The Power of WHAT IF

Executive Conference Session Summaries

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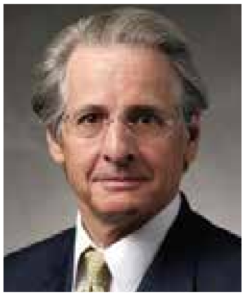


Current State of the Financial, Economic and Political Market

Milton Ezrati, consultant, former senior economist, Lord Abbett and Co.

The underlying fundamentals that Milton talked about this time last year— which should have boosted the markets, but didn't—are still very much alive. The six areas of concern that affect the current environment are:

The elections: What weighs on the market is not so much a particular candidate as the popularity of protectionism. The idea of tariffs is popular among the candidates and the electorate. It's easy to talk about American job and border protectionism, but history may hint at how the markets may react. When the stock market crashed in 1929, Senator Smoot and Congressman Hawley decided to build a tariff wall around the economy. World trade fell 67% in the space of two years, American exports fell, and imports fell, unemployment—which fell to 6.5% in June of 1930—climbed relentlessly to 25%. And the market lost 10% of its value the day the tariffs were signed into law.

› **Protectionist rhetoric casts a shadow on the markets that will likely persist after the election until the market is reasonably sure that protectionism is no longer a threat.**

China: Everyone is worried about a pending implosion—they do have debt, a real estate crisis and slower than expected growth. But China's slowdown has been engineered by the government to focus on domestic sources of growth following a meteoric rise in exports over the prior 20 years from zero to 12% of the world's exports. Additionally, China is no longer an underdeveloped economy. When an agrarian economy starts industrializing it typically grows, but as it develops, the pace will inevitably slow down. China's government has tremendous resources and, if it chose to, it could easily stimulate its economy. Compare its total outstanding debt of about 25% of GDP to ours, which exceeds 100%. As for real estate, China doesn't have subprime debt, which is what caused the U.S. real estate problem in 2007 to 2009 and spread throughout the system. Home buyers have to put down 20% to buy their first home and 50% to buy a second. Additionally, Chinese homeowners are not highly leveraged. The debt in China is with the local authorities; even if the government in Beijing absorbed all the outstanding debt of the local authorities (not that we are expecting they will do that), it would only increase debt to 75% of GDP. China isn't expected to grow very fast but it's noteworthy that 6% growth is seen as a disappointment, even though it's growing three times faster than the U.S.

› **China will not implode—that fear is misplaced.**

The Fed and interest rates: The Fed has made it clear they want to normalize the interest rate situation and that they're not trying to restrain the economy. The research is telling policy makers that keeping rates at zero and having a bloated balance sheet is distorting fundamental investment decisions in the U.S. It's unclear how many times the Fed will raise rates in 2016, and it's debatable what "normal" is. But it feels as if the Fed will get short-term rates up to the rate of inflation of around 1% to 1.5%. None of this is restraining the economy. What's happening in Europe and Japan is different. And in the U.S., there is no threat of deflation.

› **The fears associated with the Fed are misplaced.**

The economy: There is a lot of concern that that the U.S. economy is slow and could slide into recession. Though all the factors that have contributed to slow growth since the recovery began seven years ago remain in place, that doesn't mean it's going into recession. The economy goes into recession when there are excesses that need to be worked out. When looking at the numbers, there are no excesses apart from the federal government.

1. Real estate is improving. The property market is uneven across the country, as it always is, but there are increases in construction, sales, and most important, real estate prices. It's not a boom, but the U.S. economy has never gone into recession in the midst of real estate improvements, however modest.

2. Corporations are flush with cash. Corporate checking account balances (not CDs or money markets) today equal 10% of their liabilities. Corporations are cautious—that's why they have so much cash. But you don't go into a recession because corporations are cautious—you get a slowdown not a recession.

3. State and local governments are healthier. Net revenues for most state and local governments have increased over the last 18 to 24 months. There's not a boom here either, but that doesn't mean they can't improve. They are now starting to rehire firemen and teachers, but it's the same 2% to 2.5% growth you've been living with.

4. American household balance sheets are stronger. Americans have shed almost a trillion dollars of debt in the last six or seven years. Admittedly, a lot of this is foreclosures suffered in 2011 through 2013, but not all of it. Seven years ago, consumers dedicated 20% of after-tax income to debt service; today that number has fallen to about 15%. Americans are also saving more than they have been for a long time. They have saved every penny of the dividend from falling oil prices—the equivalent of a 6% increase in household income. Consumers are cautious. We have not seen a surge in consumption as we would have in the past. That's another reason why the economy is slow, but the boon to spendable income means there's less chance of a recession.

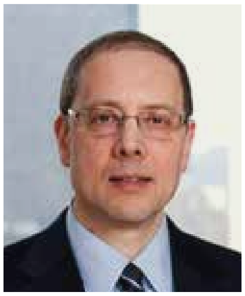
› **Combined, this array of facts doesn't look like excess in this economy. No recession.**

Oil: The U.S. is an oil consuming nation and while lower oil prices may not be good for the oil patch, they are good for the economy. Lower prices may hurt energy stocks, but they make the consumer more comfortable. While some journalists keep saying lower oil prices will drive the economy down, oil is not a burden on this economy. That's true throughout the western world with the exception of Canada. The oil question is not as easy as it looks. We're in a period where we have a glut of oil, and that may worsen now that Iran is out from under the sanctions and needs to sell on the open market. Even though we are less dependent on the Middle East for oil, there is one risk worth noting: 35% of the world's oil passes through the Persian Gulf. That can close at any time, as it did in the 1980s. If the waterway gets interrupted, oil prices could spike from $30 to $100 overnight. No one has built that into forecasts, but that's just the risk that we run.

› **Oil prices will likely to stay low—that's a boon to the U.S. economy. This fear is misplaced.**

Valuations: The market is not as attractively valued as it was a few years ago, but that doesn't mean it's not still attractive. To make the case: currently, even with the Fed's hike in interest rates, financial advisors can get his clients up to 30 basis points on insured deposits. The S&P 500 has a 2% dividend yield, so stocks, without any consideration of appreciation, are paying a 175 basis point premium on the money up front (the yield) compared with cash. Historically this relationship has been the reverse. For the last 35 to 40 years, cash has yielded 200 basis points more than stocks. The only thing cash will ever give you is the rate offered, while stocks can appreciate if you hold them long enough, and the management of the company you buy can raise the dividend. Because stocks have two ways to make money, they tend to offer a lower up-front yield, not a higher one. The fact that there's plenty of cushion as the Fed raises rates before it erases valuation, and the market has a way to go to realize that value even as the Fed raise rates, we don't need much good news in this environment.

› **Today's valuations suggest stocks still can do better than bonds.**



What's in Store for the Asset Management Industry

Michael Serota, Americas Wealth and Asset Management co-leader, EY

The wealth and asset management industry has emerged from the financial crisis only to face accelerating change on many fronts—from regulatory pressure and technological innovation to consumer demands. Several key drivers will significantly impact the business environment in 2016, including threats, new ideas and opportunities.

Disruption and innovation—financial technology: Massive investment is taking place on a global scale— and no wealth and asset management service provider will be immune to the growing disruption of robo-driven innovation. Underpinning this development is the growing importance of robotics that is ushering in the next generation of simplicity.

› **More firms will partner with, acquire or build highly automated solutions internally with an emphasis on managing risk and increasing efficiency.**

Cybersecurity: Cybersecurity in the asset management industry is a key focus of the SEC. The threat exposes firms to reputation risk, compromises client trust and brand equity, and potentially jeopardizes firm solvency. Investors want to feel that organizations are acting in their best interests. If there's a breach in security and customer data is released, that trust is broken and may never be regained.

› **The entire organization must be engaged from the C-suite down, in support of a firmwide cybersecurity initiative.**

Liquidity risk: Liquidity risk was the driver behind the financial crisis, but today the issue is who is going to fill the void. The closure of several U.S. corporate high-yield funds in late 2015 brought liquidity risk center stage for investors. How it will play out over the next five or six years is unclear, but as banks step out, new liquidity providers will step in.

› **Expect significant disruption to the prime brokerage businesses.**

Conduct risk: Another area mentioned by the SEC and where there is a lot of change taking place around the globe is in mitigating conduct risk. In the U.S., we will likely see an announcement by both the U.S. Department of Labor as well as the SEC on a Fiduciary Duty of Care Rule. We are already in the latest stages of implementation of MiFID II in the EU, which focuses heavily on conduct in distribution. Since 2013, under the Retail Distribution Review (RDR) in the U.K., commission payments from asset managers to advisors were banned.

› **All these actions will drastically alter the fund distribution landscape.**

Short-term priorities vs. long-term investment: The entire business world, not just the asset management business, tends to shortchange the future by focusing on short-term priorities. The issue is how to make the trade-off between planning to meet or beat next quarter's performance goals, and trying to invest for the full year implementing an underlying business model focused on long-term growth and sustainability five to 10 years out. Emerging markets is a classic example: pulling money out of China or Africa today because of lackluster returns will compromise long-term growth potential.

- **Short-term focus at the expense of long-term investment will result in potentially unsurmountable future problems.**

Investments with purpose: Sustainable investment is a real and growing trend, not just a fad that millennials are advocating. There is a strong focus on "non-Alpha" factors by investors in making asset allocation decisions, particularly in the high-net-worth (HNW) market segment. It has been one of the fastest growing product classes in the U.K. and Germany over the last decade.

- **Clients are demanding socially responsible or values-driven investments.**

Client experience business model—outcome-based solutions: Clients are increasingly questioning the value they get from their business relationships. It's a mind shift for the asset management business. There's an industry drive toward outcome-based, value-added solutions, overall financial well-being, and establishing trusted roles as "lifetime financial coach–personal physician"—a dramatic change from the product push salesman of yesteryear.

- **Firms delivering high value-added, holistic, "sticky" client experience can protect and enhance margins.**

Simplify the proposition: This driver ties back to the client experience and whether firms will be able to focus on simplifying the proposition for their clients. In the post-crisis era, regulators have become highly interested in the applicability of complex solution and products, particularly in terms of remuneration. We have already seen much product suite review and rationalization in Europe, first under RDR in the U.K. and eventually under MiFID II in the rest of the EU.

- **All stakeholders want to understand what they are selling and buying, a huge move away from the complex. They want simple, easy-to-understand products and solutions. Clarify what services you are delivering and how you are compensated.**

Technology and strategic efficiency: Managers are evaluating a more strategic integration of technology in their target operating models as a means to drive efficiency and relieve margin pressure. Technology is an asset that needs to be better leveraged; mining data and analyzing it to enhance the client experience is increasingly important. Data requirements are going to continue to expand; clients want more analytical information and managers need to use it to make their experience more valuable.

- **FinTech should be used for improved client analytics, enhancing distribution and driving growth in the front office, not merely for rationalizing operations or cutting back-office costs.**

Global tax landscape–harmonization: There is a harmonization of purpose among the OECD and other global economies/players. From FACTA and BEPS to CBR and CRS, a new level of data sharing will be brought about by regulation, automation and cooperation. The effort presents significant challenges and uncertainty for both businesses and governments.

- **Ensure there is dialogue with fund administrators, custodians and accountants so that planning can be done for data aggregation and reporting as the time approaches.**

Front-, middle- and back-office connectivity to service providers and clients: There's a real need to enhance processes to ensure tighter connectivity from fund managers to service providers and investors. It touches all aspects of the overall client experience and can be a competitive advantage.

- **Client experience and risk management will improve while cost is minimized by taking advantage of better data analytics throughout the process.**

Spend on personnel vs. technology-tension—how to enhance employee experience: As firms look to cut costs and right-size, keeping the right level and type of personnel is essential. Figure out where you're going for the short and long term. Keep your personnel involved as you strategize to move your organization forward.

- **Acknowledge the increasing push/pull between cost minimization, technology expense and personnel costs.**

Hacker’s Guide to Space Exploration

Ariel Waldman, founder of Spacehack.org, NASA datanaut

It took 1,000 years from the earliest recorded observation of the Andromeda Galaxy in 964 by a Persian astronomer for Edwin Hubble to determine that the blob in the sky was in fact a galaxy—and that there are many galaxies in our universe. Until Hubble’s discovery in 1924, many thought the Milky Way was the only galaxy in the universe. In space exploration, the pace of learning and discovery has been increasing at warp speed. But this intensifying pace of change and innovation in space is just one example of what is taking place across other industries, including asset management.

Hacking space

For someone with a degree in graphic design who had worked for an advertising agency, Ariel’s career at NASA is living proof that diversity is valued and one doesn’t need a science background to be part of space exploration. Her time at NASA revealed that the “rocket scientist” cliché—the rarified expert—underestimated the idea that space exploration is indeed open to all of us. In truth, many of those “expert” roles are more accessible, more open for contribution, than one may believe.

When you start in the role of student observer, you can build an understanding of the mechanics of a process, whether it’s building rockets or constructing an investment portfolio. But it’s not until you move from observation to active participation that your opportunity for diverse contribution becomes real. Learning and observing is key for the observer, but it doesn’t push a process further until the observer becomes the participant, lending his/her unique background, asking new questions, and building new processes. In truth, the lone expert is not as valuable as the well-developed team; that’s when the leaps forward happen. **Multidisciplinary teams work best** because no one is constrained by the same things, thus team members are freed to think differently and add their own unique perspectives.

Intent on changing how people should view space exploration, and seeing a win-win opportunity for space enthusiasts and scientists alike, Ariel created spacehack.org, which is a directory of ways for anyone, with or without a science background, to engage in space exploration. Additionally, as an advisor for NASA’s Innovative Advanced Concepts (NIAC) program, she helps nurture radical, sci-fi-like ideas to enhance and transform future space missions. At its basic level, it’s about not being afraid to ask “what if?” and being open to new possibilities.

Science-fiction writers, producers, designers, etc. might be creating the stuff of entertainment, but what they dream today could become reality in a few decades. **Ideas can come from anywhere**. The work happening at NIAC is actually creating, through research and development, the ultimate moonshot ideas. One such project, the comet hitchhiker, uses comets as propulsion systems to explore the solar system faster. While it took a spacecraft about 10 years to get to Pluto, the comet hitchhiker could ostensibly get there in five years. Today these may seem to be far-fetched and radical ideas, but with innovation and technology moving so quickly, they often come to fruition exponentially faster than originally ever imagined.

When you give people a forum to collaborate and discover, giving them a chance to move from observer to creator, the possibilities of discovery grow exponentially. On spacehack.org, some of the most interesting projects include the Austrian Space Forum, where a network of people with a passion for space exploration conducts interdisciplinary research for future human Mars expeditions. Another, the University Rover Challenge, invites students around the world to build the next generation of Mars rovers. Rather than do what is normal and comfortable in mimicking our own earthbound travel ideas like cars, some of the participants are studying tumbleweeds to model how a vehicle could traverse the surface of Mars more easily. When you build a team with the right combinations of skills and interests, the whole is greater than the sum of its parts. Inspiration from seemingly unrelated disciplines enlarges your perspective and expands the idea-generating process.

Another project involved the search for better algorithms to detect the effects of dark matter. A glaciologist won the contest by borrowing algorithms used to detect glaciers in satellite imagery and applying it to dark matter. Data is widely available, but finding ways to make it useful is the age-old issue. Similarly in the financial services sector, collating data is not enough; it's only useful when you understand the implications of the information and develop insight that allows for better decision-making.

Freedom to imagine

Ariel founded "Science Hack Day" as a way to get people excited about, and make things with, science. To encourage thinking without boundaries, multidisciplinary teams—combining scientists, artists, designers, writers, developers, molecular biologists, whomever—gather for a weekend to create a hack (a quick solution to a problem) or a prototype of anything in 24 consecutive hours. With no overt challenges set, they work on solving any problem they want. There are no wrong ideas or wrong answers and no one has to focus on their core discipline. Because it's not a scientist mentoring event, everyone is able to learn from each other. **All that is required is to be open intellectually. When people are unconstrained by what they don't know and are encouraged to imagine a future or project that doesn't exist today, thinking "what if," then real innovation occurs**.

"It's not easy to tell what's crazy or not ... At first glance, something that sounds crazy can be really credible, and vice versa."

Ariel Waldman
Wired magazine, June 2015

One Hack Day experiment involved a device created by a team that could indicate when someone needed to shave. There was a particle physicist in the audience watching this demo and realized, wow, that's a brilliant way to detect cosmic rays in a cloud chamber. It turned out that the physicist wrote a proposal and created a multiyear research program based on the beard detector technology. The takeaway for all organizations or entities: **you can't mandate imagination or innovation** but you can lay the foundation that permits and encourages it to occur.

Some of the examples described are game-changing opportunities to participate in multidisciplinary collaboration to create new things and solve problems. One such collaboration, called the Astronomical Medicine Project, between Harvard University's astronomy and medical departments that aims to create better solutions by sharing the way they visualize and analyze data.

It's clear that hacking is not limited to space; rather it's about **collaboration and experimentation with others to solve new problems and create sparks for future ideas**. This kind of collaboration is becoming common in space exploration, but it should equally be a model for businesses and corporate organizations. Imagining the future involves unbridled imagination, taking risks and enduring failures, and each are required to be successful, whether it's at NASA or in the financial services industry.

Augmented Human: How Technology Is Shaping the New Reality

Jitendra Waral, sector head and Internet and Consumer Electronics senior research analyst for Bloomberg Intelligence

A reality check on virtual worlds

Our virtual future is no longer a distant promise, but a rapidly growing industry. Consider Facebook's $2 billion acquisition of virtual reality headset-maker Oculus; Google's part in leading a $542 million investment in augmented reality company Magic Leap; and Microsoft's introduction of holographic experiences with HoloLens.

In his presentation, Jitendra summarized the just-released Bloomberg Intelligence Brief entitled, "A Reality Check on Virtual Worlds," and discussed how artificial intelligence, virtual reality and augmented reality will change life as we know it and how we may be living soon in a virtual—not physical—world.

Marrying the dream with reality, while the opportunities for augmented reality applications are immense, so are the infrastructural bottlenecks. Yet the speed of new technology mass adoption is increasing unabated.

Some key trends

Making sense of data. Visualizing things to better understand and grasp content more quickly—is the next big computing shift, and virtual and augmented reality technology is the springboard. It will be a medium for storytelling, education and more.

Virtual reality is a tectonic shift. In the same way that PCs were difficult to use before the graphical user interface was developed, interacting with electronic devices of the future will build on each successive breakthrough. That shift is evident when we watch infants navigate a tablet or smartphone to find the games they want to play.

It's a dynamic and rapidly growing market. Household names, including Google, Facebook, Sony, Microsoft, Intel, Samsung and Apple are among the top players. VR investment and acquisition now exceeds $7 billion.

Virtual and augmented technology will transform our experiences. Beyond entertainment, research reveals that shopping—enabling consumers to see and experience products in real size and form before they buy—is the highest priority. Sotheby's is changing the way consumers search real estate properties. And tourism and hospitality companies such as Marriott are adapting VR/AR technology to enable guests to experience travel locations and hotel rooms virtually.

Commercial applications are enormous especially in marketing, education and healthcare. Fidelity recently introduced a VR application for Oculus to show stock portfolios in 3-D. Medical applications, like the one from MindMaze for example, are helping stroke patients command a virtual hand to lift a glass. Content-driven and educational experiences will expand; children will go to school virtually in Barcelona in the morning and somewhere else in the afternoon.

Getting there from here involves an evolving ecosystem. The journey from the physical world to the virtual word will be shorter than anyone ever imagined, but bottlenecks still exist. One of the biggest challenges is creating sufficient bandwidth to be able to download all the information needed. A related challenge is subpar resolution, as we've come to demand life-like resolution on all our electronic devices. Prices will need to come down, increasing adoption, and in time, connect people across the world in a new and more intimate way than we've ever experienced.

The journey from the physical world to the virtual word will be shorter than anyone ever imagined, but bottlenecks still exist.

Designing Your Business for the 21st Century

Mike Walsh, author of the best-selling books "FUTURETAINMENT" and "The Dictionary of Dangerous Ideas," CEO of the global innovation research agency, Tomorrow

How will the next generation disrupt the future of business?

Exposure to technology has changed us and our behavior. The next generation's future expectations will be shaped not only by their mobile experience, but by the data-driven experiences of their childhood.

- If you want a glimpse into how the future is taking shape, plan a field trip to Disney World; you'll see how Disney's billion-dollar investment in MagicBand technology is raising the bar for personalized experiences and how entertainment, service and payment are seamless integrated.
- "Hello Barbie"—a Wi-Fi-connected doll with a built-in wireless chip that listens to your child and responds intelligently by analyzing data in the cloud. Parents get a weekly email that summarizes the child's conversation with the doll.

This is the future. The next generation has been exposed to a childhood of incredibly disruptive technology that has changed their expectations of how they want to be treated in the future. These changes will shape future business models, distribution methods and investor expectations.

Companies that will thrive in the future

Respond to the next generation's demands for better, faster, richer and more personalized experiences

Focus on the networks and create workspaces that connect people and teams

Stay closest to their customers

How do you design an organization that can move as fast as your clients do *and will*?

Agility has become a big theme in IT. But agility isn't just about being fast. **It's being able to respond quickly to subtle changes in the environment**. Have you ever heard of the murmuration of starlings? It's extraordinary to watch these birds move as one. Each bird isn't especially smart; but collectively they are. It's very difficult to sustain a culture of agility with hundreds or thousands of employees.

- The CEO of Netflix says that he worries most about **talent density**—that is, that the organization is growing quickly and starts to hire people that are process driven rather than performance driven. A lot hinges on the kind of people you hire.
- The head of engineering at **Airbnb** says that in hiring situations, beyond technical skill, he tries to spot people who are energized by unknowns, who get excited about solving problems.
- Today we have the technology to work from anywhere. So why is it that, rather than working from home, we go to busy, noisy and crowded office-like environments? What has Starbucks figured out that we haven't?

Human beings want to connect with other human beings. This is especially important for the next generation. **The only social networks that matter are the ones that form within your organization**. Think about building workspaces that enhance connectivity.

We also need to change the way we communicate. Can you imagine banning email at your office tomorrow?

- **The CEO of the French IT company Atos did just that in an experiment to ban internal email for the company's 80,000 employees. In its place, they started using an internal network dramatically improving communication and productivity.**

The key to building adaptive, fast-moving organizations for the future is to focus on networks that connect your people and your teams. Look for ways that technology can help you create more social workspaces, challenge the way you communicate, and look for data that allows you to hack your culture.

Where do the best ideas come from?

There's a very fine line between technology and anthropology. When we look around the world for innovation, we don't really see what's really happening.

- **People in a small village in China had been using a Haier washing machine to wash not just clothes but potatoes as well. The service technician returned to head office with the story, and Haier subsequently released a washing machine specifically capable of washing both clothes and potatoes—as well as churning butter. It's that kind of innovation that led Haier to become the number one provider of laundry equipment in China.**

The companies that survive the future aren't the ones with the biggest technology investments. **They're the ones that stay closest to their customers**. And that's difficult if you don't have a relationship with your end customer. If you distribute your product through third-party distributors, you need to start getting closer to understand the needs and the requirements of your end customers, even the ones that cause you the most problems.

Questions to share with your teams to prompt further discussion

1. Next time you hire someone fresh out of college—and before they become indoctrinated in your company's culture—ask them what they find most strange about the way your teams work, make decisions and communicate? And ask yourself, who has a finger on the pulse of the future—you or them?
2. How do your most productive, networked and innovative co-workers actually get stuff done? Do they follow rules and procedures, or do they routinely break them?
3. If Amazon or Facebook decided to enter financial services, how would their design of the customer experience potentially disrupt the traditional asset management model?
4. In the future, what kinds of roles will automation, AI and algorithms take over in your team, and what will be the human capabilities most in demand?

What will it take to be a data-driven leader in the future?

The key challenge for leaders in the 21st century will be reinventing themselves to manage in an environment of artificial intelligence (AI), automation and real-time data.

- **A marketing promotion last year for the movie Ex Machina was launched at the SXSW (South by Southwest) Conferences, where young nerds converge to experience music, film and emerging technologies. In a Turing test, of sorts, the marketers were able to trick hundreds of conference attendees via the Tinder app—an online dating site for young people looking to hook up—that Ava wanted to meet them. Ava, as it turns out, was an AI chatbot—and a character in the new film.**
- **20 million teenagers wake up every morning in China and the first person they speak to is not a human being. Xiaoice—which loosely translates to "Little Bing"—is an AI program designed by Microsoft to simulate a human being that engages in conversation and becomes more like a human being every day.**
- **It's also coming to the enterprise. Amelia is the new call center replacement; she's an expert system based on decision-tree responses. If you have an issue she can't answer from her knowledge base, she'll escalate it to a human being. But after that, she learns how those issues are resolved and next time knows exactly what to do—not unlike the science-fiction movie "Her."**

It's not that machines are intelligent—the question is what will human intelligence look like in the 21st century? To thrive, businesses will have to do three things:

1. Identify what data in our ever-complex organizations really matters and transform our businesses to be data driven
2. Simplify and communicate complexity
3. Use data to kill our sacred cows—data, rather than beliefs, should drive our decision-making.

So think big, think new and most important—think quickly.

Sandra Pinnavaia

Patti Ippoliti

Paige Scott

Talent Management and the Future of Work

Moderator: Sandra Pinnavaia, EVP, chief knowledge and innovation officer, Business Talent Group

Panelists: Dr. Patti Ippoliti, consultant and professor, Rutgers Business School; Paige Scott, head of the North American Asset Management Practice, Sheffield Haworth

The talent landscape

- By age 50, Americans have held an average of 11 jobs
- Average length of employee-employer relationships: 4 years
- 38% of millennials today are looking for a different role
- 2015 was a watershed year: generational mix of workforce split equally among baby boomers, Gen X and millennial workers. Millennials will tip the scale in next four years and be the overwhelming majority
- 25% of boomers say they will never retire
- 40% of U.S. workforce will have worked independently by 2020; those earning $100,000-plus annually is the fastest growing segment
- More millennials would like to work from home; two-thirds would like to shift work hours

Employers face new challenges

- Only 7% of senior managers believe they have enough talent to pursue all or most of their promising opportunities
- 75% of companies say they need on-demand access to different skills
- Global shortfall of 38 to 40 million high-skilled workers by 2020

The generational marketplace

Generation/Cohort	Born	Population
Baby Boomers	1946–1963	80 million
Generation X	1964–1980	40 million
Millennials or Generation Y	After 1981	86 million

Baby Boomers: Firms have not systematically planned for their exit; they will retire with tremendous intellectual capital and valuable business relationships. To be successful, firms must actively plan to transfer knowledge to other generations.

Gen Xers: Entered the labor force in the 1990s, when the economy was strong, technology was exploding. This group has a different set of values that have to be factored into recruiting/retention strategies. They embrace change in the workplace, are career-oriented but strive for a good work/life balance. They enjoy freedom and autonomy.

Gen Y/Millennials: Entered very different job market in the 21st century; many have staggering debt and it isn't uncommon for them to move back home. More Gen Ys are entering the workforce than there are boomers leaving. Their demands are different, they want:

- **Challenging work assignments**: They're smart, tech-savvy, they want to learn and show value—give them something they can work on independently.
- **Flexible work time**: Firms need to look at how, where and even when work gets done; for example, as young parents, they may be more effective working late at night from home, and may be more loyal to employers that accommodate their work/life balance.
- **Development**: Peers are developing other peers, rather than relying on the typical older mentorship programs common in organizations. Gen Y will go to boomers for mentoring just 52% of the time; 48% say that they don't and prefer to go to their peers. This is the generation that got rewarded for showing up (every kid gets a trophy for playing). Now when they arrive in the workplace, they expect rewards—firms need to shift the focus from effort to results.
- **College debt**: Younger generations have accumulated large debts. One-third is not contributing to 401(k) plans. Look for ways to motivate and opportunities to relieve the debt burden (e.g., offer to pay down a portion of their student debt for every year they remain at the firm).
- **Community and sense of purpose**: This group wants to be a part of a community where they can innovate and share like values with others. Encourage those communities within your organization. The firm's culture and value system must align with their own

Retaining talent

- **Different metrics for motivating generations**: Money isn't always the best motivator. Consider this sales contest experiment at a tech startup: The head of Sales, a baby boomer, suggested offering a generous cash bonus to the winner of a sales contest, but was also asked to offer something different. The winner could choose between $5,000 or the chance to test-drive a Ferrari for a day. The contest produced significantly higher-than-expected results. The winner wasn't as interested in driving the car (he'd only added 20 miles to the odometer) as he was driving around and taking photos of himself in the car, and then posting the photos on social media.
- **Empower younger employees**: Encourage different types of multigeneration teams with different skillsets to work together. Involve peers in the recruiting and onboarding process. Rather than fixating on integrating younger employees into your culture, empower them to take on new challenges. Asset managers are becoming more innovative and productive with career pathing and providing people with those opportunities and experiences.
- **Embrace diversity—Step back from your biases**: Diversity is not just about race, sex or creed, but rather ideas. We all talk about it, but few companies are doing it well (Note: successful companies are). Approach generations differently. For example, in reviewing resumes, you may have an aversion to job hoppers—get over it, you're going to see more of that.
- **Create psychological safety**: Career pathing, learning and recognition; younger employees need incremental and more frequent promotions and constant recognition.
- **Capitalize on technology**: Take advantage of teleprescence and virtual reality tools for employees working from home and to connect teams in multiple locations.

Nonpermanent employees

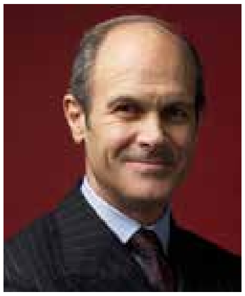
Choose to be a disruptor or be disrupted: The trend to hire more nonpermanent employees is here to stay. The part-time/independent talent segment is growing by using technology to work beyond the traditional office. While technology will continue to change the way we work, talent is the real differentiator.

- Buying or renting talent should be an ongoing resource allocation question. It is, however, a very different kind of workforce to hire, train, develop and manage, not to mention integrating them into your firm's unique culture.
- Big pharma is adapting faster than the financial industry. Operational change situations are ideal for the independent professional as they often have the experience, skill and time to drive projects.
- Asset managers are getting creative with nonpermanent talent in select areas, especially technology and strategic marketing project-oriented assignments. Firms need to better integrate consulting expertise and navigate regulatory and compliance aspects.

Choose to be a **disruptor**
or be **disrupted**

Final words of advice

- Empower the younger generations.
  Truly embrace diversity. Be nimble. Flatten and simplify your organization chart.
- Provide millennials with assignments that are more challenging with opportunities for development by having them work with baby boomers to transfer knowledge on the business, products, relationships, etc.
- Leverage the technology and talent dynamic. Instill a culture to drive high performance (not just effort) and distinction with your clients.
- Pick a new denominator. Hours worked per week has defined us for years; think about changing the denominator—it will change the way you solve problems.
- Projectize your work. It will create new solutions for how you work and who you work with.



Humans Are Underrated

Geoff Colvin, senior editor-at-large, *FORTUNE* magazine

Three recent headlines set the stage

- "*The Robots are coming to Wall Street*," from the *New York Times Magazine*. Within a decade, one-third to one-half of current employees in finance will lose their jobs to automated software, and sophisticated interfaces will soon mean clients will no longer feel they need or even want to work through a human being. **The takeaway: Computers may indeed replace humans**.
- "*Abandon Abercrombie While You Can*," from *Seeking Alpha*. A CEO's worst nightmare come true is when he announces his resignation, with no successor named, and the stock price goes up. That's what happened at Abercrombie; shares jumped 8% to $28.46 after the move was announced, marking the biggest one-day gain in more than nine months.[1] **The takeaway: Human capital is more important than ever and can be measured in dollars**.
- "*I Put Myself on 'Candy Crush Saga' Probation*," from the *Washington Post*. Candy Crush was the most downloaded game in 2014 and 2015. The idea is to get to higher, successively harder levels. That's the business model, and people were spending $2.3 million a day buying with real money extra lives and levels that have no meaning outside the confines of the game. Last year, the company that makes Candy Crush did an IPO and was sold for $5.3 billion. **The takeaway: Innovative business models, no matter how ludicrous or nonsensical, can work**.

Today's economic environment is forcing us to confront four big issues

1. How will companies create value in an increasingly capital-light economy?

- The overarching trend is that the economy is becoming human-friction free.
- Information, money and even labor move easily, cheaply and very quickly, almost instantly.
- Disruptive models are being formed every day with very little capital by companies that are creating new and innovative business models that are defining success and creating value in new ways.

2. How are companies using their most valuable asset to create a great customer experience?

- **Why didn't Sony invent the iPod?** They should have: they were 20 times bigger than Apple, they owned a computer company, they knew everything about making beautiful sound, they owned a record company, and even invented the concept of carrying your music with you (the Walkman). But they didn't have Steve Jobs, who served as Apple's chief integrator. After trying to compete with Apple for six-and-a-half years, Sony pulled the plug on its Sony Connect project. Being unable to get its disparate units to work together, Sony was turned upside down by disruptive technology, unforeseen rivals and lack of teamwork.
- Human capital is THE most valuable asset in any company. The most successful companies in the 21st century are creating new and completely different models of employment.

[1] http://www.bloomberg.com/news/articles/2014-12-09abercrombie-fitch-ceo-mike-jeffries-to-step-down-immediately

Opportunity is more available to us in a friction-free, capital-light economy. It takes courage to adapt today but even in this highly uncertain environment, someone will win—it might as well be you.

3. How can companies succeed in a winner-take-all dynamic?

- Apple and Samsung are the best examples. Combined, they earned 105% of all industry profits last quarter.
- In what McKinsey calls idea-intensive sectors, profits are shifting from heavy industry to idea-intensive sectors that revolve around R&D, software and algorithms.
- A few winners are going to make most of the profit and the competition will get brutal among everyone else to fight for what's left.
- Two models are redefining success as winner-take-all dynamic continues

  - **Model A**: companies are willing to sacrifice profits for growth

  - **Model B**: companies will sacrifice profits for growth and can convince the market they will build long-term value by investing in the company (think Amazon)

4. What is the role for people as technology advances?

- Arguably this is the most profound issue. Examples are no longer theoretical. Autonomous surgical robots in production will replace highly educated, experienced and compensated human beings before long—and patients will demand the robot surgeon because it will be better. Similarly in law, computers are replacing human lawyers in the discovery process. Software can read hundreds of thousands of documents without getting tired or distracted and can sort them for relevance. It's not just faster and cheaper, it's better than human lawyering.
- Humans will add value as we always have: through the skills of deep human interaction—managing relationships that can only exist between two human beings.

What are the skills that will be most valuable in the new economy?

- **Empathy**: It's not just feeling someone else's pain. It means being able to discern what another human being is feeling and respond in some appropriate way. That's the foundation of everything else. Technology hasn't been able to replicate this.
- **Creative problem solving together**: Most of the problems we have to deal with in our companies are too hard for any one person to solve. What makes teams most effective isn't the motivation, cohesion or IQ of the team members. The deciding factor in determining a team's effectiveness is the level of social sensitivity of the team members—that is, the ability to read one another. Team effectiveness is getting a lot of ideas on the table and being able to reach consensus—with no one dominating the conversation.
- **Storytelling**: Historically, companies have valued numbers, charts and graphs, not storytelling. However, rational analysis of data is what technology is good at and is getting better at every day, but it's not going to distinguish great human beings. Storytelling is different. If you want to change somebody's mind or motivate them to act, tell them a story.

On average, women are better than men at the skills of deep human interaction, but these skills can be trained and developed. We are hardwired for deep human interaction. There's a certain magic that takes place between people only in person and face to face; lots of things happen beyond our consciousness. We'll continue to add value, but we'll do it in a way that's fundamentally different from the skills that were economically valuable in the past.

In the same way a great camera on a phone doesn't make a person a great photographer, technology didn't land a human on the moon; some very creative people working in collaboration did. We human beings will innovate and use ever-improving technology to solve our most pressing challenges.

EXPLORE MORE:

Have everyone on your team take these online tests and engage them in conversation

Reading the mind in the eyes: The ability to read the emotions of others is linked to "social intelligence" which, in turn, is linked to performance on team-based, problem-solving tasks. Test how well you can read emotions of others just by looking at their eyes at **http://socialintelligence.labinthewild.org/**

Robo Economy Quiz: 20 simple questions determine if you're more valuable than a robot. Test yourself at **http://geoffcolvin.com/roboeconomyquiz**

Philip Masterson

Robert Drake

Maya Rodriguez

Distribution Opportunities and Challenges in the European Marketplace

Moderator: Philip Masterson, SEI

Panelists: Robert Drake, managing director, Bury Street Capital; Maya Rodriguez, managing partner, AZR Capital Limited

What's attractive about the European UCITS market for U.S. managers?

U.S. managers are looking to Europe for growth for several reasons:

- U.S. foundations and endowments have been steered by consultants, restricting broader access.
- The U.S. defined contribution (DC) segment is expensive and time-consuming to access.
- DC platforms favor multiproduct managers making it difficult for single-strategy, capacity-strained managers.
- The UCITS market is less competitive than the U.S. mutual fund market—U.S. equity managers, for example, are a small subset of the UCITS market. It's a rapidly growing market with an evolving, not rigid, distribution infrastructure. The greatest growth opportunity in 2016 and beyond is currently in alternative UCITS products (Liquid Alts).
- There is a higher fee potential: Management fees for capacity constrained strategies can be higher while performance fees can be charged in the liquid alts market. For example, in 2014, a mid-cap long-only manager Bury Street represented launched a fund with a 1.25% management fee. Although there are exceptions, the bulk of UCITS funds distributed in Europe are long-only funds that don't charge performance fees.

How have investors embraced U.S. managers?

The climate is very positive for U.S. managers seeking access to European markets. On the private-fund side, there has been strong demand for private equity, private debt, real estate and infrastructure managers in particular.

Real assets have become an ever more important part of sophisticated investors' portfolios both for their strong returns and inflation-hedging characteristics. As an example, in 2013 the U.K. government increased to 30% the limit for councils to invest in partnerships; and therefore, the scope to allocate further to private funds has increased.

2015 proved challenging for hedge funds. However, if they continue to show performance in times where markets are struggling; therefore, demonstrating real additional value in investors' portfolios, interest from EU investors will pick up and assets are likely to follow.

According to a survey in the *Financial Times*, European investors' assets are stickier, with average holding periods of five years versus three years for U.S. investors—a meaningful way to stabilize your asset base. Therefore, if a manager has a unique strategy that could add value with a demonstrable track record, then Europe is still a very exciting place to raise AUM.

In the MENA region, the decline in AUM will not be as bad as originally thought. There are two fundamental reasons why mid to large U.S. managers ($1 billion-plus in assets) should remain optimistic:

1. There are still a substantial number of institutions and business that are well funded and less linked to the oil price.
2. There have been structural and high-level leadership changes in the MENA region that could open up to new ways of thinking—and new opportunities. But be prepared for very aggressive pricing pressure, and keep in mind that the sales approach is very much trust- and relationship-oriented.

Sizing the market

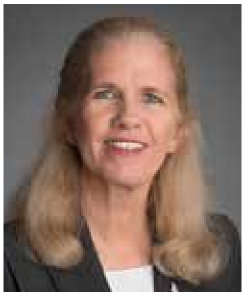
With about $7 trillion in assets, the European UCITS market is about half the size of the U.S. mutual fund market. Asset classes are roughly divided one-third in long-only equities, one-third in long-only fixed income, and one-third in “other” assets, including alternative UCITS strategies.

- **The largest category outside of long-only equity and fixed income is traditional balanced funds.**
- **Long-only equity and long-only fixed income were flat in the last 12 months and U.S. equities hit hardest with $25 billion in outflows in 2015, compared to $40 billion of inflows in 2013–2014; money is currently flowing to European equities.**
- **UCITS investors are essentially long-only public fund investors. The most important characteristics for them in liquid alts are plain vanilla strategies (long/short with a long bias) with liquidity.**
- **Liquid alts UCITS represent a significant opportunity as investor appetite for absolute return-oriented products is growing. The asset class compounded growth rate was 30% over the last three to four years and it’s seen as a long-term trend.**
- **Popularization of hedge fund strategies within UCITS guidelines has kick-started the hedge fund market in the post-crisis era. After a run in long-only strategies, investors are now concerned about their beta exposure, which is driving demand for alternatives.**

Challenges, opportunities and critical success factors

While performance remains a key factor, training and investor education is essential. Investors are seeking more control, lower fees, liquidity and, above all, protection of their assets (volatility minimization is increasingly important).

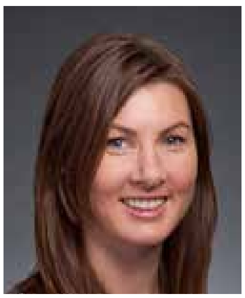
- **It’s important that managers have a strong track record and are able to show that the investment process is consistent and repeatable. Managers must be able to effectively express what they do and clearly articulate their unique selling proposition. Managers need to be able to communicate their competitive advantages through examples and stories, and show that they are providing solutions. Bridgewater has taken a leadership role in this area.**
- **Successful managers are also good sales people, connecting well with investors and willing to take feedback. By doing so, they are better able to negotiate fees. Currently, the key markets for distribution remain in the U.K. and Switzerland. In the Nordic countries, the most significant opportunities lay in Finland followed by Sweden and then Denmark. Mid-sized pension funds in the Nordic countries extensively use alternative consultants for their fund selection. In Germany, the number of public pension funds investing in hedge funds has decreased, but the size of the overall allocation in the asset class has increased.**
- **The main growth opportunity in liquid alts UCITS are multi-strategy, long/short equities and fixed income (with a long bias) and market neutral and other fixed-income substitutes that offer uncorrelated returns from straightforward fixed-income and equity strategies.**
- **The most critical success factor is to have a tailwind of success and seeding is essential to win institutional pension funding allocations. U.S. managers are discouraged from trying to launch U.S. equity strategies in the current environment.**



Sarah Holden

The U.S. Retirement Marketplace: Trends, Developments, Innovations and Opportunities

Sarah Holden, senior director, Retirement and Investor Research, Investment Company Institute; Bridget Bearden, former director of Retirement Research, Strategic Insight



Bridget Bearden

The big picture

Household financial assets:	$68.9 trillion
Earmarked for retirement:	$23.5 trillion
Mutual funds in retirement accounts:	$6.9 trillion

Generational differences

- Mutual fund ownership greatest among baby boomer and Generation X cohorts
- One-third of millennials already own mutual funds—and bought them at a much younger age than prior generations
- Baby boomers constitute the core of the mutual fund shareholder households

IRA and DC plan investing

Market size

Total IRA assets: $7.3 trillion

- IRAs have grown in importance for U.S. retirement-focused investors
- 80% held through financial institutions; one-third buy direct

Total DC plan assets: $6.5 trillion

- Projected to reach $9 trillion by 2020
- Highly concentrated market; Plans >$50 million in assets represent more than three-quarters (77%) of total DC assets, but less than 2% of of DC plans
- Most (69%) assets held in 401(k) plans
- Mutual funds account for more than half (56%) of all DC assets, but Collective Investment Trusts (CITs). CITs are $1.4 trillion and growing. Expected to reach $2 trillion by 2020
- Defined Contribution Investment Only (DCIO) accounts for majority of DC assets (DCIO = only assets managed by investment managers that are not affiliated with a recordkeeping platform; also called nonproprietary)

Why funds dominate in DC plans

- Transparency
- Multiple share classes
  - "0/0" share classes (no 12b-1 fees, no revenue sharing) account for ~8% of DC mutual fund assets; other R-shares are another 15%
  - For DCIO managers, while there's growth in these share classes, the majority of DC mutual fund assets are traditional share classes (A, C and Institutional Share classes)

Recordkeepers

- Proprietary fund use varies with 401(k) plan size
- Larger plans are more likely to use asset managers for recordkeeping
- Recordkeepers lead DC mutual funds asset share but DCIOs lead CIT asset share
- Recordkeepers can achieve scale quickly among smaller plans, which are more profitable
- More open architecture (by way of multi-manager solutions) among DCIO managers

Plan sponsors (Turnover, Competition is robust)

Plan sponsors select the investment choices; constantly review the plan line-up;

- 52% of plans have replaced a fund within the last year
- Average number of plan investment choices: 27
- Domestic and international equity investment choices most common, including passive and active styles; the larger the DC plan—the great number of investment vehicles
- Three-fourths of plans include target-date funds (TDFs) in their lineup
- International bond funds less common, may be a growth opportunity for fund managers

Sponsors also choose the investment vehicle

- Small plans use more mutual funds
- Large plans use CITs

Plan participants (Better diversified, Trends in how the money is allocated)

- Company stock declining as a percentage of participant accounts shows how the market has changed—participants are getter better at diversification; regulatory changes since Enron have helped
- Equity funds still the largest share among participants, but recently have lost share to target-date strategies
  - Target-date assets have grown to $1.3 trillion as of June 30, 2015 (across all vehicles)
  - TDFs growing in popularity due to 1) recognition that not everyone is a "do-it-yourself" investor; 2) common default option chosen by a plan fiduciary for participants who fail to make an election regarding investment of their account balances
  - TDFs dominate DC mutual fund net flows; Vanguard leads target-date mutual fund and target-date CIT assets

Plan fees (Plan fees have fallen over time)

- The fees that equity mutual fund investors pay have fallen from 99 basis points in 2000 to 70 basis points in 2014
- Retail investors and 401(k) plan participants are fee-conscious; tend to concentrate their holdings in lower-cost assets

Product packaging and demand (Target-date products)

- Exchange-traded funds (ETFs) growing in popularity (in reference to the market overall, not specifically the DC market)
- Increasing use of index funds bond and international equity funds led the fourth quarter 2015 DC mutual fund flows
- Both active and passive domestic equity DC mutual funds suffered outflows in the last two quarters (3Q15 and 4Q15)
- Innovation: many claim their platforms are open architecture, but proprietary funds often form the core; only 16% of such funds' assets are managed by unaffiliated managers
- Tactical management; alternatives; blends of active and passive styles
- Approximately 11 TDFs offer exposure to alternatives; average exposure in target-date mutual funds = 6.2%; managed futures, long/short

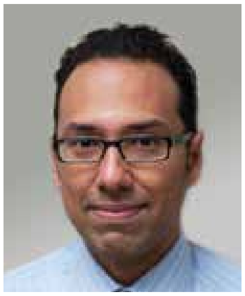
Innovation/disruption (Target-date products)

- Liquid alternatives account for roughly $230 billion across 20-plus classifications as well as global unconstrained funds; approximately 70 new fund launches in 2015 attracted nearly $3 billion in assets
- CIT growth will be robust; and "0/0" R-shares expected to grow
- Growth expected to continue in TDFs; will feature open architecture and active/passive blend
- Quite a bit of innovation, but not adoption yet, among lifetime income products
- Fiduciary ruling will impact DC and IRA business
- State-sponsored retirement plans—Washington and Illinois both approved legislation for private sector employees
- myRA—no real traction yet with the Treasury Department's retirement savings alternative that offers individuals no costs or fees; no minimum balance or contribution requirements; and no risk of losing money as investments consist of U.S. government securities

The Coming of Age of ESG

Moderator: Jag Alexeyev, Impactvesting

Panelists: Jim Dunn, CEO and CIO, Verger Capital Management; Mark Wood, vice president, Global Manager Research, Callan Associates; Carol Jeppesen, senior U.S. Network manager, Principles for Responsible Investment



Jag Alexeyev

Jim Dunn

Mark Wood

Carol Jeppesen

Overview

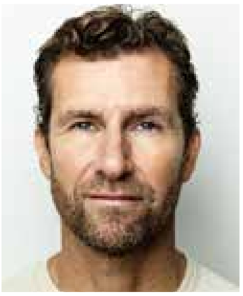
Environmental, social and governance (ESG) investing is finally gaining traction globally and has moved well beyond the niche position it occupied 10 years ago. Even still, the conversation often turns to the myth that one has to be willing to give up returns to have a positive impact. Worldwide ESG investing more than doubled from $8 trillion in assets in 2012 to more than $20 trillion in 2014. In the U.S. alone, investment during the period grew more than 75% and today represents upwards of $7 trillion in assets. ESG will be so integrated into the investment process of the future that we no longer will have to define it for investors.

Factors driving growth

- **ESG becoming mainstream**
  - Investors are increasingly recognizing the importance of ESG and are applying principles to inform the entire investment process
  - Client demand is a key factor; CalPERS, for example, asks external managers to articulate and implement ESG strategies in their investment processes
- **ESG investing is no longer the domain of socially responsible boutiques; large asset managers are participating in a big way**
  - 100% of Janus Funds now incorporate ESG screens
  - BlackRock manages more than $225 billion in values-based assets and launched three Impact Funds in 2015
- **Increasing transparency and data along with growing understanding of financial materiality of ESG risks**
- **Changing values and demographics**
  - Millennial generation seeks investments that have a positive ESG impact
  - Changing the "responsible" narrative from the old socially responsible label to sustainable investing increasingly resonates with retail investors
- **Real and rising concerns about carbon risk**
  - 2015 Paris Agreement raised awareness and magnified the transition risk related to climate change
  - Citi estimates $100 trillion in stranded assets
  - Mercer research estimates a potential 82 basis point reduction in annual returns for developed equity markets owing to climate change risk over the next decade

ESG challenges and opportunities

- **Dispel the return trade-off misperception:** Growing evidence—from both academic and industry practitioner research—strongly suggests that integrating ESG factors into the investment analysis and decision-making process may offer investors potential long-term performance advantages.
  - ESG integration can help manage risk, potentially lead to better returns and better align investor behavior with broader societal objectives.
  - High ESG performers exhibit lower earnings volatility.
  - Research shows companies reducing their carbon intensity perform better.
- **Dramatically improve disclosure standards:** The absence of universal disclosure standards remains a challenge for asset managers. In order to make more informed decisions, the industry needs reliable, comparable data to assess how individual companies are adapting to sustainability issues. Without it, it's extremely difficult to have assurance that statistics reported at one company are being calculated similarly at comparable companies.
  - Sustainability Accounting Standards Board (SASB), a nonprofit organization, is working to develop standards to help public corporations disclose material information to investors.
- **Increase enforceability**: Sustainability records are mostly voluntary, hard to measure and even harder to verify. The lack of enforceability makes investment selection more challenging. In this regard, the U.S. lags other parts of the world—especially Europe and Australia.
- **Scrutinize sustainability indices**: It's incumbent on investors to consider some of the biases and judgements inherent in sustainability indices and to understand how MSCI or Sustainalytics weighs certain factors. Until we have mandatory disclosure using clear performance standards, it will be difficult for investors to make truly informed decisions.
- **Enhance integration:** Investment managers continue to struggle with how best to incorporate ESG factors into their portfolio processes.
  - There's a growing appetite for insight into what ESG investing means, how it's reported and what computer analytics to use within the investment screening processes.
  - The specific ESG factors that drive the performance of one company will be different to those that are relevant for another company.
  - Need to establish the link between ESG factors and financial materiality.
- **Bridge the language barrier:** The depth and breadth of ESG factors are not fully integrated into financial valuation models because company sustainability managers and asset managers do not speak the same language regarding ESG factors. The lack of common agreement about terminology or metrics remains a critical obstacle.
- **Clarity:** In recent Callan investor and client surveys
  - Only 29% of respondents have incorporated ESG into their policies.
  - The biggest barrier for the 71% that have not is that they are unclear about the value proposition of ESG investing. There's a lot of research in the marketplace, but it's not clearly communicated at the plan-sponsor level.
- **Most pressing ESG factors:** Lacking specific information on how this issue can impact financial outcomes creates uncertainty, resulting ultimately in inaction.
  - Climate change is one of the most compelling factors, yet many investors are stymied by the size and complexity the issue. The Montreal Pledge is an important investor initiative that calls for investors to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis. The technological and societal changes needed to address current global challenges such as climate change.
  - Other high-profile ESG priorities include global population growth, water scarcity, workforce inequality, and manufacturing and supply chain risks. These issues are becoming more urgent, more politicized and will require more resources sooner than previously expected.
- **Divestment vs. activism:** Avoiding high profile ESG risks can be more consequential than poor performance. More conversation is needed about the advantages and disadvantages of divestment versus activism with regard to sustainable practices. If you're trying to have an impact, think about whether you're better off divesting or staying invested and vote your proxies.



Life, Business and the Power of Optimism

Bert Jacobs, cofounder and chief executive optimist of the Life is Good® company

From adversity to optimism. A near-death car accident was an inflection point that upset the harmony in the Jacobs family's Boston household. Their mother suffered a few broken bones, but their father spent nearly a year in the hospital recuperating and never regained use of his right arm. An avid outdoorsman and machinist, he was now challenged to provide for his six kids; life as they'd known it had changed forever. Yet, their mother showed the family how to change the energy in their house, initiating a ritual around the dinner table asking each of the children to share something good that had happened. She was the inspiration for a nine-figure T-shirt business.

Life is Good® started from a simple idea in the late 1980s with a stick-figure named "Jake" and a simple message of optimism. Brothers Bert and John Jacobs hit the streets with $78 dollars in their pockets and 48 T-shirts, and for the next five years slept in their soccer-mom van, ate peanut butter and jelly sandwiches, and sold T-shirts at festivals and in college dorms along the East Coast.

Listening to their clients. Early on, a retail shop owner sold out of her first order, two dozen T-shirts. She explained that her shop was next to an ice cream shop and wondered if Jake ate ice cream. They saw an opportunity and created a shirt for her with Jake claiming *Life is good when you eat ice cream*. When her sister-in-law called and said she'd like to sell some shirts too, she asked "does Jake ride a bike?" He does now, they told her. Soon, their simple messages were making emotional connections—people started conversations with them that inspired new design ideas.

A brand's halo effect. People saw other people wearing their shirts and asked, "hey, where did you get that?" With no advertising and no sales department, they ran their small business without a lot of sophistication, yet it was doubling every year. They started getting letters and photographs of people wearing their merchandise, celebrating simple things or confronting adversity. The brothers shared them with employees and read them at staff meetings as a reminder of the way the brand connects emotionally to its customers.

A hybrid for-profit, nonprofit business model. The stories about kids overcoming adversity inspired the brothers to create the **Life is Good Kids Foundation**. The goal of the Life is Good firm is to make a profit, but because of that, they then donate 10% of the company's profits to support its mission to make a difference in the lives of the most vulnerable children. In 2000, they organized a pumpkin festival to raise money for children's charities. The festival became an annual event, and in 2006, attendees set a Guinness World Record for the most carved jack o'lanterns (31,000) and raised more than $500,000.

Connecting emotionally. Today, 26 years later, the company is a $100 million enterprise and its merchandise is sold through thousands of stores all over the world. In essence, the brothers have commercialized their values. By listening to their clients and building a community around their experience they've created a lifestyle brand about optimism that now boasts more than 2.5 million Facebook followers and more than 253,000 Twitter followers.

While the media inundates us constantly with negative news, reminding us what's wrong with the world, Bert and his brother created a rallying cry for optimism. In the end, they simply reproduced what their customers had taught them about compassion, courage and gratitude. Those human values—along with humor, authenticity, fun, creativity, openness, simplicity and love—never go out of fashion. The brothers call them "superpowers," and they use them to spread the power of optimism while transforming their humble T-shirt company into a commercial and philanthropic success.

Human values—along with humor, authenticity, fun, creativity, openness, simplicity and love—**never go out of fashion**

Corporate Headquarters—United States
1 Freedom Valley Drive
P.O. Box 1100
Oaks, PA 19456
+1 610 676 1270
managerservices@seic.com
seic.com/ims

New York City
777 Third Avenue, 26th Floor
New York, NY 10017
+1 212 336 5300

United Kingdom
1st Floor
Alphabeta
14-18 Finsbury Square
London EC2A 1BR
+44 (0)20 3810 7570

Ireland
Styne House
Upper Hatch Street
Dublin 2
Ireland

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