrate consideration of ESG risks. While there is support for consideration across ESG factors, governance is often the most influential factor in academic papers. There is also strong evidence for a sizable net long-term premium, depending on investor size and governance.

ESG integration

- As part of sensible risk management, it seems appropriate to implement strategies that consider ESG risks and opportunities, especially if the fee/cost difference is marginal.
- Higher ESG scoring companies tend to provide moderately better risk-adjusted returns over the long term (see sources 1 through 6, this page), and there is some evidence for lower credit spreads in fixed income (see sources 7 and 8, following page).
- Governance is often found to be the most influential factor (see sources 2 and 8).

Effective stewardship

- While difficult to measure, there is increasing empirical evidence to support the value of stewardship: Company engagement appears to have a positive impact (see sources 9 to 11).

Long-horizon investing

- There is strong evidence of a sizable net long-term premium of between 0.5% pa and 1.5% pa depending on investor size and governance arrangements.
- Eight building blocks of value creation have been identified, split between those that provide long-horizon return opportunities, and those which lead to lower costs and/or mitigate losses (see Thinking Ahead Institute research summary in *Figure 3* , page 11).

1. Clark, Feiner, Viehs. *From the Stockholder to the Stakeholder*, University of Oxford, Arabesque Partners, 2014. This used research from Clark, Viehs. *The Implications of Corporate Social Responsibility for Investors*, 2014.
   - Based on more than 190 sources
   - "90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies"
   - "88% of the research shows that solid ESG practices result in better operational performance of firms"
   - "80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices"

2. Fulton, Kahn, Sharples. *Sustainable Investing: Establishing Long-Term Value and Performance*, Deutsche Bank, 2012.
   - Based on more than 100 academic studies
   - "100% of academic studies agree that companies with high ratings for...ESG have a lower cost of capital in terms of debt (loans and bonds) and equity"
   - "89% of the studies...show that companies with high ratings for ESG factors exhibit market-based outperformance"
   - Within ESG, governance is often found to be the most influential factor
   - However, studies of funds applying an exclusionary approach have tended to achieve mixed results

3. Friede, Busch, Bassen. "ESG and financial performance: aggregated evidence from more than 2000 empirical studies," *Journal of Sustainable Finance & Investment,* Deutsche Bank & University of Hamburg, 2015.
   - A second-level review study covering 60 review studies (3,718 underlying studies, and when taking out duplicates, this leads to 2,200 unique studies)
   - The business case for ESG investing is empirically very well founded
   - Roughly 90% of the studies find a nonnegative ESG-CFP (corporate financial performance) relation. The large majority of studies report positive findings

4. Kumar et al, *Keep it broad: an approach to ESG strategic tilting*, MSCI 2017.
   - MSCI ESG Universal Index demonstrated a back-test annualized outperformance of 20 bps and a risk reduction of 30 bps compared to the parent MSCI ACWI Index for the period ranging from November 2009 to July 2016 while exhibiting a low tracking error with minimum sector and country bets.

5. Khan, Serafeim, Yoon. *Corporate Sustainability: First Evidence on Materiality*, Harvard, 2015.
   - Paper examines the concept of materiality as it relates to sustainability factors. The paper finds that "firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues. In contrast, firms with good ratings on immaterial sustainability issues do not significantly outperform firms with poor ratings on the same issues."

6. Giese, Lee, Melas, Nagy, Nishikawa. *Foundations of ESG investing, Part 1: How ESG affects equity valuation, risk and performance*, 2017.
   - MSCI studied the relationship between ESG ratings and the valuation and performance of companies, both through their systematic risk profile (lower costs of capital and higher valuations) and their idiosyncratic risk profile (higher profitability and lower exposures to tail risk). Their findings can be summarized as:
     - ESG signals are more impactful when integrated into fundamental analysis (as opposed to being treated as a separate factor such as value or momentum)
     - ESG signals are more meaningful over long time horizons and so should feature in long-term decision making (including asset allocation)
     - ESG analysis should reduce exposure to left tail event risks by being invested in "better managed" companies

7. Nguyen-Taylor, Naranjo, Roy. *The ESG Advantage in Fixed Income Investing: An Empirical analysis*, Calvert Investments, 2015.
   - ESG positively influences overall CDS spread performance (timeframe 2002 – 2012)
   - Environmental and social factors accounted for meaningful outperformance in CDS spreads, outperformance due to governance was still positive

8. Desclee, Dynkin, Maitra, Polbennikov. *ESG Ratings and Performance of Corporate Bonds*, Barclays, 2016.
   - Corporate bonds with higher composite ESG ratings have slightly lower spreads, all else equal (timeframe 2007 – 2015)
   - Modest incremental return from high-ESG-rated bonds – governance is the biggest contributor to improved performance
   - SRI exclusion (companies involved in controversial activities) has reduced average returns while increasing portfolio spreads

9. Dimson, Karakas, Li. *Active Ownership*, Review of Financial Studies, 2015.
   - Engagements with investee companies on average generated abnormal returns of 2.3% one year following the initial engagement in the U.S. from 1999 – 2009.
   - The study examined 2,152 highly intensive engagements on ESG areas for 613 U.S. public firms. The success rate for engagements was 18% and, on average, it took two to three engagements before success could be recorded, which on average was 1.5 years after the initial engagement

10. Junkin, *Update to The 'CalPERS Effect' on Targeted Company Share Prices*, Wilshire Associate, 2013.
   - Over the five years after CalPERS' engagements, targeted companies on average produced excess returns of 12.3% above the Russell 1000 Index.
   - This analysis evaluated CalPERS' corporate governance effectiveness by measuring the performance of the stocks of the 183 companies targeted by CalPERS from the 1999 engagement process through the 2012 engagement process.
   - Over the three years prior to the initial engagement, the targeted companies on average underperformed the Russell 1000 Index by 38.9% cumulatively.

11. Hoepner, Oikonomou, Zhou. *ESG Engagement in Extractive Industries: return and risk,* 2015.
   - Uses the data from Hermes EOS milestones as part of their engagements in the extractives sector – 167 engagements with 56 companies that were broadly split across ESG issues
   - Companies that were the target of engagement generated an average outperformance of +4.4% per annum and were associated with a lower risk profile relative to similar companies. Those that implemented strategies to deal with issues highlighted by the engagement process outperformed those that simply acknowledged the engagement efforts.
   - Further, those companies that responded negatively to attempts at engagement significantly underperformed other engaged companies

Figure 3. **Building blocks of the long-term premium**

Return opportunities

Active ownership

An average excess return of **2.3%** was generated over one year after engagements with investee companies.

Liquidity provision

Long-horizon investors have the potential to earn additional returns of **1% pa** by providing liquidity when it is most needed.

Capturing systematic mispricing

Exploiting various mispricing effects in smart betas added more than **1.5% pa** relative to cap weighted index in the past decades.

Illiquidity premium

Illiquidity risk premium is worth **0.5% to 2% pa** – additional returns might be available to truly long-horizon investors.

Thematic investing

93% of 2016 TAI New York roundtable attendees believe that it is possible to create value through investing thematically.

Avoiding drags

Avoiding buying high, selling low

Chasing past performance cost U.S. pension funds **1%** (over three years post-manager change).

Avoiding forced sale

Liquidity-driven trading in response to redemption reduced returns of open-end mutual funds by **1.5% pa.**

Lower transaction costs

0.26% pa could be saved in transaction costs if U.K. midsize pension funds reduce their active strategies turnover to 60%.

Source: Thinking Ahead Institute: *The search for a long-term premium*, 2017.

Past performance and expected performance are not reliable indicators of future results. Return opportunities are shown for illustrative purposes only. Returns are net of fees.

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