

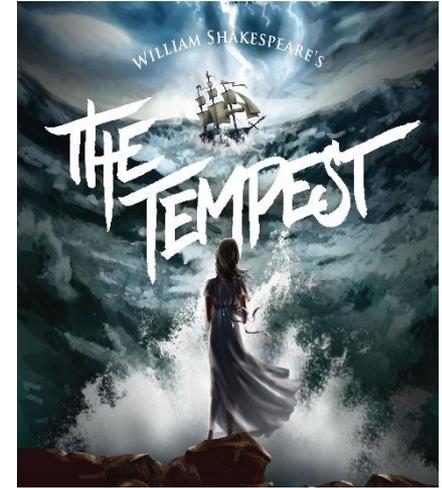
# Coronavirus crisis – wider perspectives – Act II

Roger Urwin – July 2020 – Thought piece on the investment industry outlook given Covid-19



## Act I. Defining moments – Act II. Climb to the new view

<b>The Covid-19 crisis will play long</b>	<ul style="list-style-type: none"><li>▪ Covid-19 ramifications are growing</li><li>▪ Shakespeare plays generally have a five-act structure. The Covid-19 crisis may adopt a similar pattern</li></ul>
<b>Act I - Three defining moments</b>	<ul style="list-style-type: none"><li>▪ January. Australian bushfires in January got us finally to stare at the complex truths in climate change</li><li>▪ March. We realised that Covid-19 was truly deadly</li><li>▪ May. The unlawful killing of George Floyd showed us how deeply scarred we were with racial injustice.</li></ul>
<b>Act II - Climb to the new view</b>	<ul style="list-style-type: none"><li>▪ Covid-19 has vividly reminded us of how interconnected are our social, environmental and economic issues</li><li>▪ We have no choice but to face our new reality, not knowing fully what that may be</li><li>▪ This is a time for perspective and leadership</li></ul>



***“There are decades when nothing happens, there are weeks when decades happen.”***

# Act I. Defining moments

<b>Zooming in to the person in the centre</b>	<ul style="list-style-type: none"><li>▪ Systems theory tells us that <i>everything connects</i> and <i>behaviours matter</i></li><li>▪ The person is at the centre of a health, well-being, jobs, society, environment, economics, politics 'system'</li><li>▪ Not yet clear how mental health is shifting</li></ul>
<b>Zooming out to the organisation</b>	<ul style="list-style-type: none"><li>▪ Increased workplace attention to wellness and mental health and to T-shaped careers</li><li>▪ There are some silver linings from the crisis in the workplace like the WFH model and D&amp;I focus</li><li>▪ Some organisations are exploiting this opportunity</li><li>▪ Not yet clear how trust and collaboration are shifting</li></ul>
<b>Zooming out to the sustainability of the system</b>	<ul style="list-style-type: none"><li>▪ Our challenge will be developing sustainable organisations that harness people and technology in a wholly integrated sustainable investment system</li></ul>



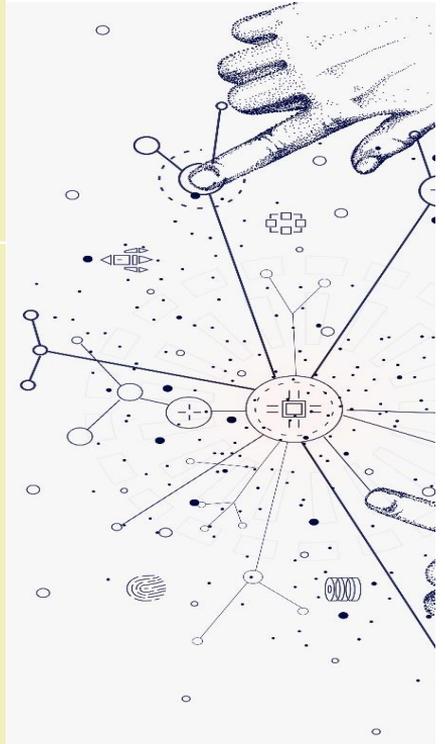
## Act II. Investment model on the move

### Digitalisation picking up pace

- Acceleration of digitalised methods and models in adding value to the portfolios, the client delivery and the foundational capabilities of the firm
- The client delivery experience can be streamlined considerably via platforms and OCIO models

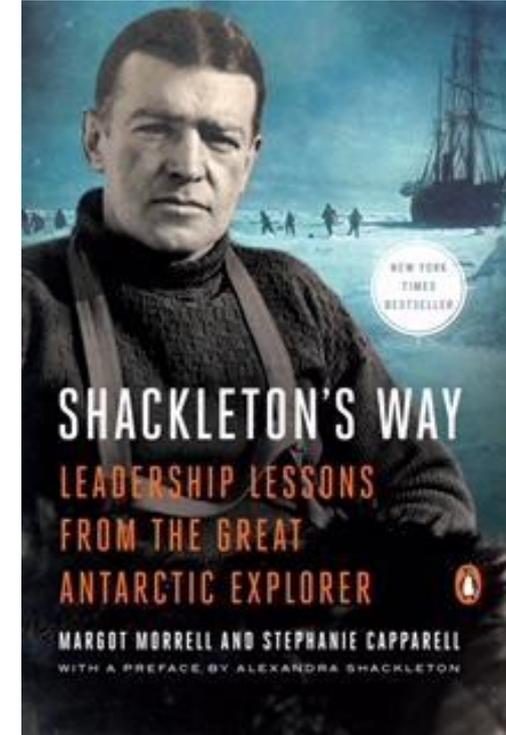
### Transitions mediated by reducing pain points and enhancing edges

- Mandate and process trends have been favouring drivers which enhance the edges and reduce the pain points through:
  - more advanced technology
  - more streamlined governance
  - higher returns (with less concern for risk)
- Mandate transitions – these drivers above have been present in the growth of index tracking, factors, private markets and solutions. Covid-19 has accelerated these
- Not yet clear how these mandate and service transitions are shifting



## Act II. Leadership model in the spotlight

<b>Leadership defined by values and attitudes</b>	<ul style="list-style-type: none"><li>▪ Leadership has new expectations to carry, new narrative to deliver and new judgements to make</li><li>▪ A time to use a clean slate, to manage strategy point-to-point; and to collaborate in smarter ways</li></ul>
<b>Leadership requires judgement</b>	<ul style="list-style-type: none"><li>▪ Good judgement calls out for diverse counsel, dispassionate assessment and disciplined follow-through</li><li>▪ Tough decisions will be contested. Calls for clarity of context around goals and beliefs, and the need to strengthen coalitions</li></ul>
<b>Leadership mobilised to action</b>	<ul style="list-style-type: none"><li>▪ Three prime opportunities to work on<ul style="list-style-type: none"><li>- Organisational purpose and identity re-sets</li><li>- New ways to support and re-establish trust</li><li>- Urgent attention to the sustainability nexus that links purpose, D&amp;I progress and ESG</li></ul></li></ul>



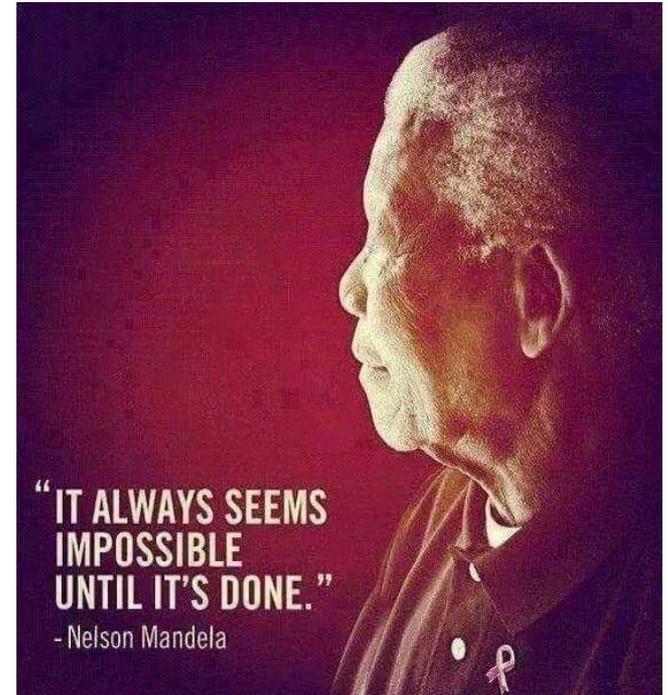
## Act II. Crises converge



- We are living in an era of multiple crises on top of Covid-19 and a health crisis:
  - economic disappointment and societal polarisation
  - democratic legitimacy and international geopolitics
  - global governance and global commons in climate
- But the silver lining is that Covid-19 produces some chances for 'Moonshot' resets
- Not yet clear how government stances are shifting

## Act II. Summary

- Uncertainties about our future have broken new ground
- This crisis has generated surges of anxiety, deep vulnerabilities and multiple tragedies. But the silver lining is that we are uncovering finer values, deeper talent and better truths
- Improvements in relationships and the emergence of stronger values are tapping into our inner heroes
- Think of all the resets, in families, in new support networks, and in the new respect for front-line workers. We are surprising ourselves
- The investment industry can find its resets too and play its part in wider societal and environmental resets
- Crises may be able to reveal better paths



# Investment model on the move

Mandates and methods	Sustainability and ESG
<ul style="list-style-type: none"> <li>▪ <b>Covid-19 introduces many new uncertainties to the model</b></li> <li>▪ <b>Mandate and process trends have been broadly favouring drivers which enhance edges and reduce pain points through</b> <ul style="list-style-type: none"> <li>- more advanced technology</li> <li>- lighter governance</li> <li>- expectations for higher returns (with less concern on risk).</li> </ul> </li> <li>▪ <b>Mandate transitions</b> – these drivers above have been present in the growth of index tracking, factors, private markets and solutions. <b>Covid-19 is likely to accelerate these</b></li> <li>▪ <b>Process transitions</b> – these drivers above have been present in evolving these ways of doing things           <ul style="list-style-type: none"> <li>- OCIO in which scale and specialisation gives AOs some streamlining benefits</li> <li>- Total portfolio approaches (TPA) where managing to a goal is preferred to managing to benchmarks</li> <li>- Index tracking and ETFs where the index embeds the strategy</li> </ul> <b>Covid-19 is likely to accelerate these too.</b> </li> <li>▪ Satya Nadella of Microsoft said Covid jammed two years of digital development into two months. The digitalisation changes seem most likely in the near-term to improve the service and delivery model</li> </ul>	<ul style="list-style-type: none"> <li>▪ The management of a third dimension in investing – the impact – is a massive change as big as any we've seen in the modern era</li> <li>▪ Then ESG. Our experiences through 2020 suggest that by taking a multi-stakeholder lens all our actions should be trained on greater sustainability</li> <li>▪ It is enlightened self-interest to step up the resourcing on sustainability, in the integration of ESG, strategic management of sustainability and connecting to the SDGs. We have been travelling in this direction. <b>It is time to pick up pace on this</b></li> <li>▪ I think we can envisage some pretty big transitions.           <ul style="list-style-type: none"> <li><b>Can you imagine the time when:</b> <ul style="list-style-type: none"> <li>- standards of ESG are consistent, greenwashing has departed</li> <li>- the standard portfolio index is integrated or tilted to ESG</li> <li>- standard reports are covering impact as much risk and return</li> <li>- standard strategies are built on risk-adjusted return integrating SDG contribution</li> <li>- advanced strategies integrate their impacts on the real-world using a total portfolio approach that puts every investment into a competition to optimise risk and return alongside impact</li> </ul> </li> </ul> </li> </ul>

# Leadership model in the spotlight

## Decisions becoming more difficult

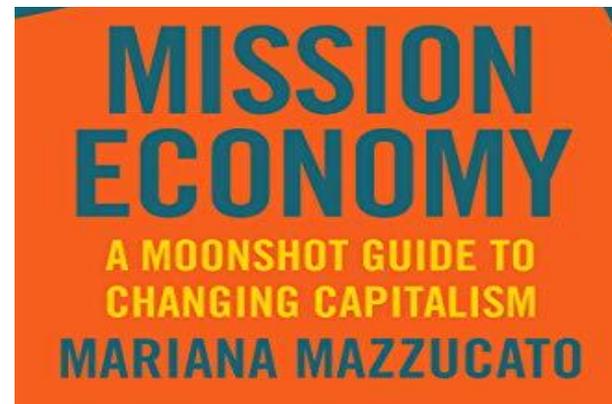
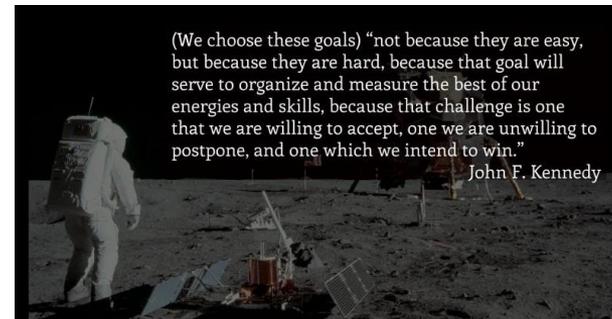
- **Leadership has new expectations to carry, new narrative to deliver and new judgements to make at a time when uncertainties have reached a new level**
- We should recognise how often decisions will not be clear-cut. Opinions will differ by reference to
  - the internal context (the 'scaffolding')– values, beliefs and goals
  - the external content (the 'bricks') – data and model, strands and time horizon
- Decisions have got more difficult through the current crisis with more complex situations, more uncertainty present and limited relevant data. This is a time to try to strengthen the coalitions supporting tough decisions with diverse counsel, dispassionate assessment and disciplined follow-through all important.
- Crises generally create conditions for more experiments to be run and more innovations to be put into practice.
- Innovation needs, in particularly, a strong leadership mindset with in particular:
  - Pro-active mindset; and agile structure for creative ideas
  - Measurement mindset around judgement and patience
  - Marketplace/ownership mindset attuned to the needs and pain points that will frame demand

## Inclusion becoming more critical

- In a crisis, we watch leaders closely and place over-emphasis on their communications. We want both to be listened to and to be led
- In response, leaders should consciously overcommunicate, but making the tone authentic and personal, **with honesty about the present, and reasoned positivity about the future**
- **In a world of changing zeitgeist with millennials a bigger part of the mix the business case to treat the workforce with much deeper respect has become much stronger.**
- The vital signs around diversity need for it to be at least 'safe', and at best 'cherished' but the bad news has revealed how unsafe black lives have been.
- The better news is that industry leaders have tuned into this subject, and publicly said how unjust things have been, have committed to act with urgency to make diversity cherished
- Three prime opportunities to work on
  - Organisational purpose and identity re-sets – a new social contract
  - New ways to support and re-establish trust
  - Urgent attention to the sustainability nexus that links purpose, D&I progress and ESG

# Crises converging

<p><b>Multiple crises</b></p>	<ul style="list-style-type: none"> <li>▪ <b>We are living in an era of multiple crises on top of Covid-19:</b> <ul style="list-style-type: none"> <li>▪ economic disappointment and societal polarisation</li> <li>▪ democratic legitimacy and of international geopolitics</li> <li>▪ global governance and a global commons in managing climate</li> </ul> </li> <li>▪ Crises that converge are likely to compound and to produce multiplier problems</li> </ul>
<p><b>Reset responses using collaboration</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Covid produces some chances for resets in these crisis areas. These, like Moonshots, may present ways to transform the upside and downside of these situations</b></li> <li>▪ Influential players working together are best able to catalyse these opportunities – think corporations, asset managers, asset owners and a collaboration model likely to involve third state organisations like PRI and ClimateAction100+</li> </ul>
<p><b>The role of the industry and the asset owner</b></p>	<ul style="list-style-type: none"> <li>▪ Are these crises ones that asset owners should have ambitions to contribute positively to? The question relates to purpose, fiduciary responsibility and license to operate</li> <li>▪ How can the investment industry adapt, maybe pivot and even in some cases transform itself to be hyper-relevant and valuable in a changing world?</li> <li>▪ Moonshot thinking maybe required</li> </ul>



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