



Smart leadership.  
Sound followership.

Future Fund and Willis Towers Watson  
2017 Asset Owner Study

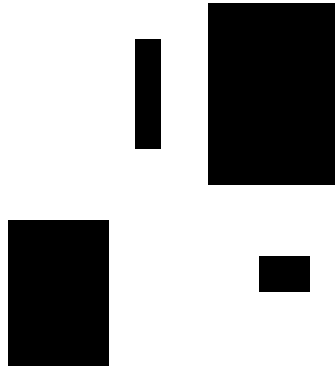


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Willis Towers Watson would like to thank Future Fund for commissioning this study and all the participant organisations for their time, insights and contributions.



## Introduction

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

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

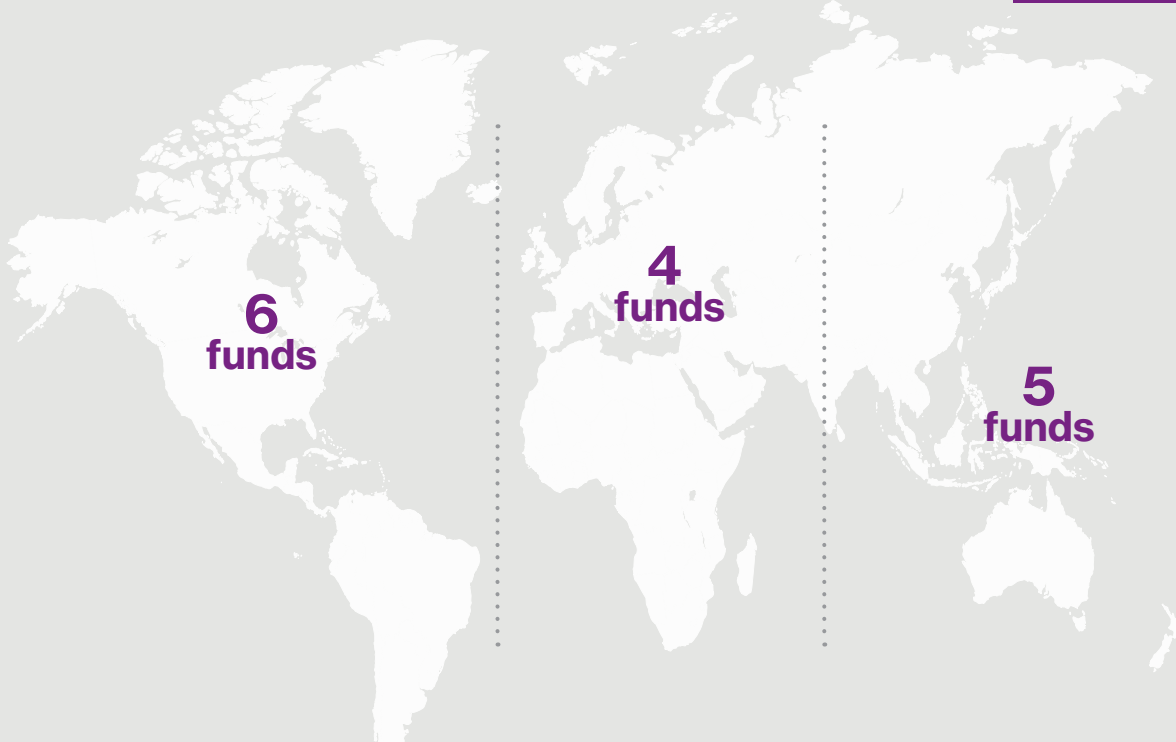
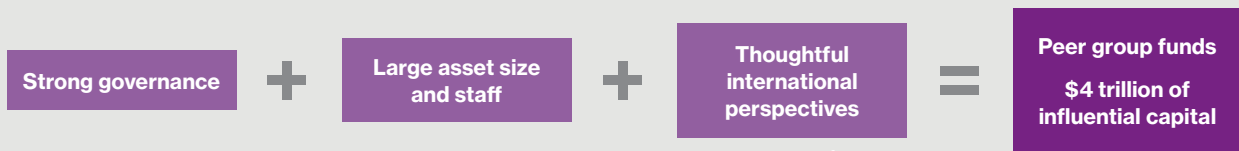
The study produced a number of sound ideas to follow in support of international best practice, notably: improved cognitive diversity; better sustainability; improved board-executive engagement; strengthened risk management through better understanding of the ecosystem; and better balance in the mix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

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

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



Figure 1. The basis for selecting asset owner participants



# Executive summary

We have divided our commentary into eight areas (Figure 2) which arose during the study. The findings are drawn from a combination of interviews, a detailed online survey of the peer group, publicly available information, and opinions recorded at a symposium day held in London for the participants. We have supplemented this with insights into their sourcing and investment models (see pages 30 to 36) and their governance approach (see pages 37 to 40).

Figure 2. **Eight themes emerge from the study**

1. Culture, diversity and EVP
2. Effective decision making
3. Long-horizon thinking and investing
4. Optimal blend of internal and external IP
5. Board engagement
6. Measurement and benchmarks
7. Approaches to risk management
8. Stakeholder management and constraints

The investment challenge facing asset owners in the current environment is well-documented. The difficulty of achieving the requisite investment returns within acceptable risk bounds was readily recognised by the participants (Figure 3). In this context, the pursuit of best practice standards represents a realisation that this level of dedication and skill is required to fulfil institutional missions and meet stakeholder expectations. It has led many funds to look for innovative solutions, and the areas described in this study represent some of the avenues that we suggest merit most attention. Figure 4 provides a participant perspective on the areas of most potential value. Participants were also polled on the expected benefit of moving from current to best practice. The average response was of the order of 1% per annum, which echoes our long-held belief that the potential value to be unlocked here is vast.

Figure 3. **Taking a five-year view, the CPI + 4% per annum typical peer fund goal is:**

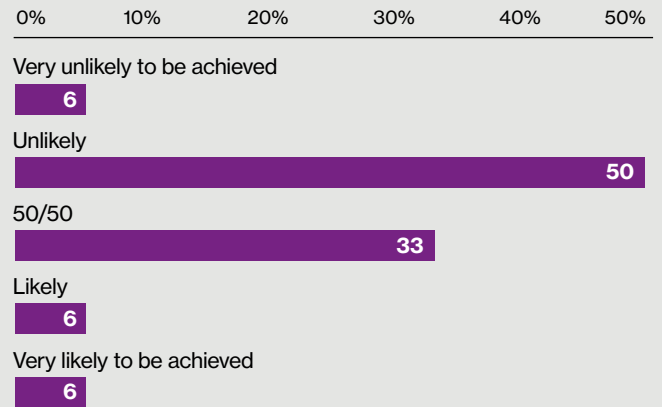
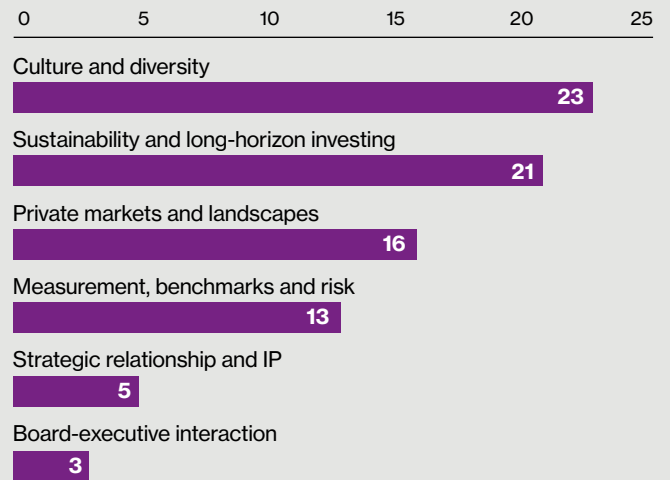


Figure 4. **Moving from average to best practice would give most value on which category?**



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




## Key commentary from the participants

- 1. Cultural condition** – The participant funds are struggling with the tension between staying in a flat and integrated structure (a ‘one organisation’ culture), the natural drift to multiple specialist teams, and pressures to keep to one integrated strategy at the total fund level (‘one portfolio’ thinking).
- 2. Long-horizon investing** – The greatest success with long-term investing has come in situations where the link to mission is clear, and the draws of looking at short-term performance and volatility have been resisted. Sustainability is seen as a critical consideration to integrate into the long-horizon picture.
- 3. Stakeholders** – The participant funds are very cognisant of their external profile, and greater success here is linked to a very deliberate and careful cultivation of this profile, often through a proactive and highly visible strategy. Transparency is highly significant, and board engagement is necessary too.
- 4. Strategy formulation** – The discussion on strategy among many of the funds still starts with asset classes even though more of the thinking is now about allocations to risk factors and return drivers.
- 5. Benefiting from strategic partnerships** – Some participants have developed more engaged partnerships with outside firms and have seen clear benefits from the insights and know-how gathered. There is, however, potential for more value to come from such collaborations in future.

## Key takeaways

- 1. The importance of diversity** – research is uncovering biases that are present in investment decision-making settings. These are more numerous and deeply embedded than investors readily recognise. There are opportunities in using diversity effectively to reduce the impact of biases.
- 2. Sustainability and long-horizon investing is currently too shallow** – there are opportunities being missed in the overlapping areas of sustainability, ESG, stewardship and long-horizon investing. We view sustainability as a critically important emergent subject.
- 3. Boards are having trouble being strategic** – boards seem strong in interpreting their fund’s mandates and in ensuring executive accountability, but less so in their development of a strategic dialogue with their executive. This is work in progress, revealing an opportunity for organisations to improve.
- 4. Risk management is key as the business landscape is changing** – to manage risks there is merit in scenario analysis. Studying the investment ecosystem, not just the markets, is critical to anticipate some transformational changes ahead.
- 5. Funds are evolving their mix of internal and external intellectual property** – there can be a better grasp of how to optimise the value chain of outside providers and internal professionals. That includes the nature of external strategic relationships, which should go deeper with some firms and extend beyond asset managers. Technology and increased sophistication make network opportunities across funds potentially more valuable than ever.



# Commentary and analysis

## 1. Culture, diversity and EVP

### Culture

Organisational culture is a top-of-mind issue largely viewed as something to be worked on, not something that happens through chance.

Asset owners can be split roughly into three, sometimes overlapping, groups:

1. Those that adhere to a one-culture organisational philosophy<sup>1</sup>. Typically these organisations are single purpose, smaller and non-siloed – the latter characteristics affording the potential to be less bureaucratic and more nimble.

2. Those where the investment function, while operating in its own single sub-culture, is part of a larger organisation. Often there is a sharp divide between the investment function and the rest of the organisation.

3. Those that have sub-cultures within the investment function. Typically this comes about through a combination of size and departmental specialisation. Multiple office locations tend to amplify these differences.

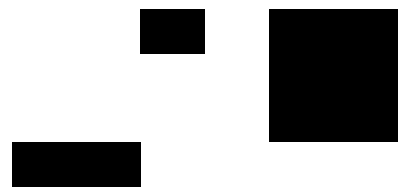




## Challenges and perspectives

In general, organisations are struggling with the tension that comes about when trying to drive the ideas of total portfolio and one organisation, while at the same time allocating more and more of their assets into direct investment opportunities that require highly specialised investment staff.

Organisational purpose is a common cultural unifier within participants. Staff are often motivated by the nature of the organisation's societal purpose. In many cases, too, it is attractive that there is little or no marketing to be done – staff can focus on investment.



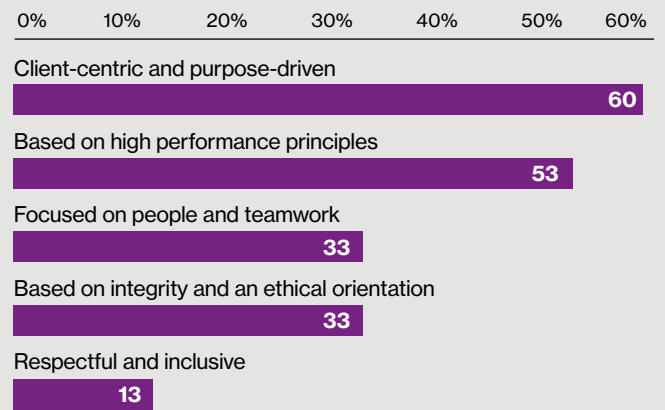


The ability to reinforce desired culture and behaviours often lies in ‘nudges’ in place of overarching policies and corporate communications<sup>2</sup>. Some organisations recognised this in a focus on practical everyday solutions, and also in weighting behavioural assessments heavily in the overall employee performance review process.

We saw elements of a ‘servant leadership’<sup>3</sup> culture in several participants. This defines leadership more broadly: not as the domain of those at the top of a pyramid, but for people throughout the organisation, where leadership is exhibited by many, every time they step away from their personal tasks to influence others.

The quality of culture will deteriorate over time if left unchecked, therefore continued dedication is required. Being open to fresh perspectives and challenge – whether through external hires, academic perspectives, third-party input, or an awareness of peer practices – is key.

Figure 6. I want my organisation's culture to be:



Voters allowed up to two choices.

# Diversity

We can view diversity through two broad lenses:

1. 'Cognitive diversity', in which people approach problem solving in fundamentally different ways. The business case for this is that by sharing their different skills, experiences and perspectives, participants in a group can come to more accurate, stable solutions.
2. 'Surface-level diversity' in which easily measurable facets like gender, age and ethnicity are proxies for the desirable underlying traits of diversity, principally diversity in thinking, processes and experiences.

## Diversity sweet-spot

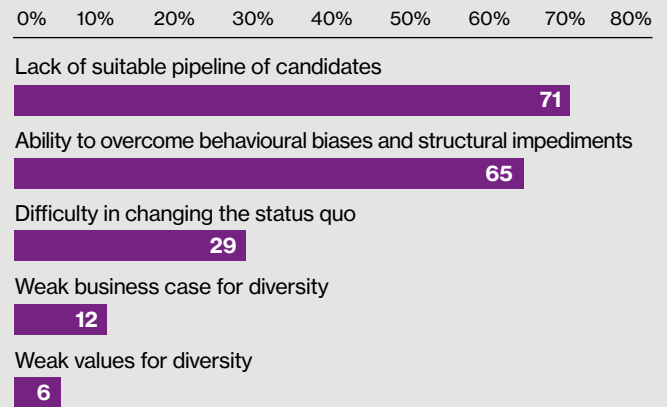
There is a balance to be found between promoting cultural unity and avoiding having everyone thinking and acting the same. The diversity sweet-spot has been the subject of significant psychological and sociological study, but less so from an organisational view<sup>4</sup>. Evidence points to human decision making being subject to more numerous and more deeply embedded bias and mistakes than we readily recognise<sup>5</sup>. In this context, asset owner focus on cognitive diversity would seem valuable.

Amongst the group we studied, a minority (20%) articulated a strong and differentiated position on diversity. Most (60%) had made some progress and were developing further, while the remainder simply viewed the area as a structurally and culturally difficult challenge.

Amongst the majority that are addressing the issue, we saw some self-awareness at the lack of progress made compared to organisational ambitions and the acknowledged benefits of a diverse workforce. That said, we see limited evidence that asset owners have built an integrated view of the business case (centred on diversity of thinking) alongside the values-driven case.

Despite the self-awareness, gender diversity within the group studied tends toward the same skewness as the asset manager industry. While a number of the organisations have boards and/or leadership teams that are somewhat gender balanced, just 20% have a female CEO and none has a female CIO. The responses shown in *Figure 7* are consistent with commonly held views in the investment industry, including a supposed lack of suitable pipeline candidates. We would contest this and instead place the burden on asset owners to be more creative and proactive in candidate pipelines.

Figure 7. **The biggest blocks to diversity among asset owners are:**



Voters allowed up to two choices.

## Employee value proposition

The employee value proposition (EVP) is often closely entwined with cultural traits. Not only do many of the participant organisations naturally attract people with cultural alignment, but most actively pursue people who were able to match the cultural values that leadership wants to engender.

### Compensation

Compensation is often described as a 'neutral' factor in presenting the EVP in recruitment, with many funds unable to compete on purely financial terms with other career opportunities. Although clearly the exception, a small number of participants have been able to successfully argue the merits of offering compensation arrangements on a level footing with 'for-profit' asset management employers. A number of those that have some disadvantage in pure monetary terms make up for this through intrinsic measures such as location, work-life balance, and the variety and challenge of the work.

Asset owners are increasingly utilising their compensation programmes to assist with communicating to employees what is important, with an increased focus on individual behaviours – the 'how' of work as much as the 'what'. At the same time, more emphasis is being placed on total fund, rather than sectoral, performance.

### Going from good to great

Several of the group demonstrate inventive solutions to issues with progression through the organisation, particularly at a more senior level. For example, ideas include the creative use of bespoke, tactical secondments, role-swapping and cross-team work. As well as alleviating internal progression challenges, these initiatives expose staff to the different ways that other teams and organisations tackle problems allowing them to bring a broader perspective to future challenges.

Nearly all participants see location as a net positive in their organisational set-up. Those situated outside of recognised financial centres described how they look to turn their location into an advantage, both from an EVP perspective, as well as through alignment with their culture and investment approach.

Figure 8. **Apart from any overall budget cap are there any constraints on individual pay in your organisation?**

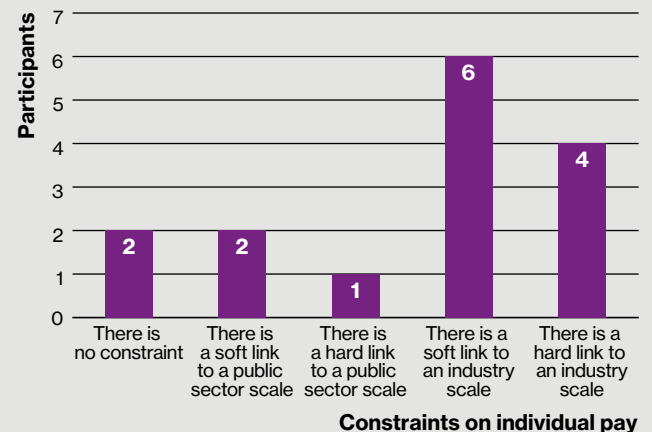


Figure 9. **What is the performance pay as a multiple of base salary for financial performance?**

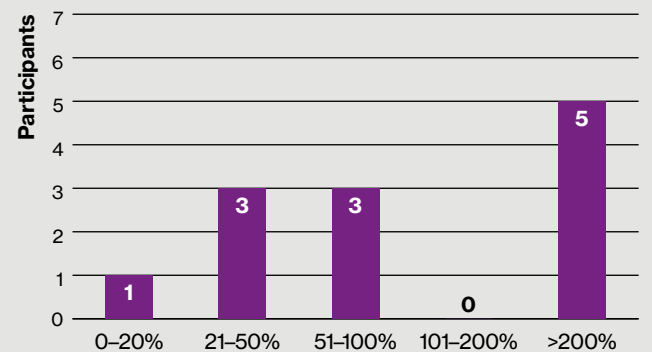
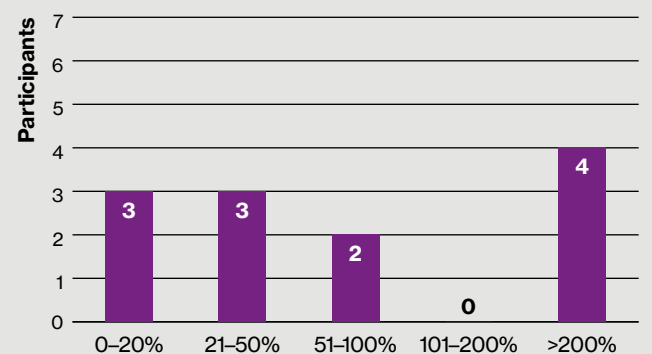


Figure 10. **What is the performance pay as a multiple of base salary for non-financial performance?**



Brand awareness is a developing topic amongst leading asset owner organisations. The thinking here is to build the 'employer brand' to improve the opportunities to attract talent successfully. An ancillary objective is to build the 'investor brand' to promote the organisation as potential investment partner in mandates or in direct investments.

Some participant organisations have dedicated significant effort toward deep and structured staff education and training programmes. Part of this effort is in framing and branding the development programmes. This can, of itself, create a greater sense of value from participants.

The notion of competitive or comparative advantage is core to successful, long-term recruitment patterns. Most of the organisations in our study are able to exploit strong propositions here, particularly in terms of mission-centric investing and culture, and a purpose-driven context.

By contrast, little attention has been given to the EVP as applied to attracting suitable board members, although this is clearly a crucial element for many participants. While the board role is attractive to many seemingly well-qualified people, we observe there is still more work to be done to lift the value added by board members to its full potential.



## Organisational growth

### The trend

Several of the participant organisations have experienced rapid and significant growth, both in fund and organisational size, in recent years. This has put considerable strain on cultural cohesion, communication and knowledge management. Responses have inevitably included the adoption of clearer processes, structures and delegations, which in turn have dictated how the investment model plays out in practice.

A number of these organisations have added more specialised internal resources in order to find and exploit the most attractive investment opportunities. These opportunities have often been in private markets and more esoteric fields, and the organisations have therefore had to grow considerably to support these endeavours.

### Common pitfalls

Some organisations are tasked with managing multiple funds. This has imposed more constraints than advantages in aggregate, and can dictate the potential investment models and approaches available. Care is needed to ensure that each pool of assets gets the requisite attention – crucially, from the executive *and* board.

Data and knowledge management in the context of growing of large organisations can be a significant challenge, yet the success of many of the investment models employed relies on effective collaboration and idea sharing. Some organisations have developed innovative mechanisms to address this area, including data sharing platforms, tagging content, online discussion threads, and cross-team or cross-location ideas forums. Interface simplicity and ease of locating content are often key to successful data management systems.

Unchecked, organisational growth tends to feed on itself. As organisations open a door to a new internal activity more doors appear. At the scale of most of the participant funds, the marginal hard cost of adding an additional staff member is close to zero. The soft cost, in terms of the impact on factors such as culture, clarity over decision rights, and organisational momentum might be considerably greater.

Considerable care should be applied to weigh the benefits of additional staff relative to the hard and soft costs involved, with this calculation needing to recognise unintended impacts. This also has to factor in the 'one-way valve' that this growth entails.



## 2. Effective decision making

In our survey of best-practice governance factors, participants self-assessed as being relatively weak (compared to other factors) in effective decision making (see factors 2 and 11 in the Governance Assessment section, illustrated in *Figure 41* on page 38).

A significant point of difference in discussions with participants was the relative benefits of a single point of accountability approach versus group decision making. Some strongly favoured single accountability, complemented with clear delegations, exercised in an enlightened way. Those organisations noted, however, the dangers of silos and lack of collaboration in this approach.

### Group functionality

#### Challenges and benefits

The challenges and potential benefits of group decision making are well-rehearsed; several funds see groups as sources of indecisiveness, but others noted how group decisions aligned with their desired culture of collaboration and collective ownership. Many see that an ability to ensure that investment ideas are subject to a rigorous 'challenge' by appropriate groups is central to successful outcomes, but have yet to define ways to explicitly embed it in the process.

Alongside broader organisation growth, the number and complexity of internal committees and other decision-making teams has grown at many of the organisations we studied. Against this, some participants highlight the benefits of shrinking team/committee sizes. The benefit is seen in the trade-off between inclusiveness and effectiveness, and in a greater level of ownership to those individuals involved.



Several participants describe meeting agendas that are often packed, with papers being long and technical. Addressing complexity in group settings seems to do better by combining shorter, more succinct papers with a less busy agenda; this can lead to better, more constructive and strategic discussions.

### Desirable culture mix

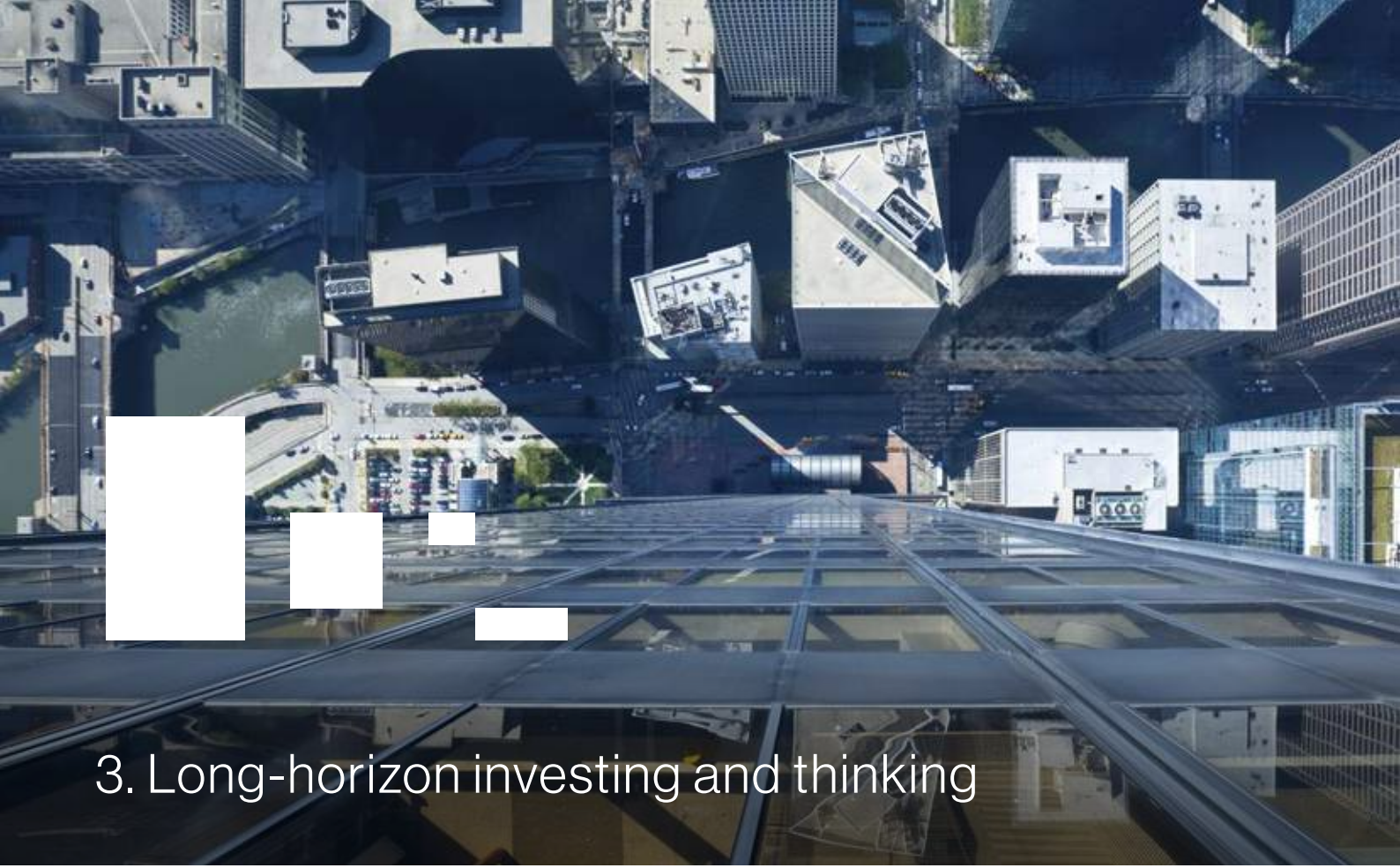
In our view, the ideal decision culture mixes two clusters of attributes:

1. Inquisitiveness, transparency and candour – so that all factors with respect to a decision should emerge
2. Respect, humility and judgement – as all opinions on a decision matter and judgements are finely balanced, no one perspective should be over-dominant and good collective judgement is paramount.

### Group decisions

Group decisions carry challenges and opportunities to produce the advantages of synergy over the disadvantages of groupthink. There are a number of issues to balance which we summarise here, with further references for deeper coverage.<sup>6,7,8,9</sup>

- Individuals carry their behavioural biases into group situations, and groups can serve to exacerbate and validate these biases
- Groups can aggravate sociological dynamics such as introversion-extraversion, and problems may emerge from process flaws
- Bad framing of the issues leading to the amplifications of biases, and in emphasising shared versus uniquely held information
- Best-practice group sizes are important – in investment committees this is often around six to eight individuals
- Groups should pursue a form of collective intelligence ('C factor') which research<sup>9</sup> suggests is correlated with the average social sensitivity of group members, conversational turn-taking, and the proportion of females in the group.



### 3. Long-horizon investing and thinking

Several participants note the importance of having a cultural alignment or predisposition toward long-horizon thinking in shaping their ability to stick with longer-term commitments. Others note structural elements, such as the lack of liabilities, or conditions imposed by regulators and government agencies, as being significant determinants in the ease of meeting their long-horizon commitment.

#### Focus on the long term

Participants describe various approaches and degrees of progression in relation to entrenching long-term thinking and acting when reporting to stakeholders. Some have successfully narrowed performance reporting to focus on multi-year rolling returns. The greatest success has come in situations where the link to mission is clear, and the draws to looking at short-term performance and volatility have been resisted.

Some attempts have been undertaken to change the conversations internally as well. Notably, board discussions for some have developed a better long-term performance context, in contrast to the trend of increased short-term performance attention. For most participants, absolute performance, relative to long-term goals, is the dominant frame of reference.

#### Eliminate a short-term mindset

Participant organisations face different challenges in respect of cashflow profiles, and the tension between short-term pressures and long-horizon ambitions for funds in drawdown is particularly pronounced. Some observe how path dependency in this form forces a short-term mindset, and concurrently there is a shift toward favouring more flexible and liquid investment arrangements.

Some participants have designed their decision processes and delegations structures to try to limit having to act in the face of short-term pressures. This kind of design could insulate an executive team from compromised decision making and maintain an uninterrupted focus on long-horizon issues. Other funds, conversely, clearly see short-term market drawdowns as significant opportunities with implications for the management of liquidity and the option value in cash.



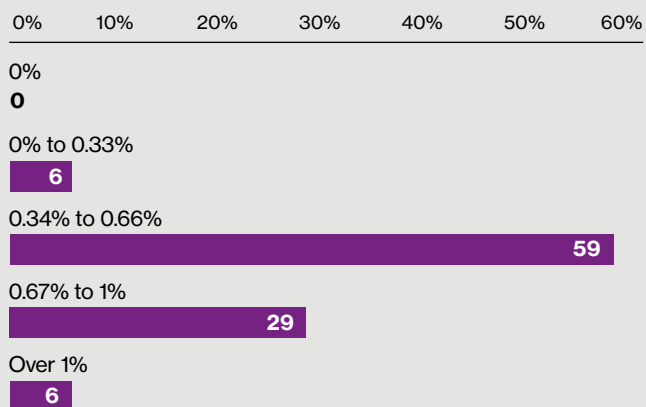
## Long-term investing in practice

The mantra 'what gets measured gets managed' can be a useful tool in attaining a long-horizon mindset, whereby external reporting and management information focus is placed on longer-term metrics and commentary. If excessive short-term data and commentary, or overly frequent meetings are removed, this can free up management and board time for strategic matters, and improve the quality and mission-centric focus of those discussions.

In several situations, there is a clear tension between liability-driven investment framing using financial economics thinking (fuelled by liability hedging and mark-to-market elements) and long-horizon pathways thinking. The ability of liability-aware funds to look beyond short-term measures will in part dictate their success in capturing the potential benefits afforded to long-term thinking.

The observed limits in institutional commitment to long-horizon investing highlight the need for improved measurement, alignment and governance. This is suggestive of seeing long-horizon investing as requiring all the settings in the asset owner's 'machine' being in sync, something that is very hard to achieve in practice. However, the potential rewards on offer (as illustrated in *Figure 11*) make a strong case for concerted efforts to be applied.

Figure 11. **By how much % per annum does short termism negatively affect asset owner returns?**



## Perspectives

**Thinking Ahead Institute research commends this check-list for successful long-horizon investing:**

### Mindset

- Consistency with liabilities, obligations and mission
- Clearly articulated, documented and socialised long-horizon investment beliefs and objectives
- Executive, board and sponsor buy-in to long-term ethos; low career risk

### Skill set

- Well-framed, documented and skilled long-term decision processes; cognitive diversity included
- Resources to undertake complex qualitative monitoring
- Evaluated on long-term accomplishment and success measures with progress checkpoints

**The Thinking Ahead Institute** is an initiative founded by Willis Towers Watson with membership of over 40 asset owners and managers. The Institute seeks collaboration and change in the investment industry for the benefit of savers, via thought leadership, research, and acting as a voice for change. See [www.thinkingaheadinstitute.org](http://www.thinkingaheadinstitute.org) for more information.

# Sustainability

Participants have different beliefs and values on sustainability. The issues in sustainability span some longer-term transformational change topics (like climate), some time-horizon tensions, mission-related aspects (the degree of responsibility required), and legal ambiguity (what is the right interpretation of fiduciary duty). These are difficult subjects.

## Where we see progress

Slightly less than one third of participants have made significant progress in the area of sustainability. They have done so principally through aligning sustainable and responsible agendas to core aspects of their organisation's mission – in other words, risk and return. Their current position represents the cumulative impact of focused attention over a period of years.

The respective boards play a key role here and most feel that the ability to progress sustainability rests in significant part on their board's ability to feel comfort with and ownership of the topic. Despite being at the forefront of the topic, these organisations still have a significant way to go.

Another third have made notable progress in some areas, mostly governance-related and by integrating ESG. However, they are yet to overcome institutional hurdles, sometimes entwined with interpretations of fiduciary duty, that allow them to progress more deeply on a broader adoption of sustainability thinking.

The remaining organisations have far to travel, and most are now recognising the financial and non-financial imperative of starting that journey.

## Of the peer group...



**13** of **15** have dedicated staff for sustainability/ESG issues



**10** of **15** have specific sustainability investment beliefs

Figure 12. **What type of sustainable investment strategies does your organisation use?**

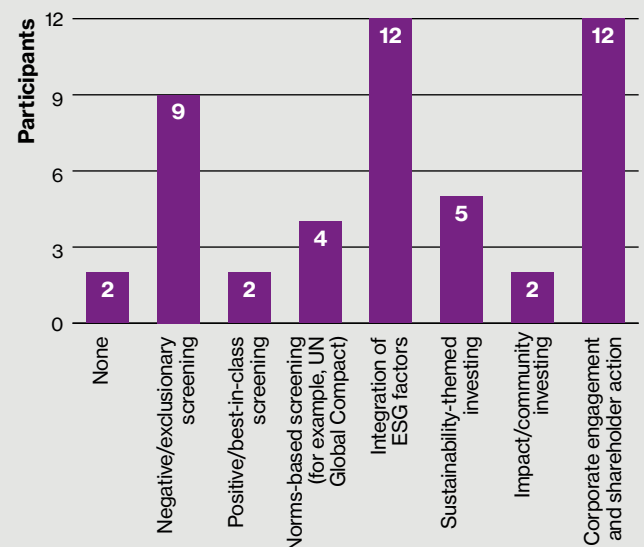
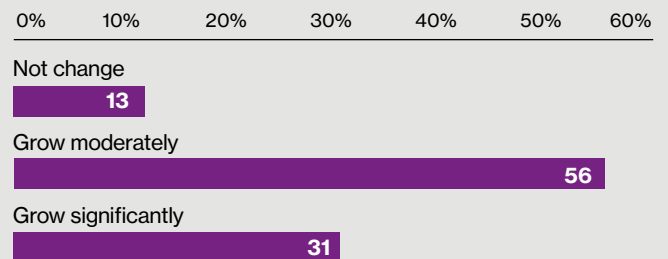


Figure 13. **For my organisation over the five years, I expect sustainability's significance to:**



**Of the peer group...**



**3 of 15** have increased their allocation to sustainable investment over the last year



**5 of 15** plan to increase their allocation to sustainable investment over the next 5 years

A clear focus for many of the participants is the various political pressures they face. Participants depicted contrasting abilities to insulate themselves from outside dynamics that may drive a non-financial agenda.

**Governance has received the greatest attention**

The participant discussion on ESG factors centred on integration agendas that are embedded to differing degrees in their organisations. Most commonly, it was governance that received greatest attention, and a sub-set of the participants are clear global leaders in stewardship and governance activities. The 'E' and 'S' are lower priorities and have proven harder to capture in measures or reporting.

All the participant organisations are progressing into sustainable thinking from fairly shallow foundations. This is characterised by slow-moving but evident changes to beliefs, values, norms and strategies. Because institutional funds have always had a relativistic framework, this makes the subject one that will take on two-way feedback (or 'reflexive') characteristics; that the developing leadership behaviours exhibited by peers will produce new norms for accepted practice. It follows that the understanding of peer practice is extremely important.

Figure 14. How does your organisation approach sustainable investment with respect to internally managed mandates?

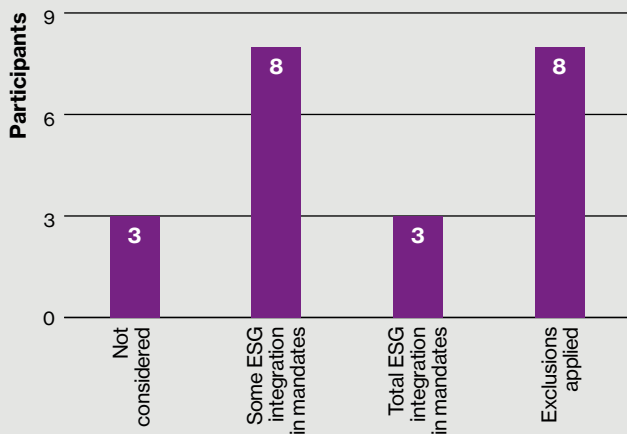
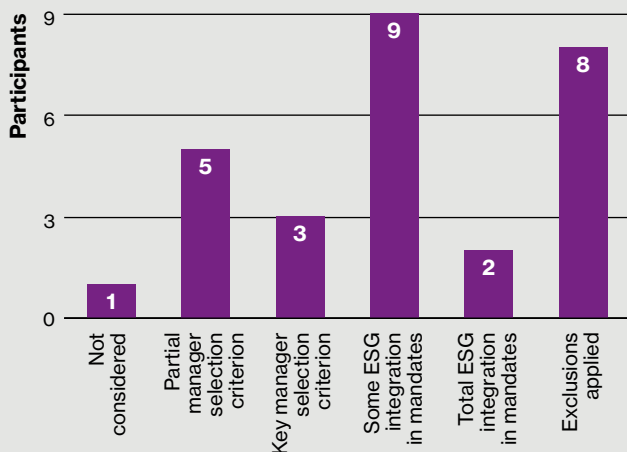


Figure 15. How does your organisation approach sustainable investment with respect to externally managed mandates?





## 4. Optimal blend of internal and external intellectual property

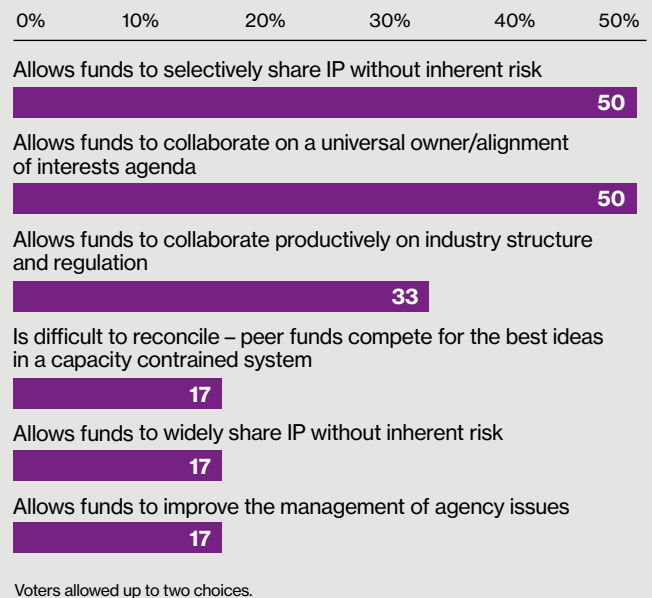
There is considerable scope for asset owners to broaden the standard intellectual property line up by extending the value-creation chain beyond traditional external management relationships.

At one level, participants have realised this potential through closer collaboration with like-minded peers (this study being a working example of such). Collaboration takes three principal forms: comparing and contrasting participant approaches to management; cooperating on topics of mutual interest; and co-investing in specific investments. A number of participants have explicit goals to enhance collaboration.

### Degree of collaboration varies

Initiatives to compare and contrast practices cover almost all aspects of the asset management challenge. Participants have seen benefits in sharing information not only in how they approach investing but in related areas like operations, human resources and technology. A number of specialist topic peer-to-peer networks have emerged. Cooperative initiatives are numerous, ranging from the very large and broad (for example PRI) to narrower bilateral exchanges on local regulatory issues.

Figure 16. **Co-operation among peer funds:**



## Co-investment – do the challenges outweigh the benefits?

Despite the seemingly obvious benefits of cost reduction through disintermediation of third-party managers, co-investment has proved more challenging. While on the surface many asset owners have similar objectives and time horizons, achieving alignment at the micro level of individual transactions is tough. Participants have scaled back their ambitions in this area and are now more likely to use some form of facilitated structure, through an intermediary, than a strictly peer-to-peer arrangement.

## Working with external partners

The other way participants have broadened their intellectual property line up is through smarter ways of working with their external partners. Participants identify a series of traits they look for in asset management partners with a high degree of consistency. These include confident insights into areas of expertise, privileged access for the asset owner, preferential commercial terms, and absolute trust (whereby an asset manager puts their business risk behind an asset owner's asset risk). Being self-aware and cognisant of relative positioning here is central to success.

The subject of revised mandates for 'engaged partners' in the value chain is quite active among peers. This places emphasis on the importance of stewardship at both the asset owner and manager level as a mechanism for value creation and alignment. There appears to be opportunity for further development on work already started here. Our conversations with asset managers suggest that with mutual understanding, respect and mandate care, extra value can be generated.

A few participants talked about widening the scope of strategic partnerships beyond asset managers, for example to banks, quasi-government entities, consultancies and index providers.

Taken as a whole, this area of optimal line-ups of intellectual property is a developing one. Technology and increased sophistication make network opportunities across funds potentially more valuable than ever. More work is needed to crystallise these opportunities.

## Competitive advantage

Participant recognition of the importance of comparative and competitive advantage has developed substantially in recent times.

Beyond this, a minority of organisations have managed to articulate and embed their thinking via a deep and well-socialised beliefs framework. Such thinking is directed at creating a greater 'edge' in their internal intellectual property as defined broadly.

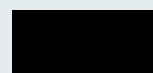
## How we view comparative advantages

Amongst the participant organisations, comparative advantages can be divided between those that are structural (or endowed) and those that the organisations have developed or cultivated over time. Most often, participants identified location, size, status, and operational independence in the former category, and discussed culture and reputation under the latter category.

The ability to innovate and adapt is identified by some participants as important, particularly in response to external environments and the pursuit of optimal operating models.

The sense that comes across is that first movers in investment have many challenges to confront and early movers are better placed to progress without upsets.

We see benefits in original and customised thinking on both competitive and comparative advantages, rather than trying to mimic potential alternative models that have worked elsewhere but in altogether different circumstances. This suggests the need for good self-understanding to recognise internal edge, and meta-understanding (understanding of what others are doing and why) to identify the merits of external edge. All the above has to be grounded in an adaptable and strong-cultured environment. Each of these elements is, in and of itself, a potential source of comparative advantage.





## 5. Board engagement

A minority of participant boards are subject to significant commercial-search disciplines, largely unconstrained by any impositions of representation or composition. Arguably these boards facilitate the most effective executive interaction because they communicate with management on a peer-to-peer basis, and can add significant value to the governance arrangements through deep subject matter expertise and experience.

### Executive interactions with the Board

There are various 'solutions' used by participants to deal with a board-executive relationship that is not always peer-to-peer. Some funds point to success in separate advisory board models, which often facilitate the use of industry experts to provide additional perspective yet do not interfere with structural governance requirements as laid out in applicable statute or mandate. Others talk to specialist sub-committees, using members with stronger investment experience to facilitate more focused discussions that approached a desired peer-to-peer status.

Participants consistently highlight the centrality of trust and education in effective board-executive interactions. These dynamics need to flow both ways, and several participants draw out the importance of learning from and truly valuing board contributions regardless of whether they come from a deep investment background.

A number of participants note that staggering board memberships is central to preserving the longevity of board-executive trust and organisational knowledge. The successful transition of board members sits alongside this and board induction is seen as instrumental to quick assimilation and consequently an area of considerable focus for some funds.



Of the peer group...



**9** of **15** have a Chief Investment Risk Officer/  
Chief Risk Officer



**11** of **15** have a Chief Compliance Officer/  
General Counsel



**6** of **15** have a Chief Technology Officer

Figure 17. How frequent are your scheduled board meetings?

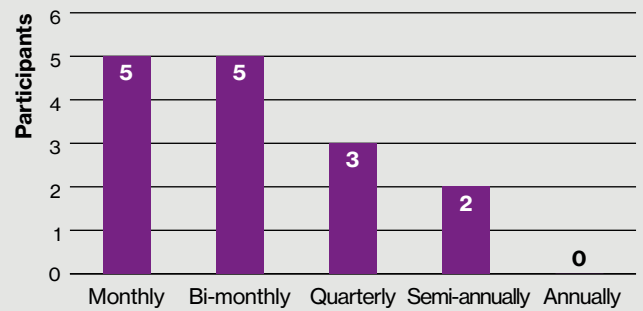
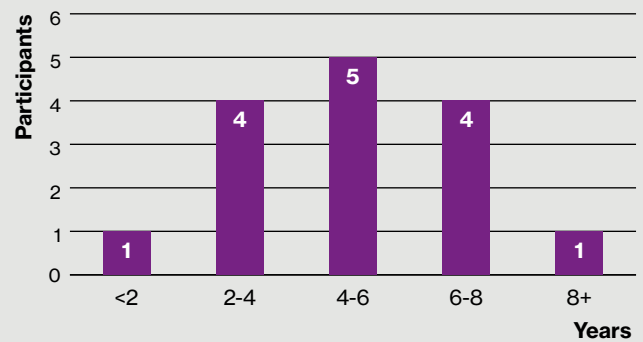


Figure 18. What is the current average tenure (to the nearest year) of your board members?



## Extent of delegation

The extent of delegation is key in board-executive dynamics and is a consistent topic of discussion. Most of the group have seen a progressive increase in delegated authorities given to the executive and have seen attendant benefits in terms of the board-executive relationships and, ultimately, performance.

Providing the board with clear, concise and informative reports is a consistent challenge across the participant group. The ability to deliver complex information to people outside a field of specialism is a challenge far from unique to investment. A common thread is the considerable time and resources spent in the regular reporting and meeting cycles, especially at senior level. Some have embraced the importance of board education and developing deep working relationships, but the differentiation comes in the ability to make these efforts strategic.

## Board education

A variety of approaches to board education exist. These combine elements such as structured internal programmes, using outside expertise, formalised peer interaction, and just-in-time methodologies. To ensure the continued quality of engagement and challenge, a programme of training and education can assist. In particular, boards may benefit from increased visibility of global peers.

Figure 19. Which area would lead to most incremental value add from board time?

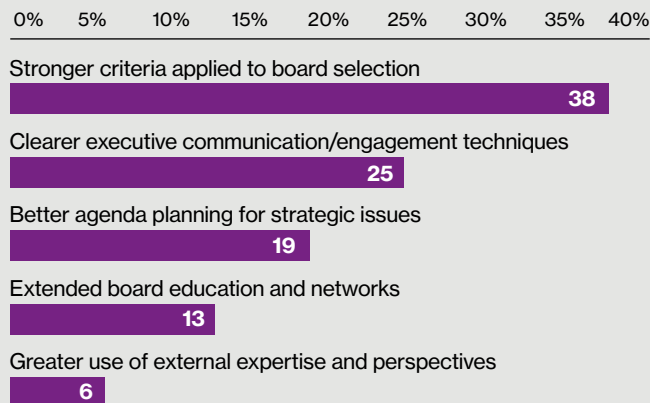
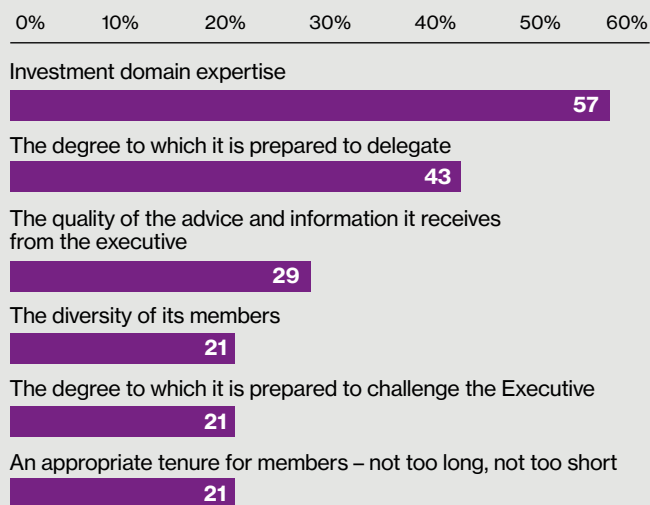


Figure 20. The most important success factors for an asset owner board are:

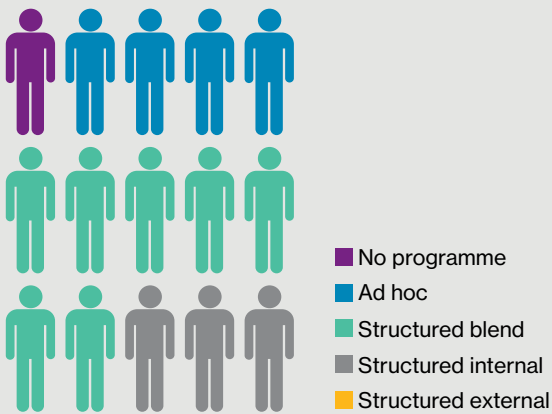


Voters allowed up to two choices.





Figure 21. Do you have a board education programme?



### Further work required

We stress the value of various foundational 'artefacts' which asset owners should have, including statements of beliefs, values and norms. How well these are communicated and used in board-executive interaction is really important.

In our view, the fundamental questions of how boards can add value still tend to be fudged. Their qualities in maintaining stronger accountability and closeness to the mandate are clear. Their ability to add value more strategically is, at best, a work-in-progress.

**Artefacts** – documents that contain content of significance to the culture of the asset owner



## 6. Measurement and benchmarks

### Relative versus absolute benchmarks

The notion of balancing the absolute and relative mindset remains a challenge that requires constant attention. The priority of mission for all participants points to an absolute orientation while the pragmatism of monitoring calls for some relative framing. Many participants highlight the risk in peer performance comparisons, particularly that of herding.

The key principle lies in making sure that measures, benchmarks, responsibilities and accountabilities are in sync. In any asset owner environment, the challenges of achieving this alignment are significant.

### The challenge for long-horizon asset owners

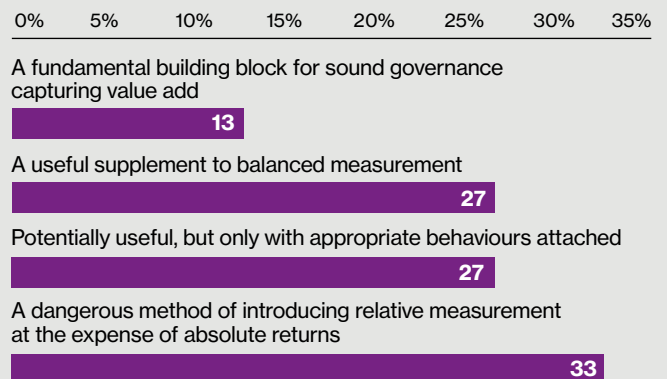
The measurement challenge is made significantly harder by the long durations involved in the missions and the noise elements attached to the performance achieved. Asset owners are institutions that are extremely unusual in both regards. The time horizons are well beyond most career horizons, and the noise in performance results is spectacular and well beyond intuitive comprehension.

Those with defined liabilities have only partially integrated the actuarial measures with the investment measures. The issue of integrating a long-term risk bearing perspective with short-term liability cash flows remains a tension.

### Reference portfolio concept

A reference portfolio is the simplest, lowest-cost way of implementing a portfolio consistent with meeting a fund's objectives. Typically it is a simple equity-bond mix. A risk-equivalent reference portfolio can be derived from a standard strategic asset allocation. A reference portfolio enables an asset owner to determine whether increased portfolio complexity is being rewarded.

Figure 22. **The Reference Portfolio concept is:**



## Should asset owners rely on a reference portfolio?

The use of a reference portfolio or a long-term policy portfolio may help instil a long-horizon mindset and help to capture long-term risk premia more effectively. The degree of willingness to depart from this position is a delicate function of decision making prone to biases (such as anchoring) and bravery in convictions. The presence of a reference portfolio may lead investors to be more resilient and confident in certain market conditions, although the counter to that may be that investors will just suffer against that measure in those circumstances.

Discussions around the reference portfolio concept are often revealing, with a number of participants quite reticent on the concept (see *Figure 22*). However, organisations that have pursued the reference portfolio fully see it as fundamental to their success. We suggest that the underlying benchmarking philosophy should be creating a balanced scorecard of progress measures, both backward- and forward-looking.

## Where we see a value-add

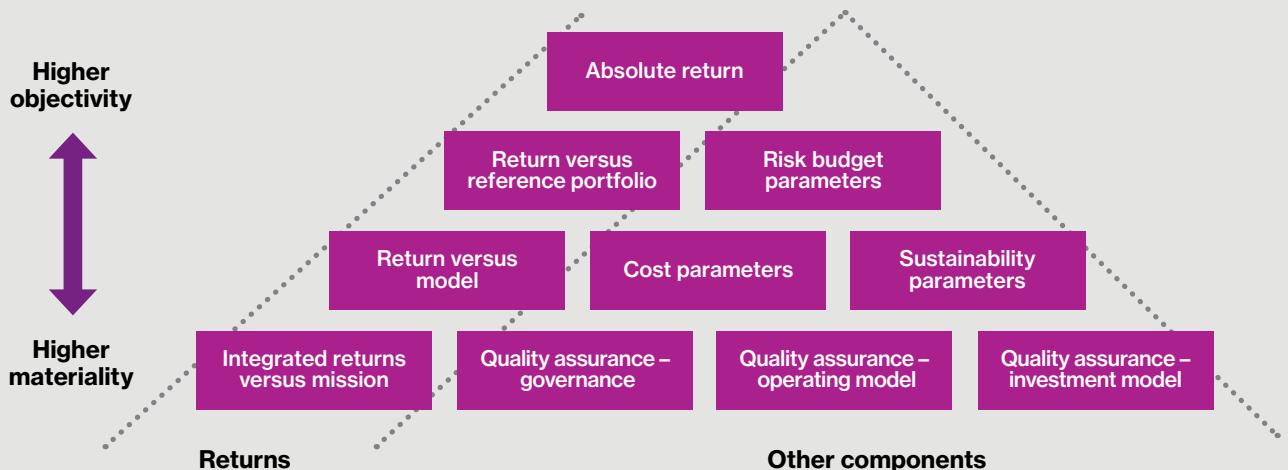
It is often difficult to incorporate measures with higher subjectivity (such as key performance indicators) alongside more objective data points (such as absolute fund performance). However, more subjective measures may often have higher materiality – that is, they could provide more accurate assessments of past performance and be more reliable indicators of future success. We therefore see value in persevering with more subjective measures where they are highly material.

In our view funds can learn from the development of integrated reporting<sup>10</sup> and we suggest that this will become an opportunity for better stakeholder relationships. According to the International Integrated Reporting Council, an integrated report is a 'concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term'. Of the sources of capital that are central to all organisations, the asset owner has most to do with financial and intellectual capital; but natural, social and human capital are an increasing part of the story.

Figure 23. The principles of good measurement and benchmarks

The principles of good measurement and benchmarks are about striking a healthy balance between:

- Multiple measures – a balanced score card
- Returns and other components
- Good governance and good investing
- Objectivity and materiality – 'soft' in narrative and 'hard' in measurement





## 7. Approaches to risk management

### Measurable and unmeasurable risks

When risks were discussed with participants, the context was either portfolio risk or enterprise risk. The discussions did not move on to an integrated view of both risks. This highlights some unsettled thinking as to how measurable risks and unmeasurable risks can be viewed on an integrated basis.

Successful risk departments are described in terms of a partnership relationship, rather than a policing function. Participants note varying degrees to which this holds true in practice, and recognise continuing challenges in embedding risk ownership beyond senior management or dedicated functions.

Some participants described a tension between a risk-aware, evidence-based culture and the desire to be innovative and entrepreneurial. This is particularly the case where benchmarks and risk budgets dominate.

One area where we might have expected more discussion is the subject of risk allocation relative to asset allocation. With a few exceptions, the discussion about strategy amongst participants still starts with asset classes even though more of the thinking is now about allocations to risk factors and return drivers.

### Six risk governance considerations

Our research on risk governance promotes the following checklist of considerations:

- The whole organisation sharing certain beliefs, values and responsibilities in dealing with risk
- Risk being best seen in multiple forms through multiple lenses
- Recognition of 'soft' factors in risk: uncertainty, reflexivity, inter-connectedness; recognition of enterprise-wide risks
- Management of risk emphasised over measurement
- Risk as mission impairment and employing 'adaptive capital' – financial and human – to align the fund with its mission following stressed conditions
- Soft power preferred to get things done: mutual trust, understanding and effective collaboration

## Landscape scenarios

The business landscape is changing in many ways. One area where more work is attractive is around the medium-range landscape scenarios that are part of the whole 'ecosystem' in which the peer group operates. Studying the ecosystem and not just the markets is critical to anticipate some transformational changes ahead.<sup>11</sup>

The group found landscape scenarios interesting to consider. These have been largely unexplored to date – for example, questions around fintech remained unresolved – but there was consensus that such thinking is strategically useful. Some of the extreme scenarios in 'low for longer', 'alternatives future', 'climate collapse' and 'fintech disruption', as well as 'inclusive capitalism', could be more deeply-thought about. Three from that list which are less frequently discussed are outlined below.

### *Scenario I* **Inclusive capitalism**

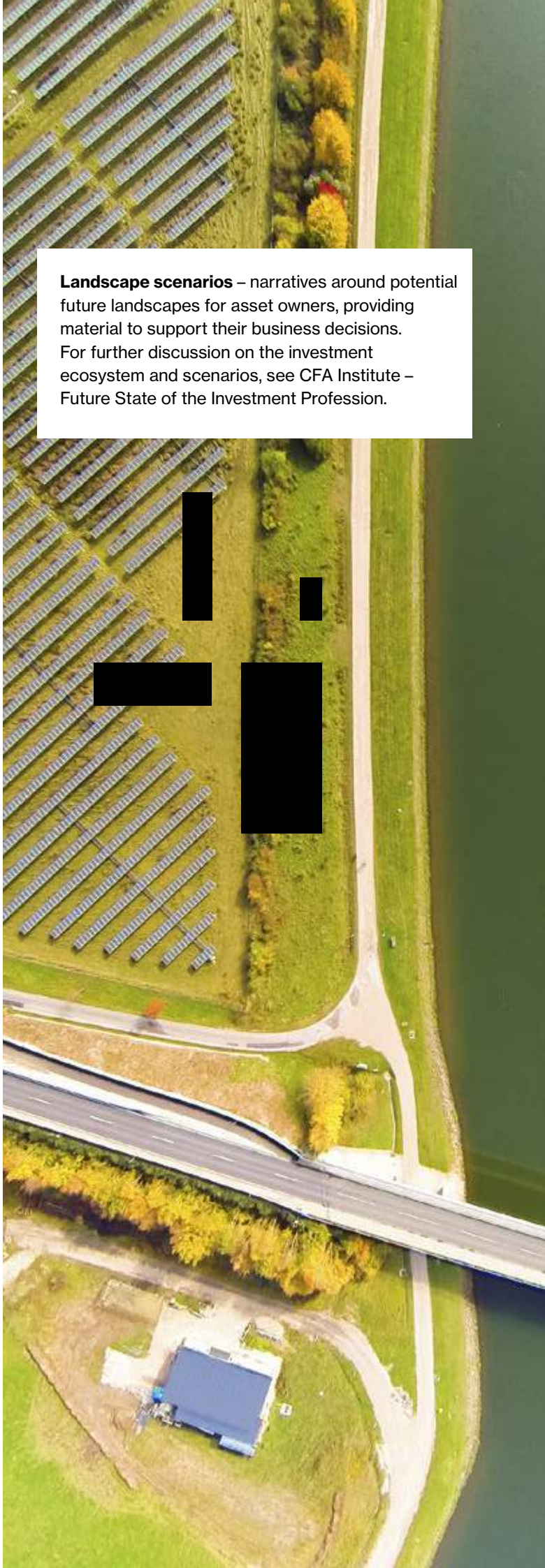
The investment industry strengthens its value proposition working through stronger-principled asset owner organisations acting in purposeful, aligned, lower-cost and more efficient ways.

### *Scenario II* **Fintech disruption**

New technologies promote new business models; disruption and creative destruction are endemic; challengers do better than incumbents; major disruptions to the world of work.

### *Scenario III* **Alternatives future**

The smooth evolutionary pathways of private markets and alternatives are disrupted by various difficulties and failings brought about by organisation issues, problems of complexity and liquidity crunches.



**Landscape scenarios** – narratives around potential future landscapes for asset owners, providing material to support their business decisions. For further discussion on the investment ecosystem and scenarios, see CFA Institute – Future State of the Investment Profession.



## 8. Stakeholder management and constraints

Leading asset owner peers are giving increasing time to external stakeholder management issues. The trend driving this area is increasing public consciousness of the importance of the large sums of capital at stake. We see this as an appropriate response by funds to increasing sensitivity to the 'license to operate' they have been granted. It is good practice for peer funds to demonstrate their license has been maintained with a clean record.

Several participants discussed in good detail how a commitment to earning public trust and maintaining their social licence to operate is vital to their continued institutional success. These notions are closely linked with culture, transparency, brand and communication strategies, which are high priorities for many of the organisations.

### Where do asset owners place emphasis?

Several participants speak to the issue of having structural impediments in the design of their organisation. This manifests itself in having significant issues with the organisational goals, governance or expectations of their sponsor. We gauge that this is a big constraint on effective practice for a third of the participants and a moderate factor with another third.

By and large, participants are very cognisant of their external profile, and greater success here is aligned to where this profile has been very deliberately and carefully cultivated, often through a proactive and highly visible strategy. Some talk about the importance of being the author rather than the subject as a means to controlling the positioning here – this requires considerable effort.

### The role of transparency

The role of transparency in this area is highly significant. This was raised by some funds as a positive force as it produces appropriate accountabilities. For some funds though it can produce counter-cultural issues like undue focus on short-term figures without context. For some funds, public scrutiny creates unrealistic expectations that these large asset pools could be managed to some alternative purpose.

There are pros and cons to transparency, although we would largely see the benefits outweighing any costs here. The clearest dividends are from the transparency contributing to 'organisational syncing' of mission, goals, process, results and accountabilities. In extreme cases, there are some limitations around the public nature of several participants, to the extent that they are prevented from certain actions or investments. Nonetheless, maintenance of the 'licence to operate' is a fundamental tenet of successful organisations, one which requires renewed attention in the current social climate.

# Concluding thoughts

## Coping strategies are required in these challenging times

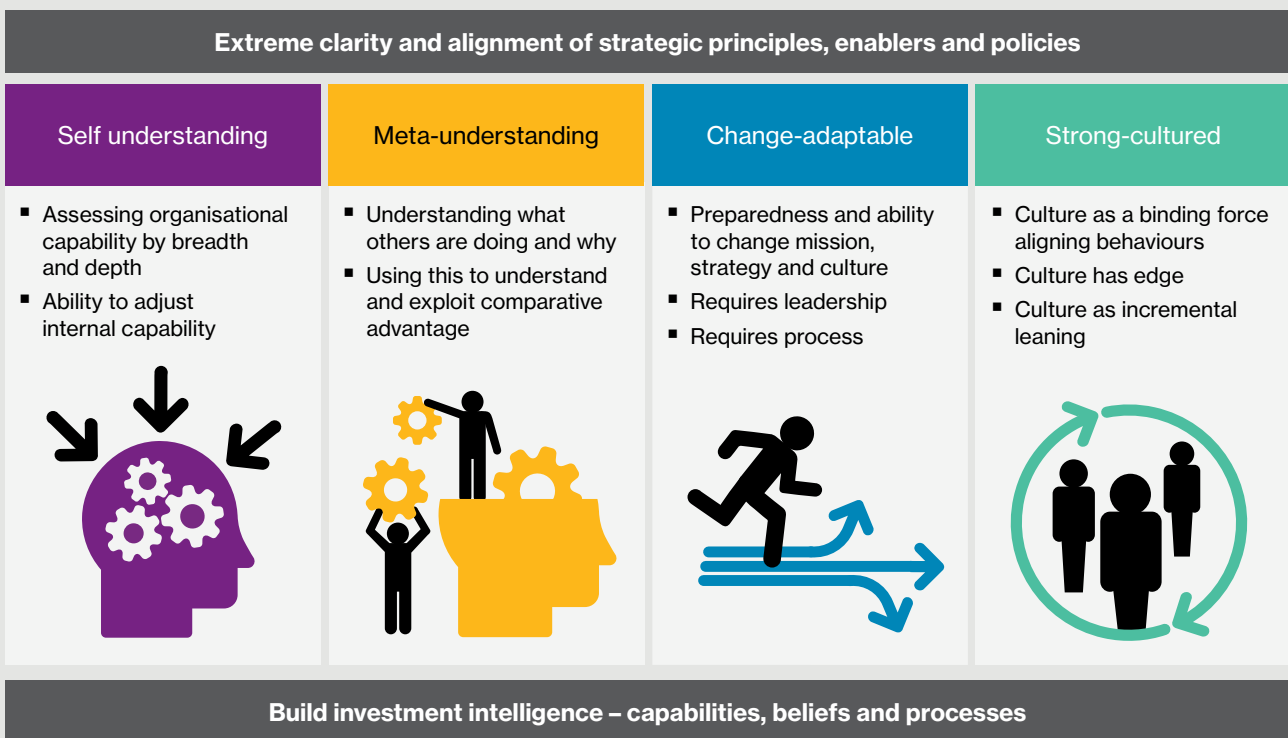
We have identified five key takeaways from the study, which we believe deserve serious consideration for all investors.

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

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

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

Figure 24. **Characteristics needed for positioning asset owners successfully**



# Supporting material

## 1. Sourcing and investment models

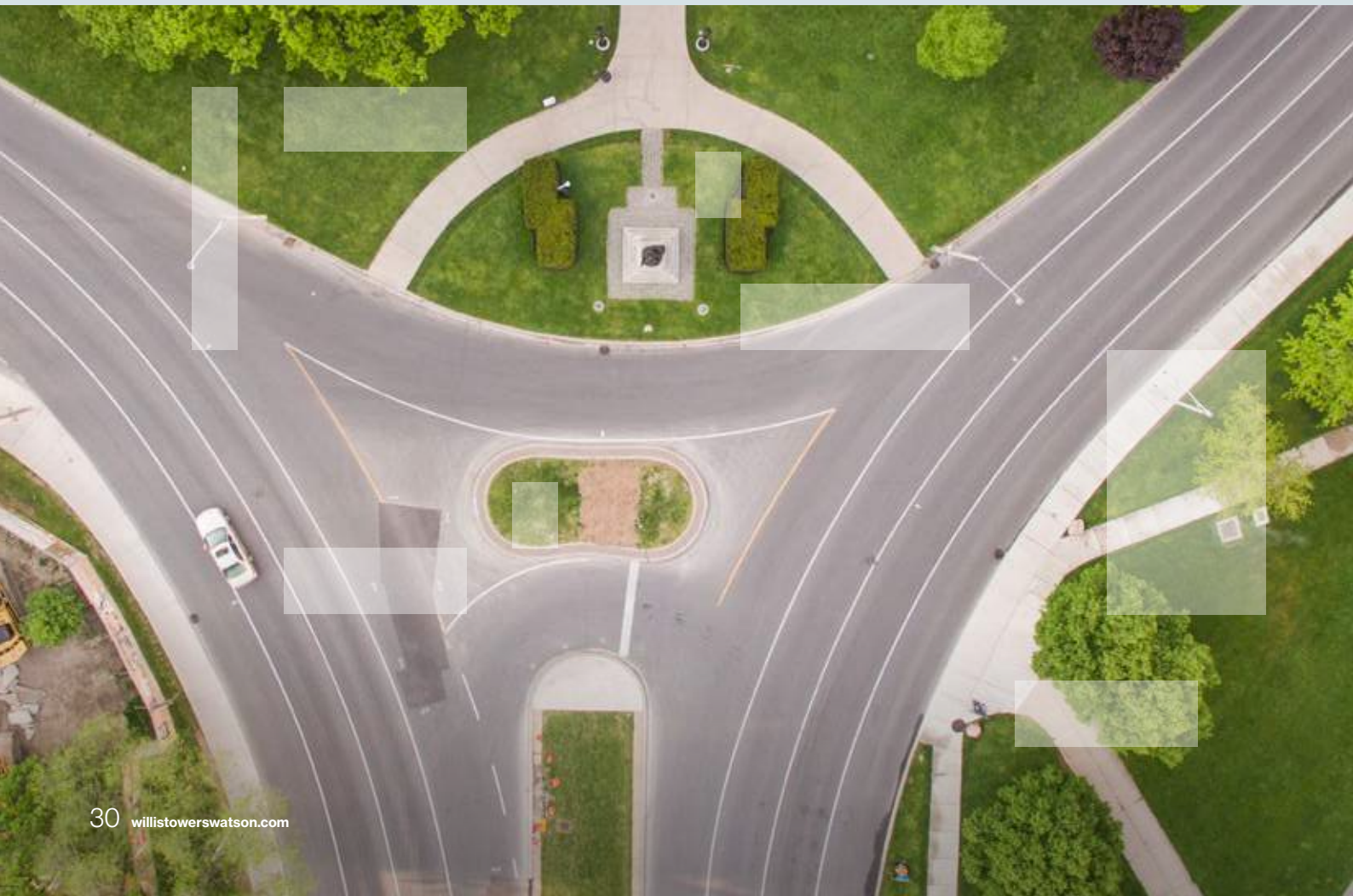
In the following pages, we lay out a series of 'sliders' which describe how the organisations in our study are set up in terms of sourcing and investment models.

- We assess each organisation on eight investment criteria and five sourcing criteria.
- For each criterion, we use a slider with six points as there are a spectrum of approaches employed in each area.
- There is no 'correct' position on any of the sliders – each organisation's context is key.
- It is important though that the sourcing and investment models adopted are 'in sync' with one another and are coherent with the organisation's mission beliefs, and comparative advantages.

The majority of each organisation's slider positions are as expected. Some reflect structural impositions on the respective participants, whilst others reflect the organisations being part way through an intended journey.

We note the following figures as areas for potential further discussion for most participants, suggesting the peer group has not yet achieved their desired positions.

- **Figures 28 and 29** – degree of external manager engagement – we believe many organisations have ambitions to be further toward the partnership model, and we see value in pursuing a greater degree of engagement in most cases with a view to forming 'strategic partnerships'.
- **Figures 37 and 38** – long-horizon and sustainability – we see the peer group in general having ambitions to be positioned further to the right-hand side of these spectrums, with a select few funds being leaders in each case.



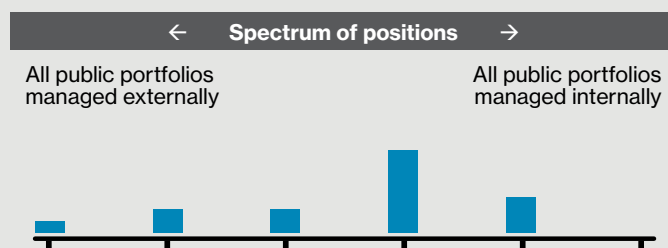


# Sourcing models

## 1. External-internal portfolio management – public

- Wide diversity of styles available externally
- More limited availability of high-quality portfolio managers who want to be employed by Asset Owners (AOs); often AOs are not that well positioned in EVP terms – this is an issue for all internalising models
- Can AOs build comparative advantage through building an internal skilled team?

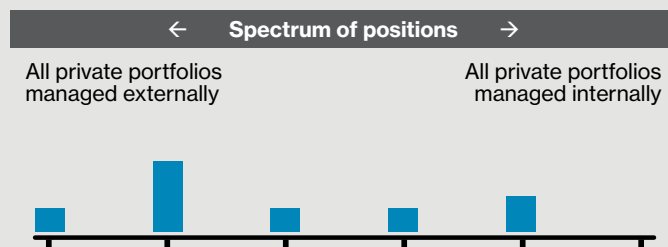
Figure 25. Sourcing model: External-internal portfolio management – public



## 2. External-internal portfolio management – private

- Wide availability of managers in most mandates but even larger capacity issues than in public
- Good supply of external access to Limited Partner (LP) pools but this is dependent on internal capabilities and relationships
- Scaling of private market portfolios difficult internally
- External firms have developed significant IP edge, but accessing it often involves very large costs and is subject to large-organisation hazards.

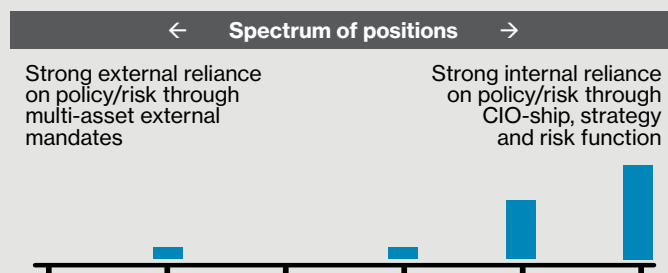
Figure 26. Sourcing model: External-internal portfolio management – private



## 3. External-internal policy and risk

- External managers do not generally do this role well on delegated terms, although the OCIO (Outsourced Chief Investment Office) model is developing
- Risk systems will come from external sources
- Some engaged partner opportunities, but dependent on internal resourcing
- Need to think of risk in a wider context, which suggests that it is best internalised
- Effectiveness of role is dependent on systems and processes, which are critical components.

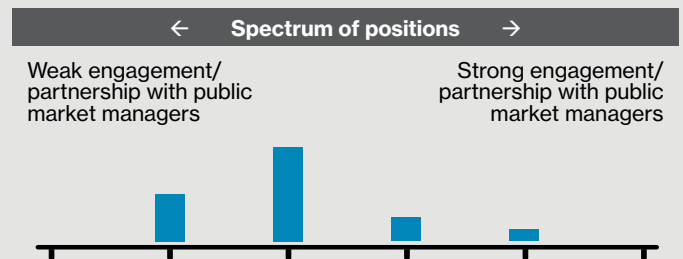
Figure 27. Sourcing model: External-internal policy and risk



#### 4. External manager engagement – public

- Joint IP is available from external relationships
- Limits in internal resources will restrict the joint IP opportunities
- Consideration of fewer, deeper more external line-ups to support more engagement
- Pooling and joint IP collaboration opportunities and costs depend heavily on internal context
- Strong internal IP on manager relationships has clear benefits for outcomes.

Figure 28. Sourcing model: External manager engagement – public



#### 5. External manager engagement – private

- Building internal capabilities necessary to build LP and co-investing models
- Accessing LP pools must respect scale issues
- The relative position of co-investing requires care given organisational issues.

Figure 29. Sourcing model: External manager engagement – private

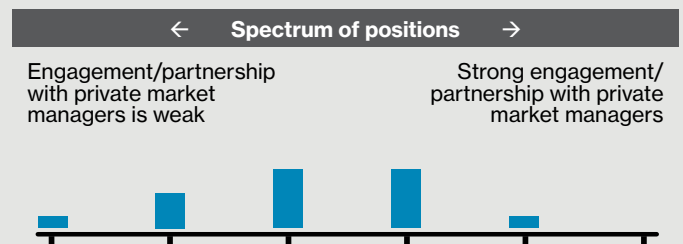


Figure 30. What are the total internal investment-related costs (in bps per annum) for your fund?

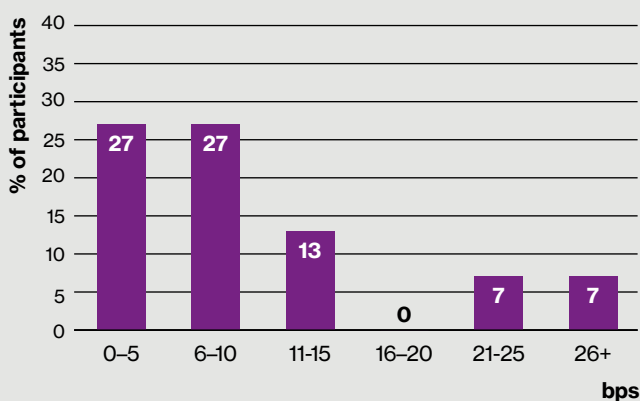
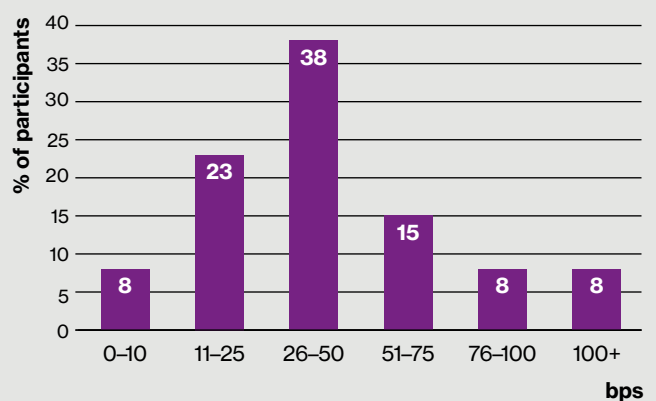


Figure 31. What are the total external investment-related costs (in bps per annum) for your fund?

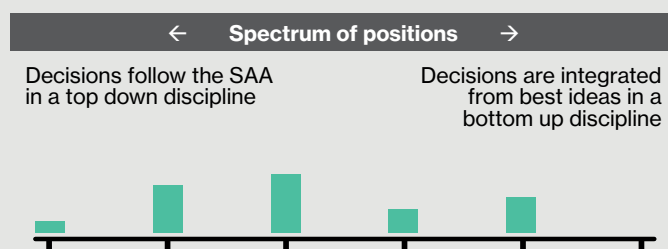


# Investment models

## 6. SAA versus one portfolio

- Support for the top down Dynamic Asset Allocation (DAA) model being able to capture more mispricing opportunity than can be captured via bottom up selection
- Organisational challenges in both models, but greater in the Strategic Asset Allocation (SAA) model
- Beliefs need to mark out the special features in a target future state – maturity/scale/liquidity/costs
- Governance needed to support a one-portfolio approach is more challenging and more delegated.

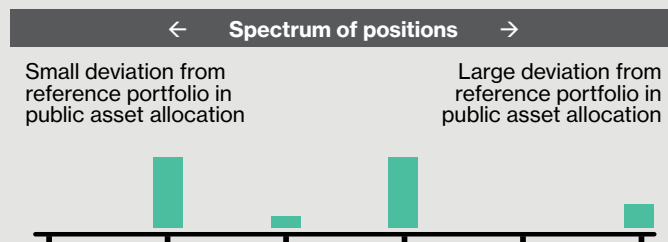
Figure 32. Investment model: SAA versus one portfolio



## 7. Policy conviction – public

- Structural positions in thematic investing possible – for example, emerging markets, small cap, ESG
- Cap-weighted allocations not necessarily efficient, potential home bias in equities may be strategic
- Strategic edge and time horizon needed to support thematic positions
- AO's future size generally not constrained by asset size in public markets.

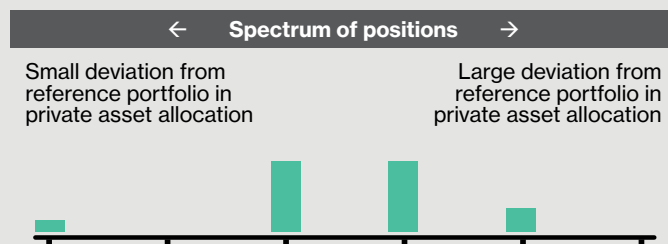
Figure 33. Investment model: Policy conviction – public



## 8. Policy conviction – private

- More diverse return drivers/risk factors can be exploited in private market positions
- More sophisticated risk systems and due diligence required
- Illiquidity premium can be scaled up in target future state
- Additional large scale opportunities possible
- Cost parameters must be weighed.

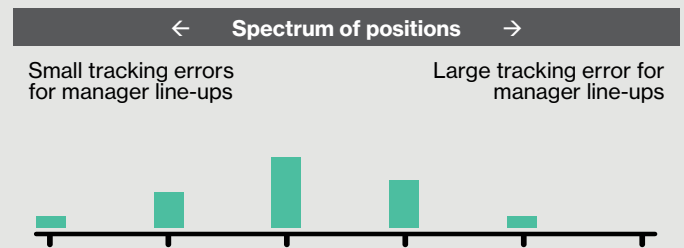
Figure 34. Investment model: Policy conviction – private



## 9. Alpha conviction

- Independent sources of skill remain attractive but difficult to execute
- Dispassionate assessment of net information ratio and manager's share of alpha parameters
- Choice of passive allocations may reflect cost considerations
- Sustainability can be a net addition to alpha.

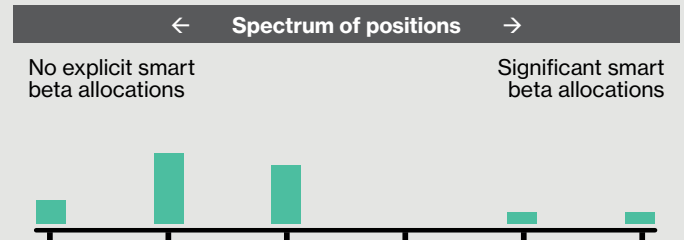
Figure 35. **Investment model: Alpha conviction**



## 10. Smart beta conviction

- Evidence that factors may produce attractive returns but flows may alter attractiveness
- Smart betas depend critically on supply of ideas, internal and external IP
- Stronger specialised resources needed for smart beta sources
- AOs can often benefit from consultants'/ third-party inputs.

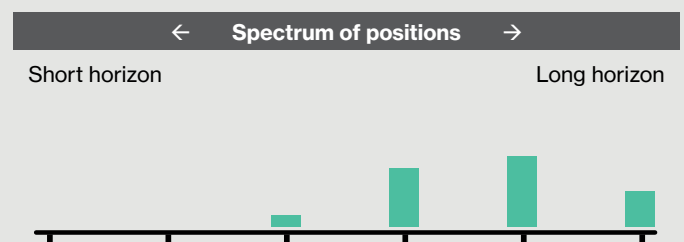
Figure 36. **Investment model: Smart beta conviction**



## 11. Long-horizon investment setting

- Long-horizon investing can have an impact in five areas – value/systematic factors/thematic factors/liquidity/active ownership
- Thematic investing can be an important component of long-horizon investing
- Comparative advantage involves both mindset and skill set
- Governance, mandates and measurement should be considered.

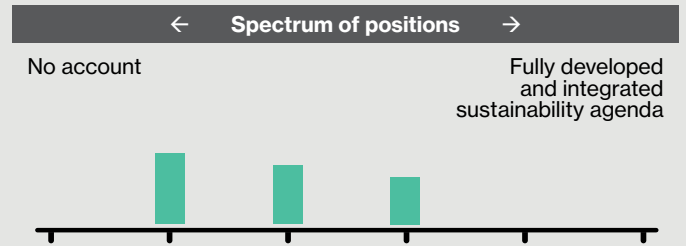
Figure 37. **Investment model: Long-horizon mindset**



## 12. Sustainability

- From taking no account to having fully integrated sustainable investment by reference to various positions on beliefs, integrated ESG and stewardship.

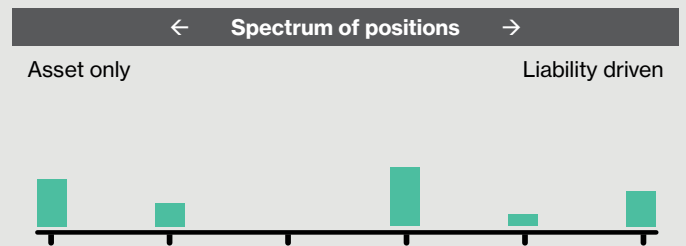
Figure 38. **Investment model: Sustainability**



## 13. Liability mindset

- Relative importance of asset and liability considerations in investment frameworks, processes and portfolio construction.

Figure 39. **Investment model: Liability mindset**



# Insourcing versus outsourcing



## Staffing

### Investment staff and investment support



**86%**  
of participants *increased* their **total investment staff** since last year



**64%**  
of participants *anticipate increasing* their **total investment staff** next year



### Investment staff



**80%**  
of participants *increased* their **investment staff** since last year



**64%**  
of participants *anticipate increasing* their **investment staff** next year



### Investment support



**73%**  
of participants *increased* their **investment support staff** since last year



**57%**  
of participants *anticipate increasing* their **investment support staff** next year



Participant head count ■ 0-10 ■ 11-25 ■ 26-50 ■ 51-100 ■ 101-250 ■ 251+

## Changing sourcing models



**12 of 13**

are more insourced since last year or about even

### Investment functions

**60%**

Largely insourced

**27%**

About 50/50

**13%**

Largely outsourced



**12 of 13**

intend to be more insourced next year or about even



**13 of 13**

are more insourced since last year or about even

### Investment support functions

**67%**

Largely/entirely insourced

**27%**

About 50/50

**7%**

Largely outsourced



**13 of 13**

intend to be more insourced next year or about even

Note: Only 13 of 15 participants provided responses to these questions.

## 2. Governance assessment

### Starting to measure: beliefs and governance

#### In short

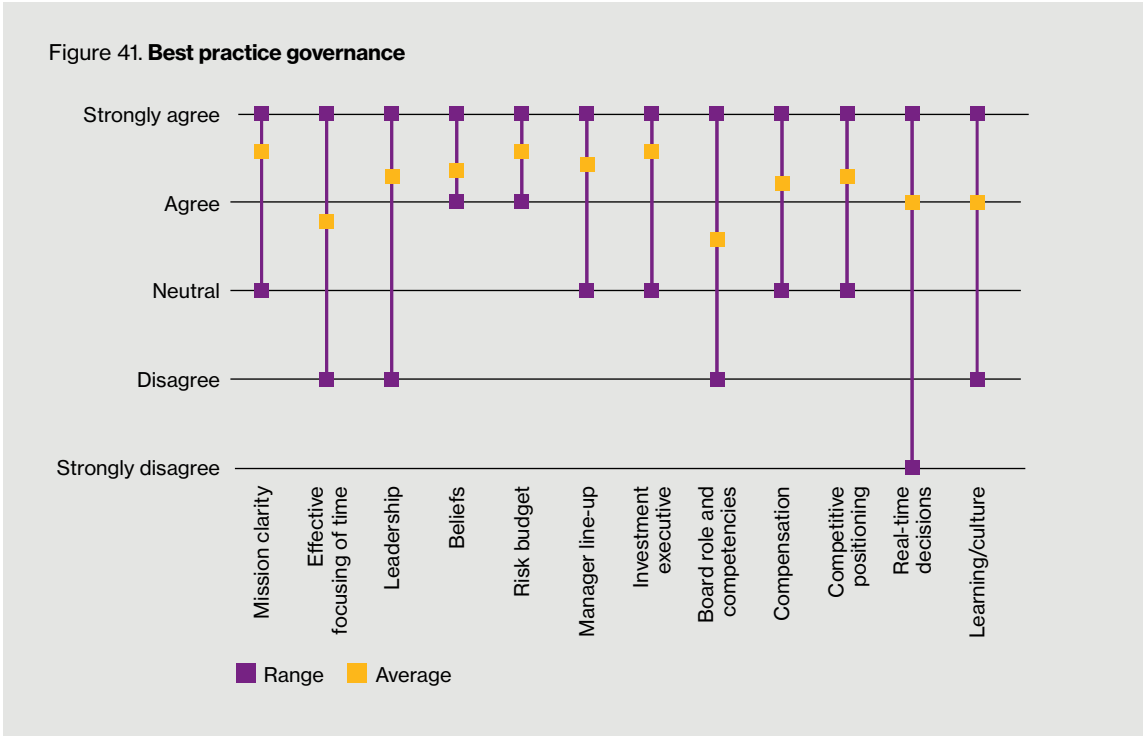
The links between good governance and good performance seem reasonably obvious. What is less obvious is what describes 'good governance' or even 'great governance'. Here we consider the key attributes of global best practices in governance, summarising the findings of a landmark study undertaken by Gordon L Clark of Oxford University and Roger Urwin of Willis Towers Watson. Clark and Urwin identified 12 factors relevant to best-practice governance:<sup>12</sup>



Figure 40. **Clark & Urwin governance model – the 12 factors**

The Clark-Urwin study identified six 'core' factors deemed achievable by most organisations; a further six 'exceptional' factors are associated with best-in-class organisations		
<b>An effectively governed fund:</b>		
<b>Core factors</b>	1. Mission clarity	Has clarity of its mission and the commitment of its stakeholders to the mission
	2. Effective time budget	Resources each element in its investment process with an appropriate budget considering impact and required capabilities
	3. Leadership	Shows leadership, particularly at the board/investment committee (IC) level, with the key roles being the board/IC Chair and the CEO/CIO (where present)
	4. Strong beliefs	Has strong investment beliefs, commanding fund-wide support, that align with operational goals and inform all investment decision making
	5. Risk budget	Frames its investment process by reference to a risk budget aligned to its goals and incorporates an accurate view of the sources of risk and return
	6. Manager line-up process	Makes effective use of its investment managers, governed by clear mandates, aligned to goals, selected on fit for purpose criteria
<b>A best-practice fund:</b>		
<b>Exceptional factors</b>	7. Investment executive	Has a highly competent investment function tasked with clearly specified responsibilities, with clear accountabilities to the investment committee
	8. Required board competencies	Guides selection to its board and senior staff by: numeric skills, capacity for logical thinking and ability to think about risk in the probability domain
	9. Effective compensation	Employs effective compensation practices to build bench strength and align actions to the mission, with different strategies working according to fund context
	10. Competitive positioning	Frames its investment philosophy and process by reference to its comparative advantages and disadvantages
	11. Real-time decisions	Uses decision-making systems that function in real-time not calendar-time
	12. Learning organisation	Works as a learning culture, which deliberately encourages change and challenges the commonplace assumptions of the industry

We asked participants to self-assess against this 12-factor framework to provide some insight into their governance positionings. It is important to recognise the limitations of this approach and the sample size, but the results are nonetheless instructive at a high level.



### Governance practice

‘Governance’ here is considered in the expansive definition that spans the board and investment executive by assessing all aspects of organisational effectiveness in delivering investment results.

The current Willis Towers Watson governance model is derived both from empirical study considering performance, and from deductive methods observing practice that appears to be particularly effective. This facilitates a structured and rigorous approach, and also allows detailed comparisons with a global best practice norm to be made. There are qualifications though:

- The links between practice and performance are not stable over time; any model of effective investment governance will need to be adaptive
- There is the danger of using it as a business buzz phrase – one best-practice model cannot be appropriate for all situations.

### Advantages of the Clark-Urwin model

The research is public and the source is the most widely referenced research in the field. The model has been used frequently since its inception in 2007 by a number of different institutional funds, which allows some informal benchmarking to be undertaken.

### Rating methodology

A governance rating framework, developed at Willis Towers Watson, allows us to rank organisations’ governance from C (very weak) to AAA (global best practice). Using this framework, we can help funds make a realistic assessment of how much improvement in governance is within their grasp.

With an assessment of how strongly the belief that governance adds value is held, an assessment of the current quality of governance and a target state for governance, we can begin to make some projections about the value to be added through governance enhancement. The benchmarking we suggest is as follows. This is based on previous experiences of other funds over the last ten years, but is not subject to definitive statistical studies.



Figure 42. Willis Towers Watson's governance rating framework

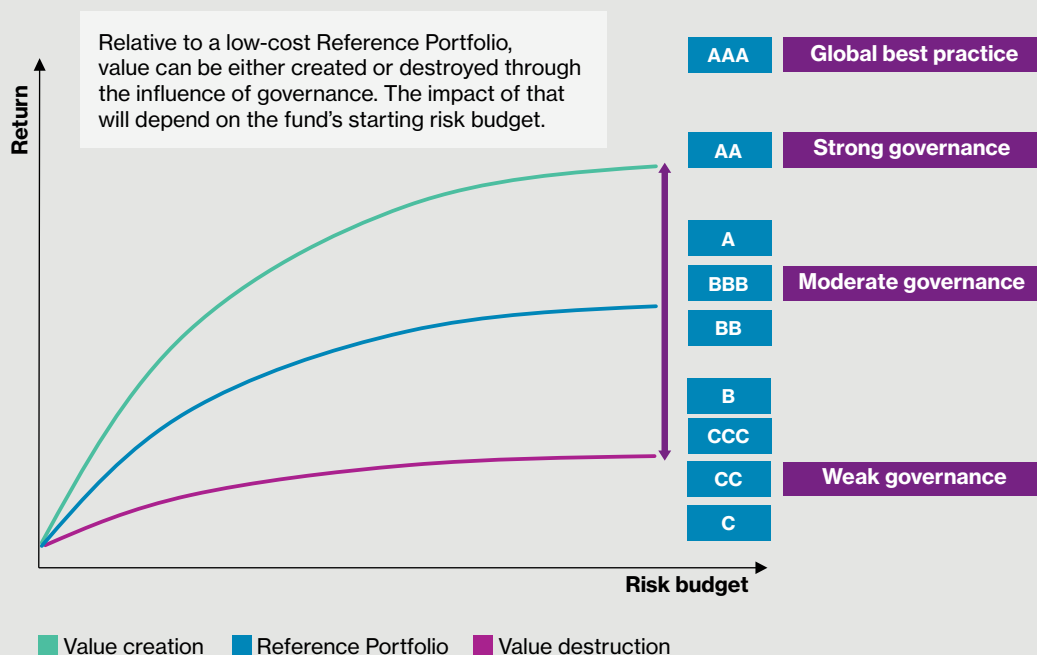


Figure 43. The organisational rating system explained

**Global best practice (AAA):**

This is best practice relative to a peer group of international successful institutional investors. Within this band, the fund in question has considered and addressed all of the twelve factors needed to have a successful governance structure within the fund. This attainment is extremely unusual (<5%).

**Strong governance (AA):**

Strong governance indicates that the fund has implemented best practice or displayed successful governance across the majority of the twelve factors, however there may be areas for improvement in one or two areas. This attainment is unusual (~10%).

**Moderate governance (A–BB):**

This range represents a moderate level of governance where the fund has considered most of the factors but has not implemented best practice across many of them. Within this level of governance, there are areas for improvement as, despite perhaps considering how different organisational areas will affect management of the fund, successful implementation is still lacking. Working at this level of governance carries an opportunity cost and this may detrimentally affect fund performance. This attainment is relatively common (~50%).

**Weak governance (B–C):**

This is a weak level of governance where the fund has considered some of the factors when implementing a governance structure, however it is lacking in effectiveness or has not covered the primary/important areas which are needed for the management of the fund. Within this governance range, funds will likely be significantly affected by poor performance and will find it harder over the long term to reach their objectives. Fund behaviours destroy value relative to a simple, low-cost alternative. This attainment is relatively common (~35%).

Note: The rating inevitably has significant subjective elements so any interpretation should be cautious.

# Best practice committees

Boards and committees consistently surface in our discussions as central to the effective functioning of the participants. These groups often hold fundamental decision rights and responsibilities which will in large part determine the success of their organisations.

Research into what makes these groups function effectively, in an investment context, highlights 10 factors shown below.

The infographic consists of 10 numbered boxes, each with a title, a description, and an icon. The boxes are arranged in a grid-like fashion, with some spanning two rows. The background of each box is a different color and pattern.

- 1 Strategic focus** 
- 2 Delegation** 
- 3 Effective management and oversight** 
- 4 Competent and diligent members** 
- 5 Sized appropriately** 
- 6 Chair sets direction and facilitates best practice** 
- 7 Diverse thinking and unified decisions** 
- 8 Well-grounded principles** 
- 9 Effective and balanced governance framework** 
- 10 Strong and positive culture** 





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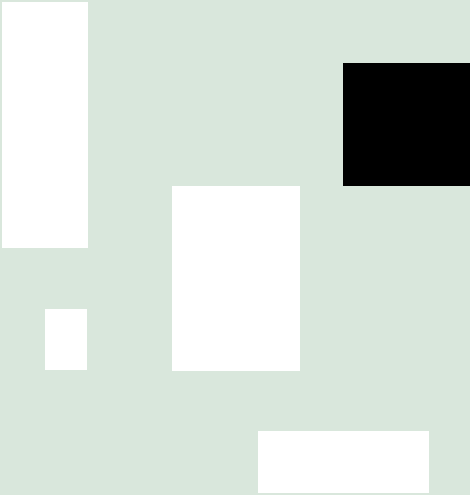
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## Notes

- <sup>1</sup>Maister, *The One-Firm Firm* (1985) and Maister & Walker, *The One-Firm Firm Revisited* (2006)
- <sup>2</sup>Sunstein & Thaler, *Nudge* (2008)
- <sup>3</sup>Greenleaf, *Servant Leadership: A Journey Into the Nature of Legitimate Power* (1977 and 2002)
- <sup>4</sup>Thinking Ahead Institute, *Cognitive diversity* (2015)
- <sup>5</sup>Lewis, *The Undoing Project* (2016)
- <sup>6</sup>Sunstein & Hastie, *Wiser* (2014)
- <sup>7</sup>Cain, *Quiet* (2012)
- <sup>8</sup>Goleman, *Focus* (2013)
- <sup>9</sup>Woolley et al., *Evidence for a Collective Intelligence Factor in the Performance of Human Groups* (2010)
- <sup>10</sup>Thinking Ahead Institute, *Integrated Reporting* (2016)
- <sup>11</sup>CFA Institute, *Future State of the Investment Profession* (2017)
- <sup>12</sup>Clark & Urwin, *Best-Practice Investment Management: Lessons for Asset Owners from the Oxford-Watson Wyatt Project on Governance* (2007)



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