

## Defining Moments – Exploring the Future Investment Landscape



THE PACE of change in the investment industry is rolling ahead more rapidly than ever before and with such confusion that it is critical to keep in mind this big picture:

- that the pensions industry has a critical core purpose: turning today's workplace savings into tomorrow's retirement income.
- that sovereign funds will play an increasing part in this global industry, not to forget the forces of endowments and philanthropy.

But success of this big picture is challenged because:

- the investment management value proposition carries too much cost for the value it delivers
- there is very little "long-termism"
- we are still crisis-prone because of excess complexity alongside poorly structured incentives.

New, ground-breaking research from Watson Wyatt has drawn from interviews with industry leaders, an expert opinion survey, conducted in conjunction with the Financial Times, and Watson Wyatt original research.

The goal of this research is to drill deeply into the many evolving forces in the pensions and investment industry and present a plausible picture of its future landscape.

Our research identifies four defining moments These are catalysts for change in the system – slow to start but with big impact:

Preference for absolute returns	Relative return approaches losing favour since the 2003 end of our last bear market
New governance model thinking	Starting with Philips pension fund's move in 2005 to fiduciary management
New paradigm/framing of 'risk'	The credit crunch in 2007 is precipitating major changes in how risk is seen
New regulation of markets/firms	Significant new regulation (2009?) – the 'Sarbanes-Oxley' of the financial industry

These are the changes that we expect:

Near-term factors	Long-term factors
Pressure for and on talent	Better multi-period design – new measures of success
Improvements in governance	Better DC
Product proliferation	New investment food chain
Extra-financial factors	Investment content innovation
DC and pension design	Crisis contagion
Organisational change	New players and new order

To request a copy of Defining moments, please order online at [watsonwyatt.com/moments](http://watsonwyatt.com/moments).

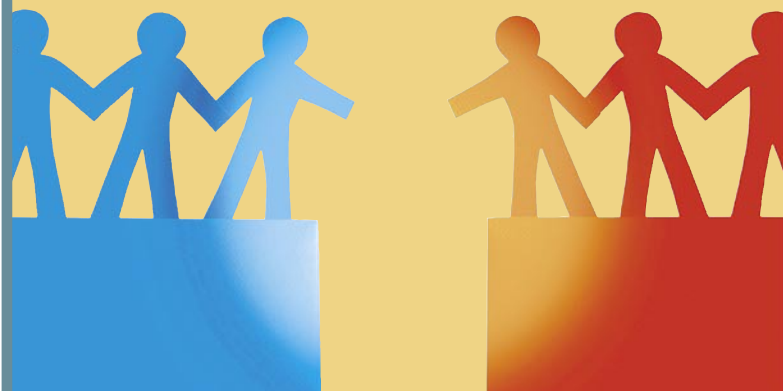
## GREATER CHINA FLASH

### Companies adjusting to new severance payment requirements

CHINA'S NEW Labor Contract Law, tightened requirements for severance payments. Although the law is still new, companies need to be on the lookout for potential financial implications, as a recent Watson Wyatt case study points out.

#### Key Details

The main emphasis of the Labor Contract law, which the National People's Congress passed in June 2007, is to protect employees' interests and standardize employer rules by expressly putting in place the rights and obligations of both parties. As part of this law, severance payments are mandatory under involuntary terminations and when a fixed-term contract is not renewed or if less favorable terms are offered and consequently rejected by the employee.



#### Background

The new law could have a number of consequences for employers. For instance, a large global company listed on the NASDAQ discovered that the severance provisions of the new law led to a liability of nearly USD 2 million, based on the annual involuntary termination rate expected by the company.

The company has approximately 6,000 employees in China. Although slightly more than half are seconded through labor agencies, the company is liable for the potential future severance payments for the remaining employees, whose employment contracts are directly signed with the company.

Following an actuarial valuation, the company discovered its new liability, which it viewed as financially significant and, to some extent, unexpected. Since the company's severance payments are capped and its population is young, with short service and relatively low salaries, the company had not expected a large liability.

This company's experience points out how the new requirements could cause some unpleasant surprises and could potentially impact budgets, business strategies and the pricing of M&A deals. As a result, companies should analyze the potential effects on their business and determine the materiality of the liability. This will be necessary to comply with financial reporting requirements and to plan for the future.

# speedread

## Creative Leadership

By Dr. Hans Kothuis, Director,  
Executive Compensation Asia Pacific

ALL LEADERS want change. But only some leaders are creators. There are two types of leaders: creative leaders and those who lead by critique. Organizations - from the smallest team to the largest institution—need creative leaders.

“Creativity” is the most important competency of executive leadership. Watson Wyatt’s competency model lists “creativity” as the first of three executive competencies, together with “judgment” and the “ability of leading through others.” (see Figure, right).

### The Creative Leader

A creative leader is one who has the will to create and construct something. He speaks of his dreams, his visions, his objectives, the programs he is pursuing, and the tools he is harnessing to reach his burning goals. Such a leader exudes enthusiasm.

His enthusiasm is so contagious that he leads because others share in his own enthusiasm. For sure, the creative leader does give orders and commands, but not for the sake of obtaining blind adherence, but rather to get the assent to build something jointly. His primary responsibility is to constantly protect the vision, the objectives and the dreams.

The creative business leader, the architect of lasting institutions, shows a willingness to accept imperfections and to tolerate the blemishes that exist in any organization. He realizes that if he were to start down the path of trying to condemn and eliminate all that is wrong in his organization, he would run out of time. Instead, the creative leader toils on, constructing and dreaming up new ways of doing things. He is content with small and incremental successes, and then quickly moves on from one small success to another. He is an architect, one who builds and constructs, even though imperfectly.

### Leading by Critique

But there are other leaders who don’t articulate dreams. All they have are exhaustive lists: detailed records of the imperfections, the debates and internal clashes that require fixing and sorting out. They are leading by critique, analysis, censure and criticism. They divide the tasks of fixing things to endless teams and sub-teams, but fail to create shared aims and unity. Organizations and the units within them, led by leaders of critique, are always “at war.”

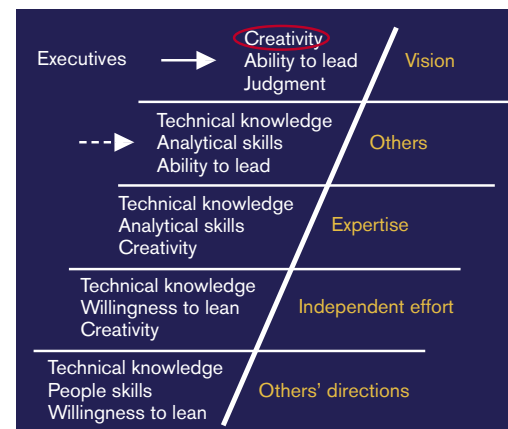
Leaders by censure and critique have a will to pass verdicts, not a will to build, although they do not realize this. They want to dominate, not create something new. This leadership “by critique” can in fact be very common. Such leaders are quite often well-liked, and may command a large following as there is always popular discontent and something to gripe about. They may even meet tremendous success, at least initially. Everyone rallies behind such a leader who appears to be cleaning up the mess.

But, such ‘leaders’ are not really building things, not even incrementally. In fact they don’t really want to build anything at all. What is worse they have completely lost sight of the organization’s “reason for existence.” All their energy is spent on “fixing things” with no power left for creating. They are busy “purifying”, blotting out the blemishes and “ironing out the wrinkles”. They constantly see things that are wrong and require fixing, but they will never finish their task.

### Organizations Need Creative Leaders

Business is ultimately about constructing something. Its leaders are architects of organizations. They don’t have time for criticizing because they are too busy constructing, building and re-building. They don’t pay too much attention to the inevitable imperfections, and in any event try to remedy these by remaining focused on the vision. Creative leaders realize that they do not have to fix everything, or impose their will on everyone, thereby suffocating the creativity of others.

There are no lasting, enduring organizations that are built by those who lead by critique. Many businesses ultimately fail because its leaders, executives and shareholders, can not come to an agreement on a common vision. Loyalties are divided. Unless an organization has creative leaders who can create, and recreate when a small crisis strikes, and then again recreate at the next crisis, it will wither away and die. Organizations down to the smallest work unit with only leaders of critique can be assured of one thing: ultimate extinction. Enduring organizations have leaders who create.



## Cross-border retail funds in Hong Kong and Australia

THE HONG KONG SECURITIES AND FUTURES COMMISSION (SFC) and the Australian Securities & Investment Commission (ASIC) signed a Declaration on Mutual Recognition of Cross-border Offering of Collective Investment Schemes. As a result, Australia-registered funds seeking to be authorised in Hong Kong will enjoy a streamlined approval process, and vice versa. Fund managers with unit trusts and mutual funds already authorised either in Hong Kong or Australia will benefit from this initiative.

**WATSON WYATT WAS VOTED THE NO.1 CONSULTING FIRM IN THREE CATEGORIES in Life & Pensions magazine's 2008 pension awards, based on a survey of more than 200 insurance and pensions practitioners:**

- Global overall consultant
  - Pension actuarial/valuation/accounting
  - Pension investment consulting - manager selection
- Additionally, Watson Wyatt was named European Pensions Consultancy of the Year at the European Pensions Awards 2008. The award recognizes the pensions/investment/actuarial consultancy firm that consistently delivers outstanding service to its pension fund clients. The award winner was decided by a panel of 20 independent judges from European pensions associations, pensions funds and consultants.**

