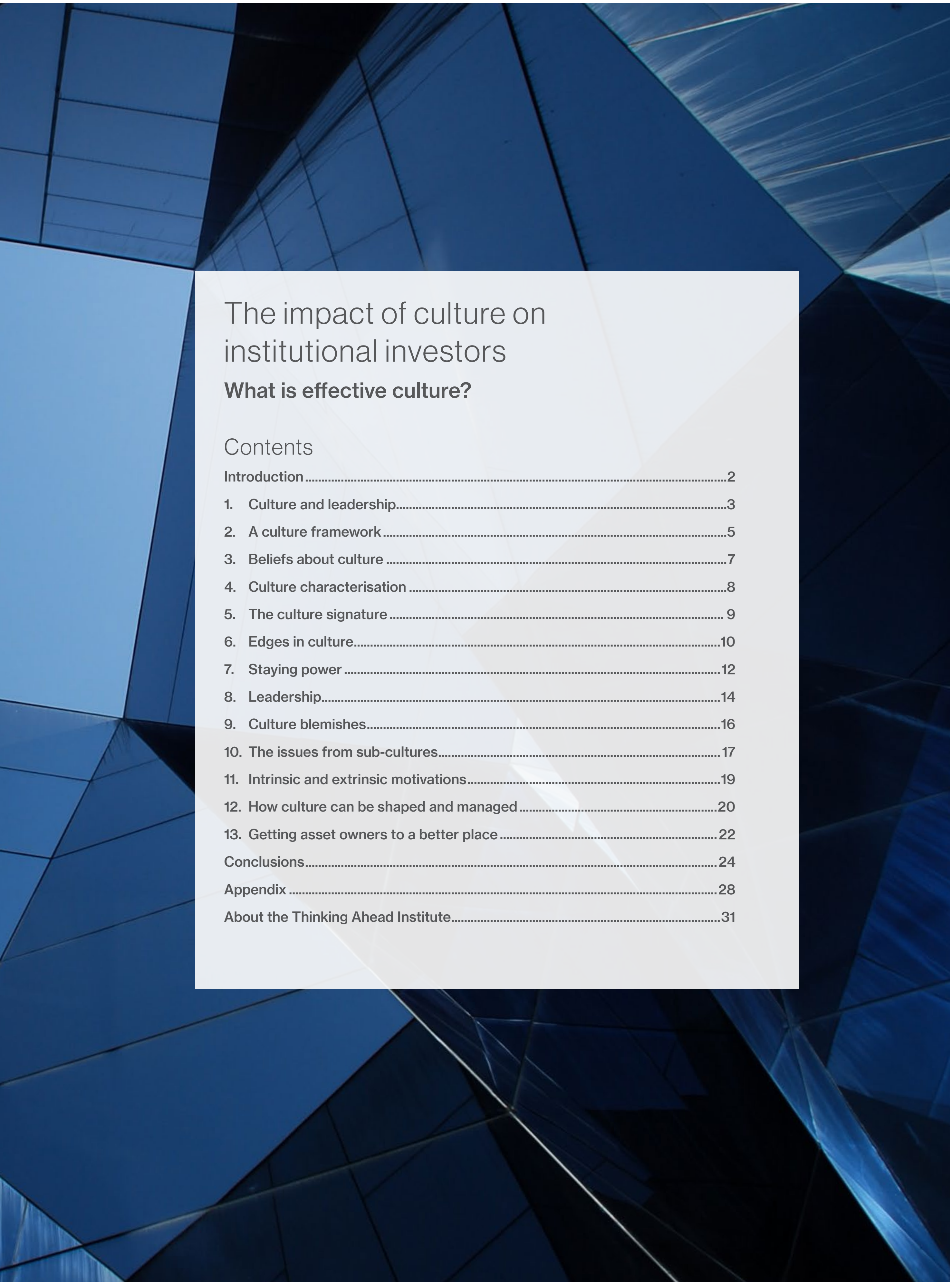
Thinking Ahead Institute

The impact of culture on institutional investors

What is effective culture?



The impact of culture on institutional investors

What is effective culture?

Contents

Introduction

This research updates the 2015 TAI paper *'The Impacts of Culture on Institutional Investors'*. A number of edits to the text have been made. Those interested in the new research and thinking should refer to sections 6 to 11. The author is indebted to 22 organisations that gave inputs to this study. These are listed in the appendix.

Culture is a unique ingredient in the struggle for competitive advantage among institutional investment organisations. There are ways for culture to be managed and developed over time but it will take focus, patience, leadership and process. Having a clearer description of your culture without recourse to stereotypes is the best starting point to that.

Various research indicates the importance of culture and leadership in all enterprises, but particularly in people businesses. This research goes deeper into the importance of culture to asset managers and asset owners in helping investment teams deliver better performance and create more value. Culture does this by a combination of: the alignment and consistency of employee behaviours; the alignment of culture with strategy; and the leadership actions embedding culture.

The special factors applying to institutional investment start with the differences between asset owners (not-for-profit entities) and asset managers (usually for-profit entities). The ownership model turns out to be quite significant in culture formation through the explicit and implicit incentive structures that go with each model. But, ultimately, culture is shaped most by individual contexts and particularly the influences of leaders past and present.

This paper advances certain best practice principles of culture by reference to exemplar case studies of both asset owners and asset managers that combine strong historic performance and attractive cultural attributes. The study of these exemplars suggests that there is no single best practice for culture. Excellent culture can take different forms but its complex DNA generally majors on five 'core' cultural characteristics:

- **Client-centric purpose and drive** – the recognition of fiduciary responsibility and professional service to clients is central to this
- **People-centric ethos** – where respecting personal development wishes, encouraging maximum creativity, facilitating collaboration opportunities and personal recognition are all critical
- **Excellence** – with uncompromising expectations for performance, quality and consistency
- **Integrity** – where innate respect, openness, support for diversity and ethical orientation are present
- **Positive leadership** – this particularly involves tone at the top, setting a direction and empowerment.

Leadership is strictly an enabler to culture and this attribute above uniquely defines how leadership does a mixture of creating, curating and distributing culture. Strong culture is mean reverting – it is likely to drift into a lesser (milder) state without highly focused actions by leadership to maintain it.

The cultural differences between asset owners and asset managers are most evident in the client-centricity area where asset managers have, over time, been increasingly drawn to more self-centred values in response to commercial pressures. This paper argues that the future sustainability of the asset management model requires much better trust and alignment between asset owner and asset manager.

One surprising part of culture is that while there are various positive attributes needed for good culture, having too much of a good thing with culture can become a bad thing and the trick is getting to an optimal 'sweet spot' for each. Culture is basically no respecter of excess.

Culture is deeply embedded and so responds weakly to unsystematic attempts to change it; but culture can be shaped through change processes. Particularly by using organisational transformational methods; by reworking of organisational design including the lay-out of where power is distributed; through compensation redesign and helping people understand what is important through incentives; and most critically through leadership.

In shaping culture, investment organisations should see merit in three areas where cultural differentiation may produce an 'edge': innovation; diversity & inclusion; and transparency. These have connections: innovation is completely central to value creation; it will require superior cognitive diversity; it will be supported by transparency producing conditions for better feedback and learning.

1. Culture and leadership

Definitions and impacts

Previous research supports the importance of culture and leadership in all enterprises, particularly in people businesses. For example, Kotter and Heskett (1992) show the causal link from good culture to both firm results and client results. The link from bad culture to toxic results is perhaps even clearer – think Enron and others.

The study of culture starts with a clear definition and understanding of its linkage to leadership:

The most commonly used definition of culture was coined by Marvin Bower – 'it's the way we do things around here'. At one level this is effective in conveying the essence of culture in describing the norms of behaviour. But a full definition needs to explain why things are done that way (mostly about values and beliefs) and how things are done that way (mostly about leadership and incentives, also about governance and management). For culture to add value it must be turned into action.

Culture	Leadership
The influence on an organisation's thinking and behaviours from shared values, beliefs and expectations	Influencing an organisation to achieve its shared goals through strategy, motivation and development
Value added by culture	**Value added by leadership**
▪ Aligning values and beliefs; establishing expectations and trust ▪ Capturing the power of communication and engagement ▪ Building focus on the important things while reducing uncertainty	▪ Developing values and beliefs; setting vision and direction ▪ Capturing organisational muscle – including alliances and providers ▪ Building culture and team spirit; setting expectations and incentives

Where Schein (2009) describes the factors present in good culture among corporations, in this current research we investigated the special factors characterising culture among institutional investment organisations. This is timely research given the much increased focus on culture by regulators and in the discussions about finance needing to benefit the many, not just the few.

While the subject of culture in asset management has been considered in this industry over many years (Urwin 1990) and was well covered by MFS in their research monograph (MFS White Paper Series 2014), the scope here breaks new ground in two areas – the integration of culture into the institutional investor's strategic roadmap and consideration of the special case of asset owner culture.

Asset owners are generally profit-for-member entities, while asset managers are profit-for-shareholder entities. The ownership model turns out to be quite significant in culture formation through the explicit and implicit incentive structures that go with each model. In this area some differences of culture are clearly evident. But in many other areas the taxonomy of culture is very similar in both groups.

The research method used considered a wide range of institutional exemplars of good practice to build a coherent view. In all cases, these organisations reported on their culture in their disclosures which were represented as forming part of their value propositions to stakeholders. This narrative was used in the research to build a basic understanding of these organisations' culture.

But more importantly, the research included discussions on culture with leadership figures at these organisations centred on how participants perceived their own culture. This identified what their culture looked like, how strong it was (how it was positioned in alignment and consistency of employee behaviours), how it synched with strategy (how it delivered strategic value) and how leadership worked with it (how their efforts amplified and embedded its effects).

2. A culture framework for investment organisations

"If I had six hours to cut down a tree, I'd spend the first four hours sharpening my saw"

Abraham Lincoln

The missions of the institutional investment organisations we studied were all concerned with producing investment performance.

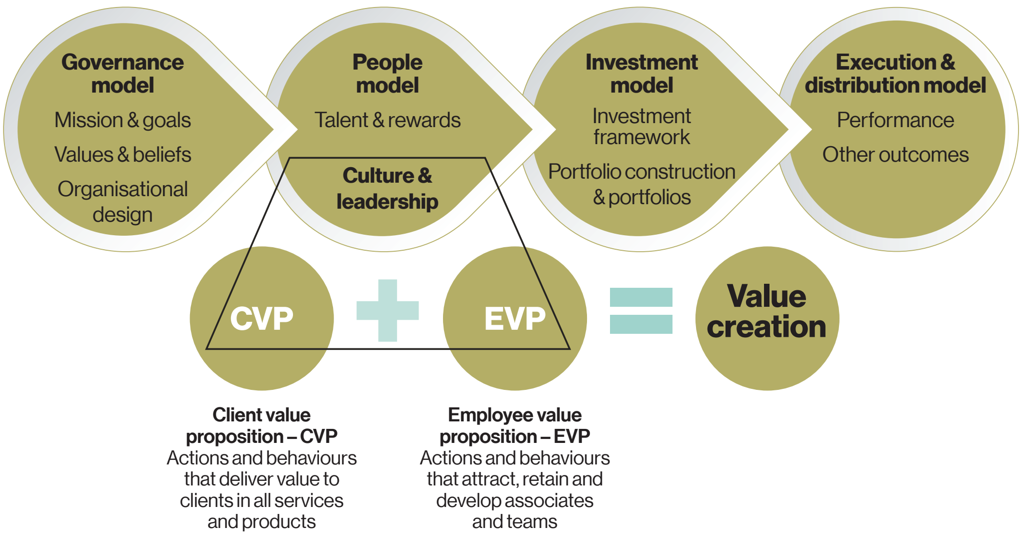
The framework for asset owners considers how those performances are produced which in our model separates the enablers from the investment process. This is deploying the 'governance budget' in a governance model and people model and applying it to a 'risk budget' in the investment model (see chart below).

The governance budget (see Clark and Urwin, 2007) is made up of a number of elements:

- **Mission and goals**
- **Values and beliefs**
- **Organisational set-up** – the structure, resources and processes employed in decision-making
- **Culture** – the key top down influences driving organisational behaviours
- **Talent and reward** – the key bottom up influences on the organisation
- **Insourcing / outsourcing** – the system by which the internal and multiple outside agents are configured in a value chain, the features of in-house and external activities.

We make this point about framework here because it positions culture as a critical enabler to the investment model decisions that ultimately determine the investor's return. But culture should not only be seen as an 'input' – it is also an 'output' shaped by organisational circumstances, leaders past and present and many other intangible factors. This introduces two lags. Any work undertaken to change culture today, helps to create a better cultural condition in the future (maybe a year or two later), which supports better decisions on the risk budget at that future time, and better returns follow after that (maybe three or four years after the change).

The framework for producing returns is an institutional design question that can be helpfully considered in an ecosystem context. In a global investment organisation with teams in multiple places, how can the multiple teams from different locations be combined successfully (Clark and Monk 2014). The full framework we use to address this question maps an institutional investor from its mission and beliefs system through its enablers to its investment strategy decisions, as illustrated below. The strong temptation is for investors to concentrate on the main action in the investment model. But that misses the main features that determine success and sustainable comparative advantage being sited in people model and in the culture in particular.



3. Beliefs about culture

Beliefs are conjectures about the world that make sense and have supporting evidence. This is not the same as facts, but it is more than assertions. The first belief to tackle is to consider what makes culture effective in creating value. Effective culture will influence thinking and behaviours. This follows from our definition. The context of how this happens combines cultural strength through employee ownership of culture; cultural alignment with strategy; and leadership embedding culture. These separate strands create the nuances in assessing culture for effectiveness.

With strong cultures, individuals have shared values and beliefs and work and act in a similar way. Where this culture aligns with the strategy it is able to deliver value in the mission, particularly when leaders embed the culture, and individual employees respond positively to the signals. Culture then is a cohesive and powerful aligning force which coalesces individuals and their actions into delivering value at an organisational level.

We prefer making assessments of culture on its effectiveness, rather than applying it to more loaded terms like good or bad. By judging culture on its effectiveness in creating value through influencing thinking and behaviours, we put it in a central organisational position. After all, the mission of any organisation is the creation of value.

The influence on value is most evident through affecting the client value proposition (CVP) and the employee value proposition (EVP).

CVP is defined by the size and shape of organisational factors that deliver value to clients in all services and products. Those organisational factors are cultural but of course they are also structural as they also reflect governance, policies, tools and actions.

EVP is defined by organisational factors that attract, retain and develop employees, teams and talent. As for CVP, those organisational factors are both cultural and structural. Examples of structural factors in EVP include compensation design, performance management processes and training.

Central beliefs about culture	
Culture matters	Culture is a unique and highly influential ingredient in the recipe for competitive advantage
Culture is embedded in the organisation	Culture is positioned as both an output from organisational inputs (mission, governance, leadership and others) and as an input to organisational outcomes It can be assessed, codified and managed, but shaping it is a tricky process
Effective culture has several attributes	Effective culture combines cultural strength in which employees' behaviours are aligned and consistent; cultural alignment with strategy; leadership action embedding culture
Culture creates value through CVP and EVP	Culture exercises its main influence on business value creation by increasing CVP and EVP

"The first belief to tackle is to consider what makes culture effective in creating value. Effective culture will influence thinking and behaviours."

4. Culture characterisation combines various attributes

Culture is multi-faceted. No single descriptor can communicate its complex DNA. It follows that it is helpful to spell out an organisation's culture under various attribute headings, and to identify the weights and the degree of strength or weakness attaching. The simple discipline of thinking through these attributes is a value-adding experience. The classic way to use such a review is a gap analysis. You can think of a list of attributes down the page. You complete the matrix across the page: there is the current 'as-is' positioning in the first column; an alternative preferred target state in the 'to-be' column; some action steps that would help the organisation towards that 'to-be' state are positioned in the third column (see exhibit below).

But long lists are difficult to get your head around. To create a more memorable signature we can focus on the two principal factors that are dominant in many of the most successful cultural composites. These are the client-centric ethos of the organisation and its people-centric ethos that we see as the 'culture keystones'. In the discussions with the exemplars in the study, both these clusters were clearly present and widely discussed. We also reserve a special mention to 'investment culture' which seems to blend the client culture and people culture with a healthy element of performance thrown in.

Finally, the normative attributes needed for good culture can have limits. These attributes can become counter-productive in excess. Having too much of a good thing with culture can become a bad thing and the trick is getting to an optimal 'sweet spot' for each recognising possible trade-offs. Put in other terms, the cultural profile has to be considered contextually in an inter-connected way and have holistic balance.

Culture model beliefs	
Culture is multi-faceted	The cultural model of an organisation combines exposures to a number of cultural attributes
Client-centric culture; People-centric culture	Cornerstone cultural attributes lie in the client-driven culture (the purpose and drive of the organisation serving clients); the people culture (how the workforce is treated and behaves)
Investment culture	An investment culture in an organisation reflects a passion for investment as a craft and competitive skill (motivated by the intellectual and performance challenge) and a professional calling (motivated by being trusted with other people's money) It is a composite cultural attribute that combines client-centric, people-centric, performance and integrity cultures

Culture gap analysis – illustration

As-is State	To-be Target State	Actions required
XXXX	XXXX	XXXX
XXXX	XXXX	XXXX

"Having too much of a good thing with culture can become a bad thing and the trick is getting to an optimal 'sweet spot' for each recognising possible trade-offs."

5. The culture signature

The study of our exemplars suggests that there is no single best practice shape to effective culture because of the range of contexts and complexities involved. Culture's complex DNA generally groups into four core factors which form the base of what I term a ***culture characterisation or profile***.

- **Client-centric culture** – this is a factor related to client-centricity, often reflective of purpose, also reflective of ownership and incentive structure
- **People-centric culture** – where respecting personal development wishes, encouraging maximum creativity and facilitating collaboration opportunities are critical
- **Performance culture** – where there should be uncompromising expectations for performance, excellence and consistency in standards
- **Integrity culture** – where innate respect, openness, support for inclusion and ethical orientation should all be present.

Three further factors are indicative of a potential edge in an organisation's culture and extends the culture profile to seven points:

- **Inclusion culture** – the degree of diversity present, particularly as it relates to perspective and experience, and commitment to include all employees in opportunities
- **Transparency culture** – the organisation expects transparency in revealing your knowledge and abilities to others, directly and honestly
- **Innovation culture** – the focus on doing old things better and better new things, reinforced through a technology orientation, carried by a test and learn attitude, and a mind-set that challenges the status quo.

Three further attributes describe culture characteristics that are critical to the sustainability of a culture and likely to be ancillary to the core characteristics:

- **Long-termism culture** – where preparedness to forgo current gains (or not) for better future outcomes well down the track is critical, also reflective of sustainability
- **Risk culture** – where the merits of managing risk successfully play out and where the risks and rewards of innovation, diversity and contrarianism play a part
- **Agile and adaptive culture** – the mind-set and associated preparedness to adapt and re-position the organisation and its employees by undertaking change actions.

Effective culture is carried and embedded by leadership. The core leadership attribute here is setting direction, tone and the terms of empowerment in the organisation through example and direct and indirect actions. We pick up what those actions may be in section 12.

Three more factors describe the leadership imprint on culture:

- **Servant leadership** – develops trust, develops other leaders, helps employees with life and work, acts with humility and unselfishly
- **Dominating leadership** – high charisma, preparedness to act differently, strength in dealing with adversity, strength in simplifying realities
- **Nimble or transformational leadership** – works well under time pressure, creates momentum in change from a combination of compelling vision and attention to process, gives instruction and does oversight.

The list of factors bears testimony to the dangers of stereotyping culture. Many descriptions of culture simply use the terms ***people culture or performance culture***. The complexity and interconnectedness of culture only yields insight when the culture language is expansive.

The factors above are clusters of attributes that vary by context, more than singular concepts. For example, in identifying the client-driven culture characteristic: in some cases the 'client' is the beneficiary of the assets managed, in some cases not; in some cases the concept is more about being 'purpose-driven'.

6. Edges in culture

Diversity & Inclusion

Inclusion describes the cultural achievement of a work environment in which all individuals are treated fairly and respectfully and have equal access to opportunities and resources. Diversity describes the structural mixture of differences and similarities across individuals' values, beliefs, experiences, backgrounds, preferences, and behaviours, often reflecting both visible and invisible diversity traits.

Diversity and inclusion have two valid motivations - to build a fairer and better culture, and to build a stronger and better business model. It is critical to be clear about each and explore their overlaps where the two can be complementary. The fairer and better culture is able to contribute to both the integrity and people culture attributes. Inclusiveness is increasingly valued in the employee experience *(see CFA Institute: Investment Professional of the Future).*

The business model point connects to the performance attribute. The theory is that diversity matters because diverse groups of people bring more and different ways of seeing problems and, thus, better ways of solving them. With the complex problems faced in investment organisations, weak diversity (thinking the same) gets stuck in the same place; strong diversity, gets through the blockages.

Diversity is more seen through surface characteristics (like gender, race, national culture, education, sexual orientation, age) which introduce values-laden issues and potential confirmation biases. But it is more impactful when it's an intrinsic identity characteristic – innate to an individual's values, perspectives and experiences.

Transparency

Some transparency will always exist in an organisation, but for a cultural edge transparency has to be taken much deeper in a number of areas. In the operating model, stronger transparency produces more information for decision making to be more decentralised, empowered and reflective of quicker and more accurate responses. In the people model, transparency supports blunter feedback which can produce better learning and development and accompanying increased accountability. In the delivery model, transparency allows external scrutiny to see how the organisation works and supports stronger trust.

Radical transparency is the term applied to extreme versions of transparency. Ray Dalio of Bridgewater (see Principles | Dalio) is prominent in promoting one version. That version is particularly relevant to feedback models that are continuous and candid; make allowance for mistakes in the context of analysing and learning from them; involve individual's strengths being transparently mediated. Such a model can certainly contribute inputs to decisions (the Bridgewater process refers to these assessments as believability scores). Taken to its limits this model will use conflicts to enhance relationships to allow principles to be aligned and differences to be resolved.

The key positive to this is building a sharper image of reality. The key challenge with it is blending such culture into the emotional intelligence of the workplace where increasingly individuals want emotional wisdom to prevail. The reality here is that working relationships may not do well with everything being on the table at every moment, whether individuals are ready to hear feedback, equipped to hear it, and fundamentally whether the feedback is appropriate or not. Again, we are struck by culture requiring some balance.

Innovation

For innovation to be an edge in cultural terms, the organisational norms have to be attuned to a number of critical attributes: being entrepreneurial and having an ownership attitude; having a clear focus on the market-place and anticipating new market needs; encouraging and recognising new ideas; being supportive to calculated risk taking; having a bias towards taking action; being exposed to test, learn and iterate applications.

For innovation to work in investment contexts much longer time horizons have to be in play. While innovation in technology works from a speedy, simple and tangible edge in which data will be highly influential, in contrast the investment context of innovation is clearly slow, complex and subtle in its emergence, calling for interpretation of softer data and context. Without good feedback loops this is extremely hard, and for most investment organisations has restricted innovation. Investment organisations have had plenty of ideas about innovations in their investment models through their portfolios but have been notably lacking innovation in ideas for transforming the business, operating and people models to address accelerating change on all fronts.

Successful innovation responds to discipline alongside creativity: good articulation of vision and strategy; cognitive diversity in the team composition and processes; management through soft and hard data and open feedback loops.

Some organisations favour the incubating of innovation within a specific team (and sub-culture) to achieve higher levels of creativity. The opportunities of using innovation labs or innovation hubs to focus a team on innovation carries the advantage of building strong cultural affinity to innovation in a concentrated place, but clearly has the off-setting disadvantage of often falling short of business integration and delivery because of a silo construct (see culture blemishes section, page 16).

We view innovation as increasingly critical to the future success of investment organisations and the means by which that success will be achieved will rest heavily on culture's support.

7. Strong staying power in culture

While culture is a relatively stable force its sustainability or staying power is far from assured. Good culture will tend to decline with time without leadership actions to maintain it. The larger the firm, and the greater the growth, the proportionately larger the effort needed to maintain or shift culture. Why is this? Effective culture is a reflection of effective leadership actions which will be less influential through the organisation as a larger size plays out. This is compounded by growth which generally leads organisations to apply weaker criteria in hiring to support the budgeted head-count. The critical target to maintain effective culture is hire to the same high standards of competencies, values and experience throughout time.

These arguments can be looked at the other way around in terms of cultural opportunity – we see three significant opportunities for more effective culture here.

Long-term culture

Organisations are culturally wired to favour particular time horizons. There is a spectrum: at one end playing a tactical and short-term 'game'; at the other end to be more strategic and long-term in behaviours and actions. Short-term cultures can be successful in the long term by re-optimising for changing circumstances in various iterations but the ability to change successfully at multiple moments is immensely difficult.

On the other hand long-term and patient cultures are vulnerable to not being sustainable if they don't correctly anticipate some shorter-term realities. Cultures that are long term often must confront initial challenges; they have to confront values in people and organisations that are innately shorter term in attitude and preference; if they succeed in winning this mind-set position they create more sustainability and staying power.

How investment organisations marshal themselves to deal with the time horizons of commitments to their stakeholders is a critical marker of positive culture. Some of the end client stakeholders in the investment industry have intrinsically long time horizons, but we can reasonably suggest all stakeholders have some short-term needs. The relationship and trust between provider and client needed in this balancing act can only grow slowly but can degrade quickly. So this cultural edge is characterised by a commitment to build client empathy and client patience to forgo current gratification in pursuit of a result that can only emerge much later.

Risk culture

Risk culture is a specific aspect of organisational culture that describes the norms and traditions of behaviour that determine how employees identify, understand, discuss and act on risks in the organisation. So an effective risk culture is one that enables and rewards individuals and groups for taking the right risks in an informed manner. This will require well-calculated risk assessments in which appropriately rewarded risks are taken on while unrewarded risks are avoided. The support of various risk models, measures and a form of 'risk radar' will be engaged but the risk culture will govern how such tools are used.

Positive risk culture would often have links to an emphasis beyond doing things right and reaching doing the right thing; speaking up in reporting issues where standards or required practices had been impaired; transparency and openness; a predisposition to develop continuous improvements in practices and products.

In practice, risk culture links heavily to leadership practices and tone at the top, particularly those emanating from a board. Effective risk culture requires a state of not being complacent in thinking about things going wrong; being prepared to challenge embedded thinking and practice on risk management matters; and having a growth mind-set to develop good risk management practices.

Agile culture

There is a cultural dimension in how organisations position themselves positively to develop on the back of new conditions and circumstances as opposed to being blind-sided by change. How well an organisation is positioned for change is conditioned by both strategy and culture. The cultural preparedness for change is supported by a mind-set that is curious, open-minded and self-aware. An investment organisation's nimbleness will be explored in portfolios and investment strategies as well as business strategy decisions.

The lifecycle of investment organisations makes an agile culture harder to attain as organisations grow. The rise of challenger businesses that can create an edge from agile culture, not so evident so far in the investment industry, seems more likely to be a factor in its future evolution. The accelerating change being experienced (the Great Acceleration; TAI 2017) puts the Jack Welch comment into wider currency: "when the rate of change on the outside exceeds the rate of change on the inside, the end is near."

8. And what about leadership?

Leadership is about influencing an organisation to achieve its shared goals through strategy, motivation and development. Leadership's influence starts with how it uses incentives. People respond to incentives, the rest is commentary – is the one-line definition of economics[1]. To obtain better cultures, we need good incentives to nurture that culture. Leadership is the catalyst for this. Leadership effectiveness involves setting and bringing to life those incentives. Think here, amongst others, of the power of 'well-done' and the power of the 'freedom to perform'. Talent craves recognition and interaction with great colleagues allied to opportunities from autonomy, mastery and purpose (Pink 2011).

Core leadership roles include: building organisational muscle; ensuring that the organisation and its individual managers are accountable; and being the carriers and developers of the culture.

Leadership should also be at work in setting direction and managing change. Leaders can only do this with deep understanding of the whole context of the organisation (not easy) and by determining the causes of dissatisfaction and the limits to trust (not easy again). They will generally need to recognise the desirability of change, regardless of current performance, and take responsibility for deciding on the goals of a culture change effort and articulating a new set of values and behaviours (not at all easy).

Distributed power increases leadership influence. It is desirable that leadership roles are played by many - and leadership opportunities often reside outside the top hierarchy. Any associate stepping out of their immediate tasks to make a difference to other individuals and the wider organisation is adopting the role of a leader.

The leadership model of the past was built around the principles of command, control and coerce. The workforce's cultural response to this was in tune once, but this is no longer the case. A change in the wishes of the workforce, and particularly the talented upper layer, has made this inappropriate. The principles that describe good leadership practice today would be distribute, devolve and develop. And leaders have to have a much more direct relationship with the workforce, which is captured in their ability to empathise, engage and empower.

The personal dimension of this leadership challenge is critical. If leaders are to be successful in carrying and developing culture, they need to be strong at articulating and curating the values and behaviours desired, as well as living them themselves.

"Leadership should also be at work in setting direction and managing change. Leaders can only do this with deep understanding of the whole context of the organisation..."

[1] From *The Armchair Economist*, Steven Lansburg

Servant leadership

The original thinking on servant leadership came from Robert Greenleaf set out in an essay in 1970. The version that seems to be most appropriate to an investment organisation would centre on empowerment in which encouragement and development are prominent; the critical part played in two-way trust; the influencing style being through soft power; and the reliance on personal attributes like humility, wisdom and patience. The possible downside to this is that the model may not be quick to resolve issues and could be dogged by multiple views.

Dominating leadership

The charisma and confidence associated with powerful and dominant personalities are helpful behavioural traits to navigate uncertain landscapes and can produce high-level agreements and strong motivation. It is generally the case that leaders who project a strong vision and a direction are seen positively. The editing down of ambiguity and uncertainty is part of this projection. The problems though can breed if decisions appear to be autocratic or arbitrary, particularly when taken without consultation, expecting prompt adherence and no flexibility. While these appear to support high velocity actions they inevitably produce problems with investment associates who want a say, and when the simplification is at odds with the unfolding reality.

Transformational leadership

Being nimble is clearly important in the fast-changing circumstances that face investment organisations. There is a need to defend a core of factors that are relatively timeless, while pursuing appropriate changes in factors that are dynamically shifting.

Transformational leadership involves commitment to be extremely nimble with change and committing the organisation to significant changes in multiple areas – mission and vision, business model and operating model, strategy and culture. This style of leadership involves initiating wide-scale change and motivating the organisation to do more than happens incrementally. This combines challenging some of the prior assumptions and beliefs that will need to be re-set and originating new versions which will require innovation and socialisation.

Transformational leadership has natural connections to agile culture. Numerous studies demonstrate the difficulties that arise with undertaking significant change when one of these elements is absent.

"Transformational leadership involves commitment to be extremely nimble with change and committing the organisation to significant changes in multiple areas..."

9. Culture blemishes

As a general observation, problems with culture are not uncommon in the asset management sector. The failures are not of the scale of an Enron perhaps, but indicative nevertheless of a problem in core values. And the value most commonly in decline has been the value of being client-centric.

A deterioration in culture has been part of a trend for a while in which the professionalism principle for associates within an organisation – putting client first, employer second, yourself third, in that order – is now practiced less. This cultural challenge shows up in various places, notably poorer net of costs results, instances of misalignments with client interests and breakdowns in trust.

The culture blemish most often seen in the investment industry is concerned with placing business results ahead of client outcomes. But we cite blame cultures and silo cultures too below.

Shorter term P & L cultures

The secular rise of short-term accountability for results has meant that organisations may trade-off shorter-term pressure on financial performance at the expense of longer-term value-adding actions. Significant value-adding activities often have lags and uncertainty in their pay-offs, both of which are all too easily discounted in a 'quarterly-capitalism' world. When the measure, quarterly earnings, becomes the target, the measure's value degrades **(often referred to as Goodhart's Law)**. The short-termism human gene, described by Andy Haldane at the Bank of England, is pervasive and insidious, and carries its mark in the cultural signature of many institutional investors.

The challenge of culture here is to re-frame and review the short-termist psychological reaction. Somehow organisations need to build a behavioural response to make the bias become more surmountable at a group (or organisational) level.

Blame cultures

The secular pressure on short-term organisational performance spills over into attribution issues. Investment organisations are especially exposed to difficulties attributing results fairly on the basis of the merits of different associates' and teams' skills and actions.

Investment decisions involve considerable uncertainty and competition producing equivocal accountability (the decisions and compositions of teams change over time); limited controllability (high noise to signal); and significant delay factors (clear outcomes only emerge with a lag). These factors are not unique to investment organisations but they are arguably uniquely strongly exposed to them.

The culture and practices of the institutional investment organisation exist on a spectrum from contextual focus (preference to build a narrative and a fair and rounded picture of performance context, what you might call a culture of trying to be 'fair') to a crude results focus (the results are all that matters, performance context is not considered, what you might call a 'blame culture').

There is difficulty with being 'fair' here with considerable work required to build the performance attribution and narrative process and embed it in cultural practice including the compensation arrangements.

The blame culture – only the results matter – is simpler. But it seems unlikely to be successful over time. Some evidence for the poor outcomes arising from blame cultures are given in Hsu, Ware and Heisinger: 'We find that blame is strongly associated with a variety of undesirable firm attributes and can be predictive of poor stakeholder outcomes for investment organisations'.

Silo cultures

The third blemish issue is about the increasing specialisation in siloes that has become part and parcel of the organisational design of asset managers. The budget pressures on these siloes produces focus on within-silo outcomes. The across-silo actions, where considerable value often resides, are rarely easy to measure and the priorities are to favour the measured over the meaningful. This accounting and budgeting issue has made collaborative cultures more difficult. In our study of multiple asset management cultures, we found all organisations of size had this blemish in one form or other.

10. The issues from sub-cultures

Organisations are rarely made up of one culture, they have many sub-cultures which comprise the unique values and behavioural norms applicable to a sub-set of people within the organisation. Sub-cultures often exist in separate regions, functional groups or even factions. They are particularly significant in merger situations where legacy sub-cultures can be traced back to origin firms.

The culture edges discussed have a particular opportunity to emerge in sub-cultures because the greater strength attaching to these signatures may be more suited to sub-groups in the organisation. For example, an organisation with average levels of innovation culture at the parent level of the organisation may support certain sub-groups where the innovation culture is much more accentuated.

Working with sub-cultures requires skill in working across cultures. This is quite a challenge and not supportive to organisational effectiveness. On the other hand there may be some benefits from the effectiveness of the sub-culture within its operating sphere.

Regional cultures

Organisations operating across multiple countries must deal with regional differences that bring natural points of challenge to the parent culture. For example, the open western style of culture may not be aligned at all to the culture in the Middle East or Asia.

Most investment organisations have global investment problems to solve. These are situations where thinking from multiple geographies needs to be brought together in an effective process in which diverse cognitive inputs will be key. The development of effective transnational teams, processes and ways of working is an immensely difficult cultural challenge to investment organisations.

Front/ back office / functional cultures

Investment organisations have to integrate the different contributions from front and back office individuals, with different skill-sets creating different personal attributes in the two groups. It is difficult to mediate cohesion between them and to avoid the natural state of them and us thinking.

Political factions

This is the preparedness of individuals or groups to create their own divisions and cabals reflective of the application of power and authority. Star cultures are examples of this culture. These have been evident in investment organisations in the past but have less opportunity to shine in future as organisations build out greater teamwork.

Merger situations

A merger provides a unique opportunity to transform a newly combined organisation, to shape its culture in line with strategic priorities with a target culture that may be able to blend the best of both inherited cultures. By establishing a clear understanding of the existing company cultures, leaders can use a common language to set the cultural direction for a high-performing new company. An aligned leadership can be role models for the specific behaviours needed and manage a clear, coherent integration program which can be tracked and adapted as necessary.

But in practice the investment and client propositions from a merger are generally settled in the business results areas reflecting the owners' value proposition. The client and employee value propositions are at best, collateral considerations. And while mergers can bring some client delivery benefits, they do not generally fit with an improved cultural proposition.

This is because post-merger situations are usually difficult to align. Communications will diverge without big efforts to produce a single narrative. The merger lacks the history to create compelling 'origin' stories. Also post-merger 'gaps' are likely (where the merger directly or indirectly produces dysfunctional performance). These may not necessarily be easy to spot. Surveys can help to reveal gaps in culture or organisational effectiveness, by reviewing EVP and CVP. But sub-cultures can remain and are often allowed to embed themselves.

Post-merger, it is reasonable to expect culture integration to follow a 3- to 5-year J-curve disruption, before a coherent and effective culture is created. This is a slower pathway than exists in other industries reflective of needing longer periods of time to work through people issues, rationalise complex, overlapping products and create appropriate confidence with clients and intermediaries.

11. Intrinsic motivations and extrinsic motivations (like pay) are linked to culture

Intrinsic motivation is defined as carrying out an activity for its inherent satisfactions rather than for some separable consequence. When intrinsically motivated, a person is likely to act for the positive experience entailed, rather than because of external pressures or rewards. Culture is substantially an intrinsic motivation to those whose values align with the cultural values of the organisation (Deci & Ryan, 1995).

Extrinsic motivation is an influence whenever an activity is carried out in order to attain some separable outcome. The main examples of extrinsic motivations are pay and promotion, but any HR construct can be designed to reward behaviours that are seen as positive for the organisation.

It follows that culture and incentives should be aligned using pay (an extrinsic motivation) to signal the right behaviours and accomplishments. How does this link work? The high levels of compensation in most areas of the investment industry make attracting and retaining good people easier. But allocating these high levels of compensation, with relatively high variable components, needs fairness and objectivity. This is exceptionally hard.

The foundations for good compensation are related to strong HR practices in making sure associates have clarity of responsibilities and accountability for outcomes. This particularly applies to the performance management disciplines which investment organisations generally struggle with.

The 'pay for performance' design used by most asset managers is meant to contribute to this alignment, but it is unclear how well this works in practice. Practical problems with paying for performance are apparent in most cases:

- Performance only emerges slowly and reflects a wider team effort – the compensation design for dealing with these issues is difficult
- Performance always carries risk which introduces hazards in incentive and inequity in reward
- There is less inclination to reward work that advances enablers and effective investment policies – even though this is the work that delivers future performance – because it is hard to measure and attribute
- Perfect alignment of compensation to meet all interests is not possible; compensation will always have an element of rough justice
- Compensation linked directly to performance will tend to overpay in aggregate (problems of optionality) and pay inequitably (problems of noise).

The incentives often produce focus on short-term performance. They also tend to support selfish ways of working and can reinforce a culture that resorts to blame all too easily.

The compensation practices in variable pay of asset owners are generally more qualitative and less formulaically grounded. But asset owners compete for talent with asset managers and so mimicry of asset management compensation practice seems to be growing.

Compensation design remains a highly controversial field where there are widely differing and competing arguments. From an incentives and culture perspective, there is room for more enlightened design that drives 'performance from pay' by rewarding contributions to the enablers of performance, in which culture is critical.

In most investment organisations the employee value proposition is not dominated by compensation. Rather, influences from intrinsic motivations are critical. Intrinsic motivations vary widely. Most organisations have recognised the value of personal development, personal recognition according to merit and the benefits of great colleagues who are mutually supportive. The Dan Pink 'surprising' set of motivations – autonomy, mastery, purpose and belonging – have particular resonance for investment organisations.

One other investment-specific aspect of incentives lies in career development and advancement. Organisations will have a natural ability to retain their strongest performers if they are effective with career advancement and can support the pace at which people progress through the levels. This is also about how much leadership opportunities and responsibilities are exploited. It also is evident when firms have given individuals a variety of stretching roles. The strengthening of the employee value proposition reinforces the implicit and explicit incentives that drive individuals' contributions to the organisation's mission. Such actions have direct impacts on the client value proposition that is at the centre of success for all investment organisations.

12. How can culture be shaped and managed?

Culture can be changed, albeit slowly and with limited precision. We observed earlier that culture is the indirect result of management actions and market-place circumstances. This makes it less tangible, and as a result less managed than many other organisational characteristics. This can be assessed by reference to how engaged an organisation is in managing its cultural state. We suggest this scale below which reflects a continuum of engagement.

Strong culture is often mean reverting – it is likely to drift into a lesser (milder) state without highly focused actions by leadership to maintain it. All organisations that have grown strongly will have been at risk from this pull to the mean which can only be addressed with higher levels of engagement. Culture is innately slow to build, but quicker to degrade. But culture does respond over time to attempts to shape it if the approach taken is systematic and focused. Culture change methods work best using all the organisational systems that enable investment organisations to function effectively. The major elements are top down systems working through formal channels; bottom up systems working through formal channels; and systems working through informal channels. Overleaf we list the change channels.

Culture can be shaped using a form of cultural osmosis in areas like the behaviours of leaders; the communications of the organisation; the work-space and artefacts; the story-telling. Each of these areas can tell us something about what the organisation values and what behaviours are appreciated. Attempts to change culture will respond to changes to these soft factors; and most critically through leaders walking the talk and talking the walk. The leader's influence here will be through their personal example.

Transformational change projects can be effective in managing cultural change. It is by co-ordinating change along the connected elements of strategy and culture that organisations may give themselves the best chance of successful cultural transformation.

We have a proposition here. Organisations should try to sharpen their positions on values, mission and purpose, and culture alongside beliefs, vision and strategy. These are connected concepts with the first group representing core positions that move slowly with time; the second group representing the more dynamic time-varying positions.

Time spent discussing and pin-pointing these positions will serve the organisation well in making future decisions easier, quicker and better informed, and so more likely to be successful. The purpose quotient questionnaire in the appendix is designed to highlight these and indicate how purpose-driven an organisation is.

Level of engagement of an organisation in managing culture

Level 1 **Low engagement**	**Level 2** **Moderate engagement**	**Level 3** **High engagement**
Leadership not action-oriented on culture	Leadership discusses culture and sets the tone for culture	Leadership actively engaged in shaping culture towards defined target state
Employees not focusing on culture	Employees showing some interest in culture	Employees show considerable awareness of culture
Culture not much discussed or written about	Culture the subject of some discussion and appears in organisation's materials	Culture appears in multiple places: communications, performance reviews

Change channels: List of methods of shaping and managing culture		
Top down (formal) systems,	**Strategy**	▪ Vision, strategy and culture in synch ▪ Strategy process engagement ▪ Creation of target culture state
	Goals	▪ Culture goals agreed; culture measured and assessed ▪ KPI's designed to deliver on culture initiatives ▪ Integrated reporting framework allows for cultural factors
	Hiring	▪ Align the mission and vision statements with the employer brand ▪ Hiring needs improved metrics capturing values and motivational drivers
Bottom up systems	**Development**	▪ Leadership development programs ▪ Use of a portal for cultural things
	Performance reviews	▪ Performance reviews should reference values and behavioural norms ▪ Pay-for-performance should be more reflective of culture carrying
	Reward	▪ Increasing the weighting of culture in the performance and pay reviews
Soft (informal) systems and channels	**Leader behaviours**	▪ Leaders exemplify cultural norms ▪ Leaders are studied for cultural and behavioural signals
	Communications	▪ Leadership talks more heavily on the current / destination culture in town-halls and other group settings ▪ Culture messages need preparation (eg Netflix-type documents)
	Uses of work spaces, events, artefacts and stories	▪ Posters, screen-savers ▪ Employee experience ▪ Exemplification of norms from the past

13. Getting asset owners to a better place with their asset managers and their sponsors

Asset owners and their asset managers

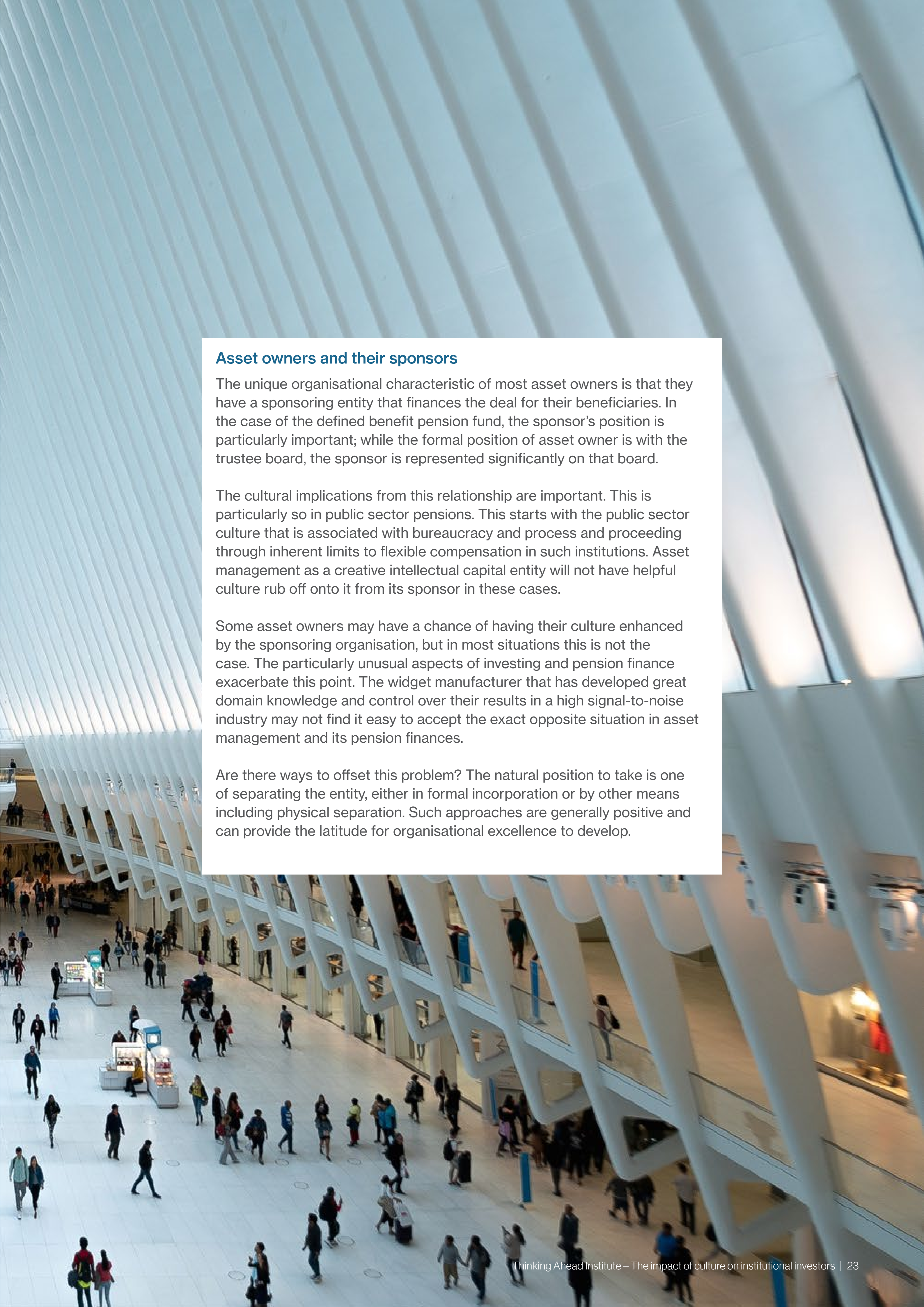
The sustainability of the asset management model requires much better trust between asset owner and asset manager along with a stronger value proposition and a longer time horizon. At present the limits to trust result in far too high a turnover of manager mandates. This limit in trust is leading asset owners to reconsider the value chain. This is leading more assets to be allocated to passive mandates, in-house mandates and smart betas, where the asset management roles are diminished.

This research puts a focus on what the characteristics of an ideal partner might be that enables this greater trust. For self-evident reasons I term this the 'professionally-focused firm'.

The model of the professionally-focused firm seems to work for both asset manager and asset owner if it has these characteristics:

- **Mission and purpose** – culture/strategy coherence that uses a deeply held system of investment beliefs and values (with a self-aware view of comparative advantage) to derive strategy and integrate the culture, embedding the ethos of clients-come-first
- **An integrated employee value proposition** that attracts, retains and develops talent including balanced compensation design and practice
- **An integrated client value proposition** in all products and services – products that don't stand a realistic chance of adding value should not figure. Capacity limits are a key part of this idea
- **Adherence to ethical and excellent practice** – the evaluation of asset managers in organisational due diligence reviews should bring this to the surface; the essence of this can be captured in the adherence to the CFA Asset Manager Code: (Act in a professional and ethical manner, for the benefit of clients, with independence and objectivity; with skill, competence, and diligence; communicate with clients in a timely and accurate manner; uphold the applicable rules governing capital markets).

The key dimension here is the opportunity for the professionally-focused firm that accepts some short-term investment as a route to long-term business and client success. Asset management firms aligning with these attributes are likely to be trustworthy, sustainable (that is, unlikely to change much in the near-term) and well-suited to the assignment of long-term oriented mandates and patient capital. Their culture is a key area to appraise to support their credentials.



Asset owners and their sponsors

The unique organisational characteristic of most asset owners is that they have a sponsoring entity that finances the deal for their beneficiaries. In the case of the defined benefit pension fund, the sponsor's position is particularly important; while the formal position of asset owner is with the trustee board, the sponsor is represented significantly on that board.

The cultural implications from this relationship are important. This is particularly so in public sector pensions. This starts with the public sector culture that is associated with bureaucracy and process and proceeding through inherent limits to flexible compensation in such institutions. Asset management as a creative intellectual capital entity will not have helpful culture rub off onto it from its sponsor in these cases.

Some asset owners may have a chance of having their culture enhanced by the sponsoring organisation, but in most situations this is not the case. The particularly unusual aspects of investing and pension finance exacerbate this point. The widget manufacturer that has developed great domain knowledge and control over their results in a high signal-to-noise industry may not find it easy to accept the exact opposite situation in asset management and its pension finances.

Are there ways to offset this problem? The natural position to take is one of separating the entity, either in formal incorporation or by other means including physical separation. Such approaches are generally positive and can provide the latitude for organisational excellence to develop.

Conclusions

There were three surprises in the original research:

Limited resources had been applied to shaping culture

The organisations we studied had not committed much resource to shaping culture with the majority at level 1 on the engagement scale. The over-riding sense was an optimism that good culture would develop and be self-sustaining without significant management. Given that the research validated the premise that the cultural condition of institutional investors is more deeply embedded in future success than other normative attributes, and all discussants agreed with that premise, I expected more attempts to pro-actively guide these organisations towards the best cultures.

Limited weighting had been given to culture in asset manager hiring decisions

The asset owners were not giving the culture of their external managers much weighting in their hiring and firing decisions. Manager preferences have generally been based around business, people and process, but a better balanced score-card might well be culture, business, people and process. As an interesting historic footnote, Willis Towers Watson's predecessor firm Watsons adopted culture as a manager success factor in the 1990s (see Urwin, 1990) and the current manager research function has increased its weighting to a position where it has three factors reflecting 'competitive advantage', and three related to culture and the 'sustainability of competitive advantage'.

Limited language for culture

The discussions on culture did not flow easily. While descriptions of good culture were common, they tended to use the stereotypes. The descriptions resembled the blind men discussing the elephant. To some the elephant was the trunk; to others it was the legs; to some it was the tail. The communications on culture did not yet seem at ease with the holistic grasp of the whole animal.

The four year period that has passed since the original research has allowed these points to progress positively and the state of culture in the investment industry appears more developed.

More resources are now employed in shaping culture. For example, we have been involved in around ten reviews of culture for organisations. More asset manager appointments involve culture as part of the role specification. For example, Willis Towers Watson's research rating has reviewed culture at 45 top-rated firms with culture being responsible for downgrades in ratings in seven cases.

Culture has received somewhat belated recognition as a critical source of competitive advantage. This has in part reflected the need for investment organisations to differentiate themselves under head-wind conditions. Culture discussions have, as a result, grown in clarity and impact more recently. There is considerable room to grow though. We would think that culture reviews should be quite frequent occurrences as opposed to still unusual. We would expect more inclusion of culture considerations right across the asset owner and asset consulting spectrum.

The research supports three important points.

1 First, culture is a unique ingredient in the recipe for competitive advantage. While business strategy and investment strategy can be mimicked by competitors, culture is impossible to recreate.

2 Second, there are ways for culture to be shaped, managed and developed over time.

3 Third, by having a better assessment of culture, we can describe it effectively and afford it the respect it deserves; and critically we then have better tools to manage it.

To conclude, I suggest what should be on an organisation's roadmap for further cultural change. The roadmap to become a professionally-focused firm falls within this. Tangible actions that have surfaced to help move in this direction include:

- The creation and communication to stakeholders of a culture dashboard measuring cultural condition **(we provide an example in the appendix)**
- The clear and authentic communication of the client value proposition – institutional investors need to express in accurate and realistic terms what their clients and stakeholders should expect in performance and service
- The revision of incentive compensation arrangements to support the employee value proposition
- The creation of a C-suite culture and talent officer (CCTO) to leverage the importance of the field (to professionalise the activity not to absolve leadership collectively of their role in the field).

"I came to see in my time at IBM that culture isn't just one aspect of the game, it is the game."

Lou Gerstner

We close by suggesting that the study of culture has far to go. There is room for more research to explore how the evolving pattern of the most progressive new economy companies like Google and Netflix will change workforce dynamics and motivations. What is occurring at these companies will have implications for all organisations with large intangible capital, and that identifies considerably with investment organisations. The investment industry has not been subject to much change from these forces as yet, no doubt much more will follow.

More particularly, there is considerable need for cultural improvement in the industry. The obsessive pre-occupation with investment performance over short-term periods has not produced sustainable value. We measure what we do because we can. But we can measure more than what we currently do. The understanding and assessment of so-called 'soft' or intangible factors represent a key step forward for institutional investors. These are a source of considerable comparative advantage for those who recognise its increasing power and take the path of cultural improvement.

As Lou Gerstner said "I came to see in my time at IBM that culture isn't just one aspect of the game, it is the game".

Acknowledgements

The following organisations contributed their time and insight to the research as culture 'exemplars'. The author is extremely grateful for their valuable input.

Asset Managers	Asset Owners
AMP	ADIA
Baillie Gifford	Barclays
BlackRock	British Airways Pensions
Coronation	British Telecom PS
Fidelity	CalPERS
First State	Future Fund
Investec	New Zealand Super Fund
MFS	PGGM
Schroders	Railpen
SSgA	TCorp
Wellington	Wellcome Trust

References

Kotter and Heskitt | Corporate Culture and Performance | New York: The Free Press | 1992

CFA Institute | Asset Manager Code | 2012

Clark and Monk | The Production of Investment Returns in Spatially Extensive Financial Markets | SSRN | 2014

Clark and Urwin | Investment Management Best Practice | Journal of Investment Management | 2007

Deci & Ryan | Self-determination Theory

Haldane | Patience and Finance | Bank of England Website Oxford China Forum Transcript | 2010

Hsu, Ware, Heisinger | The Folly of Blame; Why Investors Should Care About Their Managers' Culture | SSRN | 2014

MFS | Culture and Sustainable Alpha Generation: Six Key Factors | MFS White Paper Series | 2014

Pink | Drive: The Surprising Truth about What Motivates Us | 2011

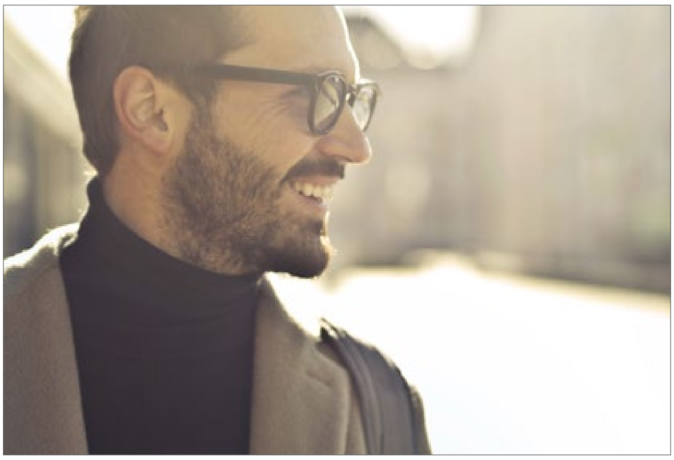
Schein | Corporate Culture Survival Guide | 2009

Towers Watson | Are Your Interests Aligned or Maligned? | 2011

Urwin | Success in Investment Management | Institute of Actuaries | 1990








Appendix – purpose quotient score

Completed for illustrative fund

		Key elements supporting organisational purpose	Yes (+1)	Some (+1/2)	No (0)
Solid core	**1**	Do personal values in the organisation align well with corporate values and the target culture?	1		
	2	Is the mission of the organisation clearly expressed and understood?	1		
	3	Is the culture well-articulated by leadership and highly appreciated by associates?	1		
Changing context	**4**	Are the beliefs and strategy well lined up? Is the strategy supported by accurate beliefs?		1/2	
	5	Is the vision clearly expressed and realistic?		1/2	
	6	Is the strategy clearly argued, expressed and acted upon? Has it been well-socialised?	1		
Purpose	**7**	Is the organisation's purpose expansive (involving wider stakeholders) and exciting (involving inspiring narrative)?		1/2	
	8	Is the organisation's purpose meaningful and impactful to its people (involving a compelling vision)?		1/2	
Total				**6/8**	

Appendix – culture dashboard

Completed for illustrative fund

Culture dashboard		
Culture attribute	**Rating**	**Comments on attributes**
Client-centric	AA	Purpose-driven | Attention to the sponsor's and stakeholders expectations | High trust level from key stakeholders | Strong sense of public responsibility | Understanding of social license to operate
People-centric	AAA	Emphasis on performance development | Employees are prepared to adapt and be stretched | Individual autonomy and responsibility is respected | Strong listening and empathy | Trust exists at various levels | Collaboration is strong | Employees feel belonging
Positive leadership	AA	Servant leadership is practised | Power is well distributed | Progress reflects delivering outcomes and helping others | Leaders act as stewards of culture | Leadership is engaging, trustworthy and trusting | Leadership is inclusive | Employees have a say
High performance	AA	Excellent thinking and process are emphasised | Recruitment has a high bar | Investment performance revered | Accountability for outcomes | Diversity is used to improve decisions | Creativity and innovation are encouraged | Information and knowledge are shared
Integrity and respect	AA	High ethical standards are practised | Behaviours aligned to values are highly valued | Work life integration is valued | Colleagues are liked and appreciated | Colleagues are respected as individuals
Diversity & Inclusion	A	Policies on diversity and inclusion are practised and respected | The organisation recognises the principle of doing the right thing in dilemma situations | Public commitments to diversity are upheld and reported on
Overall culture effectiveness	AA	AAA | AA | A | BBB | BB | B | CCC & below
CVP (client value proposition)	A	CVP - factors that deliver value to clients in all services and products
EVP (employee value proposition)	AA	EVP - factors that attract, retain and develop employees, teams and talent
Overall culture engagement	Level 2	Level 3 | Level 2 | Level 1

Culture edge	Factors	Rating	Leadership edge	Factors	Rating	Blemishes	Factors	Rating
Edge	D & I		**Leadership**	Servant	Y	**Blemishes**	P & L	
	Innovation			Dominant			Blame	
	Transparency			Transformational	Y		Silo	
Staying Power	Long-term	Y					Functional	Y
	Risk culture					**Sub-cultures**	Factional	
	Agile						Merger	

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.

Limitations of reliance – Willis Towers Watson

Willis Towers Watson has prepared this material for general information purposes only and it should not be considered a substitute for specific professional advice. In particular, its contents are not intended by Willis Towers Watson to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. As such, this material should not be relied upon for investment or other financial decisions and no such decisions should be taken on the basis of its contents without seeking specific advice.

This material is based on information available to Willis Towers Watson at the date of this material and takes no account of subsequent developments after that date. In preparing this material we have relied upon data supplied to us by third parties. Whilst reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in the data made by any third party.

This material may not be reproduced or distributed to any other party, whether in whole or in part, without Willis Towers Watson's prior written permission, except as may be required by law. In the absence of our express written agreement to the contrary, Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on this material or the opinions we have expressed.

Contact details

Tim Hodgson
+44 1737 284822
tim.hodgson@willistowerswatson.com

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 in January 2015 by Tim Hodgson and Roger Urwin, who have dedicated large parts of their careers to advocating and implementing positive investment industry change. It is a global not-for-profit research and innovation group made up of engaged institutional asset owners, asset managers and service providers committed to changing and improving the investment industry. Currently it has over 40 members around the world and is an outgrowth of Willis Towers Watson Investments' Thinking Ahead Group, which was established in 2002.

The Institute aims to:

- Build on the value and power of thought leadership to create positive change in the investment industry
- Find and connect people from all corners of the investment world and harnesses their ideas
- Work to bring those ideas to life for the benefit of the end saver.

It does this by identifying tomorrow's problems and investment solutions through:

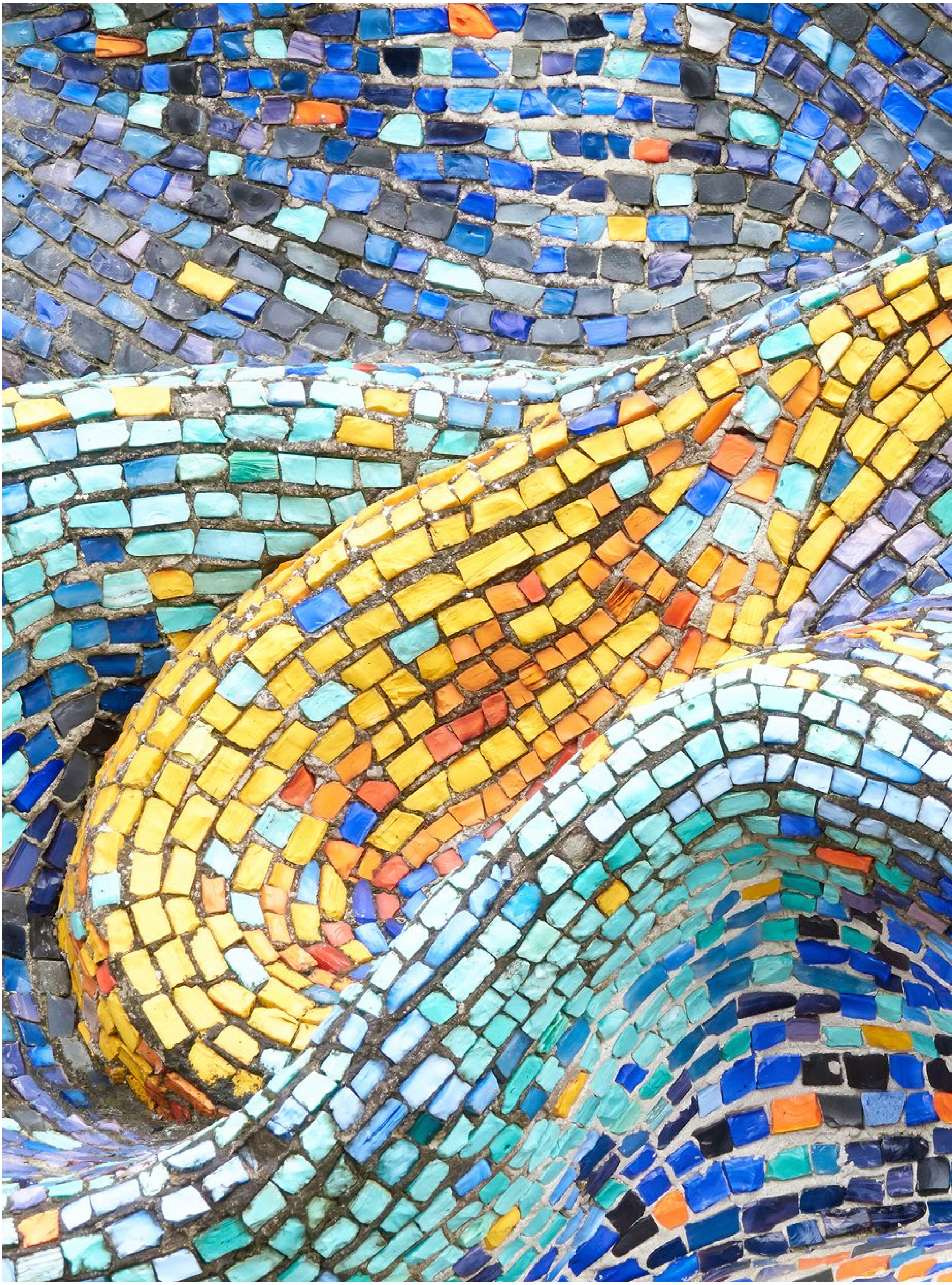
- A dynamic and collaborative research agenda that encourages strong member participation through dedicated working groups
- A global programme of events including seminars and key topic meetings, webinars and social events
- One-to-one meetings between Institute member organisations and senior representatives of the Thinking Ahead Group.

These solutions fall into three overlapping areas:

- Better investment strategies
- Better organisational effectiveness
- Enhanced societal legitimacy.

The Institute has a governance board comprising both Institute members and Thinking Ahead Group representatives. For all membership enquiries please contact:

Paul Deane-Williams
+44 1737 274397
paul.deane-williams@willistowerswatson.com



About the Thinking Ahead Institute

The Thinking Ahead Institute was established in January 2015 and is a global not-for-profit investment research and innovation member group made up of engaged institutional asset owners and service providers committed to changing and improving the investment industry for the benefit of the end saver. Currently, it has over 40 members around the world and is an outgrowth of the Thinking Ahead Group which was set up in 2002.

Towers Watson Limited (trading as Willis Towers Watson) of Watson House, London Road, Reigate, Surrey, RH2 9PQ is authorised and regulated by the Financial Conduct Authority.

IC003/08/2019

thinkingaheadinstitute.org

Thinking Ahead Institute
Willis Towers Watson