

# **Willis Towers Watson PODfolio episode 10**

Horizons (part 1 - do the next right thing?)

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TIM MITCHELL: There are different issues that we're going to face at each of those horizons. And because we've got different issues, we need different steps to deal with them.

REBECCA BANNAN: We're actually really thinking about asset owners or asset managers as organizations, not just investors.

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SPEAKER 1: Welcome to The PODfolio, Willis Towers Watson's investment podcast series, where we'll give you an update on the latest developments across global markets and talk to expert guests on hot topics that matter to institutional investors and their portfolio.

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LOK MA: Hello, and welcome to The PODfolio, I'm your host, Lok Ma. Today's episode is our 10th, and it's all going to be about time horizons. So I'm delighted to have two guests today. We've got Rebecca Bannan, who is a governance and organizational effectiveness expert in our Australian Strategic Advisory business. So thank you for coming, Becca.

REBECCA BANNAN: Thanks very much for having me.

LOK MA: And we've also got Tim Mitchell, who is Willis Towers Watson's global head of governance consulting. So welcome to the show, Tim.

TIM MITCHELL: Thanks, Lok, and hi, Becca.

LOK MA: Right. So what we're going to do today is try to take a step back from everything that's going on with the world right now. A lot of us working in the investment world have been in kind of firefighting mode I think for a few months-- protecting our assets, finding liquidity, and so on and so forth.

So the question is, are we spending too much time on these short-term actions and not thinking enough about the medium and long-term time horizons? How do we find that right balance between these different frames? And what are the sorts of things that we need to think about in planning over the short, medium, and long term?

So just like some of our previous episodes, we're going to be doing a two-parter today. So in part one, which is this one, we're going to cover the main principle of managing multiple time horizons, and also focusing on the short and the medium term. And then in part two, we'll think about the long-term stuff as well.

So let's kick off. How do you guys-- let's start with Becca first. How do you define the short, the medium, and the long term? So kind of, for the sake of this conversation, what rough cutoff points are you thinking about?

REBECCA BANNAN: Sure. So when we think about long term, we're really thinking about the things that we can see coming, but the dimensions aren't very clear; see the things that we can plausibly imagine, but we don't know exactly what they're going to look like and whether they're coming for definite or not. So know this is very much judging it with speculation rather than certainty, so typically will play out over a five-plus time horizon.

Medium term, we think about the things that you can see coming, can be forecasted, but it's a lot of effort to think about them and put them in place. So multi-stage thinking, multiple quarters to implement-- so we're kind of thinking out to five years. And for short-term stuff, we're thinking about the issues that we can deal with in the here and now-- so kind of quickly visible actions that we can implement in the very short term. So this would typically be less than a year.

LOK MA: Right. So short term, up to up to a year, medium term up to five years, and then long term is beyond. So I'm going to go to you next, Tim, and kind of ask you, why do we need to think about these different time horizons?

I'm kind of reminded by a famous saying by one of the main characters in the Disney film, Frozen 2-- kind of famous if you've got kids anyway. So she says, we should just do the next right thing. In other words, the long term is just a series of short terms, isn't it? So why is she wrong?

TIM MITCHELL: Love your cultural reference there, [INAUDIBLE]. So different horizons-- there are different issues that we're going to face at each of those horizons. And because we've got different issues, we need different steps to deal with them.

So if we think about the short term, typically, that's where pragmatism is required often, let alone, analysis. It's just action. Finish something off. Implement the change. Over the medium term, more analysis required there. We're going to look at more, what are different possibilities that we face? And we want to think about probabilities and start to think about cost-benefit trade-offs, that type of approach.

And then over the long term, because it's so far out and less certain, it lends itself more to imagination. And therefore, we want to think about storytelling and narratives and scenarios and how we approach this.

LOK MA: Right. So different types of thinking, I guess, over different time frames. I want to drill down a little bit more now. What are the sorts of things that then you would think about within a particular time frame? And maybe we'll start with Becca.

REBECCA BANNAN: Sure. So I think it's really important at this stage to say we're actually really thinking about asset owners or asset managers as organizations, not just investors. So this is way beyond just thinking about the portfolio.

And if you take that organizational view, know these organizations are really complicated and have all these different moving parts that go way beyond investment decision-making or

implementation. And actually, so many of those other dimensions will really contribute to organizational and investment success.

So to better break down and understand its complexity, we try and think about these organizations with having a series of interconnected models that sit within them. And kind of when you're thinking about the different time horizons, you're also thinking about these different models and how they contribute.

LOK MA: So interconnected models within each time frame. Do you mind just giving me a bit of color on those-- what those models might represent?

REBECCA BANNAN: Sure. So we use a framework of six models all connected or feeding one another. So business model-- we're really thinking about business strategy on how you create and deliver value. Client model-- I mean, hopefully, pretty self-explanatory, but relates to how you engage with and on behalf of clients. Governance model is all about the right people in the right roles making the right decision at the right time.

Investment model-- it's a product model, really. And it's all about creating high-quality investment product through decision-making. People model-- how your people contribute to your success and the culture of an organization. And finally, operating model. So this is thinking about how you utilize people, process, technology, and data to support the way that the organization functions, but also at strategy.

LOK MA: Right. That makes sense. I mean, it sounds to me like almost a mental checklist of sorts to make sure you think about all the different aspects within a time horizon and how they kind of interrelate to each other. Tim, anything you want to add to that?

TIM MITCHELL: Yeah, I think what I'd add in there is it's important to recognize that not all of those six models are going to be relevant to all organizations or across each different time horizon. So it is very context-specific. But we think of the models as a helpful way to make issues more digestible and to recognize that there are different types of issues that occur under each of those models. So issues under the investment model can be very different than issues under the people model, for example.

LOK MA: Yeah. So back to the three different time horizons-- short, medium, and long term-- what do you think of as the kind of ideal split in terms of how an investor might divide their attention across these three different time horizons? Let's start with you, Tim.

TIM MITCHELL: Sure. Well, I'll start with a really safe answer and say it depends. And it does depend on context. But as a rough rule of thumb, in normal times the board or the investment committee wants to think about the bulk of their time, say, 80%, being spent on the medium to long term, maybe in a sort of 60/20 type of split between those two. The CEO or CIO, they're probably going to spend most of their time, maybe 90%, on the short to medium term. And then the staff are going to spend most of their time on the short term.

LOK MA: Yeah. And I think you mentioned kind of in normal times. We're obviously not in normal times at the moment. What about something like the current situation when we're all in crisis mode, I guess? I mean, does that change the balance?

TIM MITCHELL: Yeah, for sure. In crisis mode, everyone-- board, CEO, staff-- they all spend more time on the short term.

LOK MA: So now let's get into these particular time horizons. And obviously, let's start with the short term. Becca, so within that kind of time frame of up to the next 12 months, what are the kind of things that you're trying to do? It would be great to give some examples, particularly any that are related to these very strange ones that we've been having during the COVID crisis.

REBECCA BANNAN: Yeah, absolutely. Just to recap, these short-term issues are really around thinking about things that can be dealt with reactively, so don't need a whole load of analysis. And we're really seeking things that can drive short-term, quickly visible results. And so, as you mentioned, COVID set off a series of disruptive forces of change across many of the models that I spoke about earlier. And actually, change brings with it great opportunity.

So there are lots of opportunities here for short-term wins to implement solutions that can make a meaningful impact on near-term outcomes. We think that this is a really great time for organizations to take a little bit of a step back and just think about whether any cracks have appeared during the crisis.

And that's not to paint that in a negative light. It's just to say, how do we shore these up, so that next time we find ourselves in a crisis type situation-- and given how volatile things have been, we have no idea when that could be again-- to make sure that the same mistakes or the same issues don't raise themselves again?

So I think a great example of thinking about this, and, [INAUDIBLE], you touched upon it earlier when you said, doing the next right thing. Well, what is the right thing? Has your organization been able to put first things first? Have you focused your time and resources on the issues that are most impactful in the short term for your business?

You know, there's always a tendency for the loudest action to crowd things out. And so having a bit of discipline around-- well, have we've been focusing on the right things? And if not, reprioritizing them is so important and something that's so critical to this is delegations.

So have your delegations enabled you to address all of the issues that are arising and make decisions efficiently and effectively? Have you been able to just trust the people that you put in place to make decisions on your behalf to make them? Have you empowered them to do so?

And ultimately, the main question really has to be, have you been able to think about and react to all of the things that you wanted to do during this crisis? Or have things fallen off the list or been brushed under the carpet because there just wasn't enough time on agendas, or you were [INAUDIBLE] too many other things on your plate and didn't know what actions to take?

TIM MITCHELL: Yeah. And perhaps, [INAUDIBLE], if I can jump in here as well.

LOK MA: Please.

TIM MITCHELL: So if I think about the very best investing institutions and the sort of environment that we have just been through, perhaps, or going through, the best institutions are ones that really capitalize on these type of environments. They see them as full of opportunities. And it's those opportunities they exploit. And they're really sitting there patiently waiting for just such opportunities to come along.

So as listeners reflect back on their own experience over the last several months, sort of questions that they might want to be asking themselves-- have they been able to take advantage of the market disruptions that were thrown up as a result of this crisis? Or have they found themselves in a position where they're having to be reactive to the market rather than proactive? So perhaps they're for sellers, because they need to find liquidity in their portfolios.

And for those organizations that have more than one string to their bow in their business models, so they're thinking about what are the different ways that they can build their business, have they seen this environment as an opportunity to find new or emergent business ideas worth exploring?

LOK MA: So that's the short term. And I think we could all assess how we've done in recent months, through the initial months of the COVID crisis. Let's move on to the medium-term considerations then. And I'm going to start with you this time, Tim. What are the kind of things that you're thinking about within that kind of time year-- sorry-- the five-year time frame?

TIM MITCHELL: Sure. So a reminder that these issues that are going to drive strategy over the next three to five years, the sort of issues that get onto a strategic plan, that's the horizon that we're thinking about. Let's start with the investment world and the investment model.

What we think we're going to see over the next three to five years is a much greater appreciation of externalities. And so economists talk about externalities-- that's the things that sort of aren't seen, really, the impacts of activities beyond the immediate beneficiary of the activity.

And so in the investment world, we're very used to thinking about portfolios in two dimensions. We think about risk and return. But increasingly, we think that investors need to think about risk, return, and impact. So it's the impact of the externalities of their investing activities.

And if we link that together with the business model considerations, we think that organizations will start to accept that they're creating value for a much wider group of stakeholders than just their members. And that wider group-- so as well as their members, it includes their employees. It includes society generally, and ultimately, the planet as a whole. So there's a couple of-- those are quite meaty issues to have on the strategic agenda.

And I think organizations will also want to look harder at what are their areas of comparative advantage? So what are the things that they can do particularly well and should keep doing? And what are the things that others can do better, and therefore, they should outsource that activity to them?

LOK MA: Yeah. And Becca, any examples you want to go through within that medium-term time frame.

REBECCA BANNAN: Yeah. So I think Tim's really articulated the what-- so how might what people do change over a three to five-year horizon? But I might focus a little bit more on the how. So how do they do things over that three to five-year horizon?

So to start off with people model-- I mean, how an organization acts and how its people come together is really as important as what they do. And actually, often not having the right people on the bus can be the biggest reason why organizations kind of failed in actually achieving their goals and their mission.

So kind of thinking around, can you derive a comparative advantage from your culture? Can you generate better outcomes from strength of leadership, better behaviors, and improved alignment of values across the organization? And then also kind of stirring in some operating model elements around that as well. Because technology and data are also really important elements of the how.

So how did you get the right blend of people and technology-- kind of that people on the bus analogy? What do you do when systems and technology are taking up some of the seats? And how can you actually find efficiencies through automation and different types of technologies to allow people to focus on more value-additive activities, so people can add value in new reimaged ways?

And I think that we've seen over the last few months already how improved technology can allow for more flexibility in roles, better working arrangements. So how can you actually change the value proposition of where you work to people, to attract talent through utilizing better systems and technology?

LOK MA: Yeah. And I think we could all kind of reflect on how differently we're going to be working five years from now. So I think you're very right there.

Well, thank you both. So that ends, I think, part one of our conversation, which I'll summarize very quickly as three different time horizons that investors should be thinking about, and particularly about how they spread their focus across these different frames.

I would summarize that as maybe the more senior you are, probably you should be devoting more of your time to the medium and long-term considerations. And then we also spent a little bit of time thinking about the short term-- I think for me, assessing how you've reacted to various events. And if you were a very well-structured organization, you would have seen the last few months as presenting some opportunities, as well as some dangers. And then in the medium term, we've heard some really great examples about thinking about externalities, and also just making sure that you've got the right people on the bus, so to speak.

So now please head on over to part two of our discussion, where we're going to think about some of the longer term issues that institutional investors and asset owners should be considering beyond five years.

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