



**Transparency
Task Force**



SCORPEO

TTF's New Constructive Disruptor Group

WHAT'S IT GOING TO TAKE TO FIX
FINANCIAL SERVICES IN THE USA?

June 24, 2020

Constructive Disruptor Group

- TTF and Scorpeo are very aligned in wanting to improve the world of finance
- We believe that collaboration amongst like-minded organisations can be a powerful force for good
- We are launching a new TTF Group called the Constructive Disruptor Group
- The CDG is (yet another) manifestation of the philosophy within TTF's "North Star" question that guides all we do, i.e.

"What is best for the consumer?"

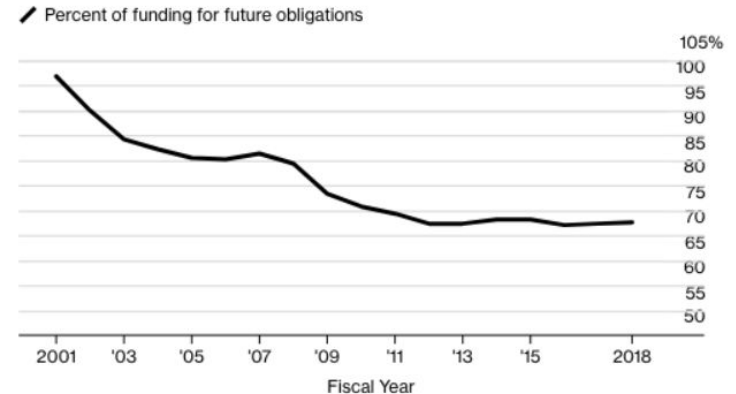
- The idea is to bring together like minded businesses in a TTF run group supported by an automated distribution platform (the "Hub").

Why are we doing this?

- Pension funds are massively underfunded. This is especially true for US (State) pension funds.
- In order to solve this, it is paramount that pension fund money is managed efficiently, i.e.:
 - asset manager costs need to be reasonable, justifiable and transparent;
 - returns from investments need to be maximized by the asset manager
 - **NO LEAKS IN THE BUCKET!**

Unfunded Liabilities

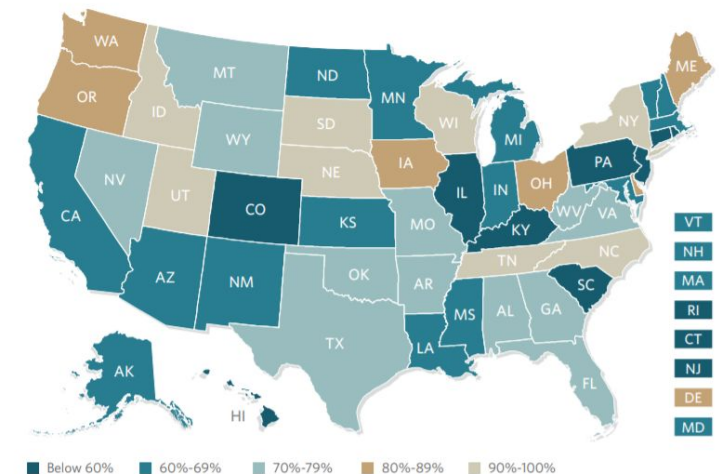
U.S. pensions lost ground on long-term liabilities since 2000



Source: Boston College Center for Retirement Research

State Pension Funding in 2017

Just 8 states were at least 90% funded while 24 were below 70% funded

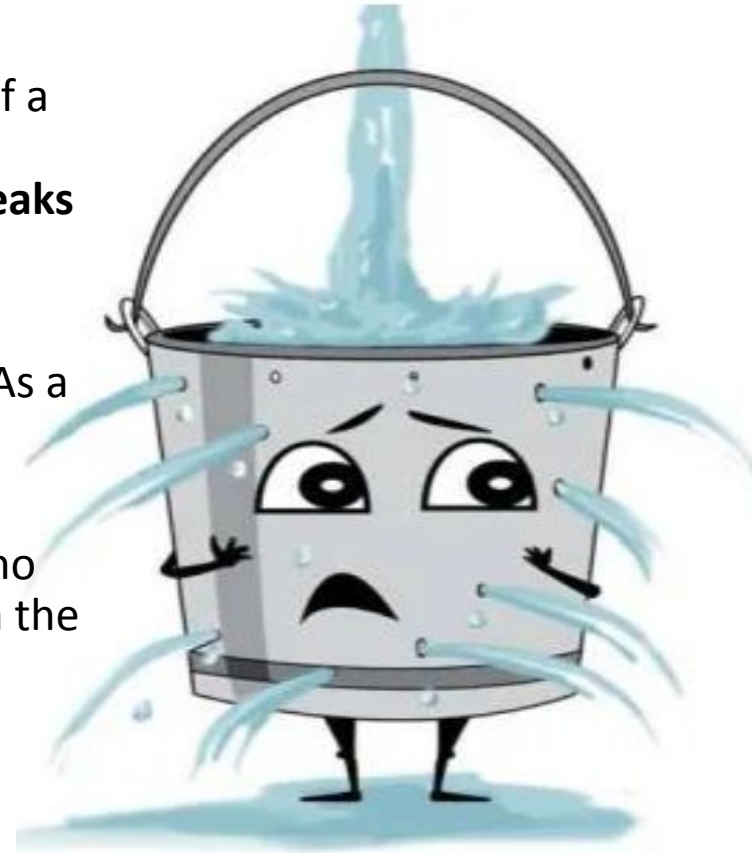


Note: Numbers reflect the Governmental Accounting Standards Board reporting standards as of 2017.

Source: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided to plan officials
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The leaky bucket

- Investment managers make investment decisions to buy and sell assets on behalf of their clients.
- However, there are many areas where the net value of a holding is impacted by factors not directly related to investment decision-making. **They can be likened to leaks in value.** These leaks prevent the true potential value being realized.
- These leaks are not given the attention they deserve. As a consequence, we typically have a pension fund that is rather like a leaky bucket.
- We have seen countless presentations from people who provide solutions that stop one or more of the leaks in the bucket.
- It is no longer acceptable to ignore these leaks. Compounding effect!



Solutions are out there!

- There is no ‘one-size fits all’ solution that will close the pension fund gap.
- Closing the gap will have to come from different solutions that together close the gap.
- There are a lot of solutions available that solve one or multiple problems (leaks).
- It is obvious that market dynamics, incentives and vested interests have an impact on market behaviour, market conduct and decision-making.
- We believe this helps to explain why many value leaks are not being given the attention they deserve.
- **Sometimes, it is worse than “ignoring” i.e. there is unjustifiable push back in an attempt to maintain the status quo. This is not because of a flaw in the solution but because the merits of the solution somehow represent an “inconvenient truth” for incumbent parties such as the existing as asset managers, custodians, trustees, financial advisers, other services providers and so on.**

Unjustifiable push back

- Why are financial institutions pushing back on these solutions?
 - There is a structural problem within these institutions. Old paradigm is not willing to accept new paradigm.
 - Some parts of the value chain find these solutions threatening, especially where the institution is taking advantage of the existing inefficiency – they benefit from the status quo.
 - Asset managers and custodians are often too large to navigate for smaller solution providers. It is easy to get lost or get blocked by parts of the organization with an agenda that is influenced by “self interest.
 - Some solutions are seen as ‘too small’. They are dismissed because they add maybe only 5bps or a few million a year. Some consider these amounts too small to worry about. However, \$10m a year of missed value could, if simply reinvested in the S&P500, deliver an extra \$4bn over 40 years (the total investment period of most pension funds.
 - Implementation costs of a ‘small’ solution may be considered prohibitive.

CDG Membership

- Agreement in principle to the idea that the CDG may evolve over time into a more substantial entity, e.g. a Charity, Association or similar
- A truly progressive proposition
- Easy to show how the proposition is of demonstrable benefit to consumers
- Easy to show how the proposition capitalizes on an efficiency that is somehow an antidote to a barrier to progress in the market, where incumbents are incentivized to thwart progress because progress may diminish their profitability
- Experiencing real, consistent pushback from the ecosystem, on the basis that they threaten the status quo; and not because they are somehow deficient
- Willing and able to work as a team and support each other
- Willing and able to support the wider TTF cause, with which they are authentically aligned
- Founding members, so far:
 - Transparency Task Force
 - Scorpeo
 - Financial Fiduciary Partners

The mission

“The mission of the Constructive Disruptors Group is to work together to build a platform on which they can stand and be noticed”

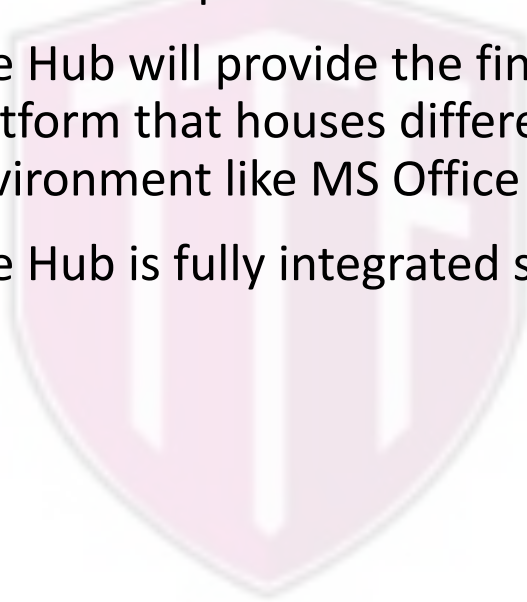
- Without the platform there is a risk that those who would want to know about these highly progressive, even radical, breakthrough solutions, would simply not notice them
- These solutions may otherwise be obscured by existing market dominants that may have an interest in keeping strong, new solutions from gaining traction, because they may disrupt the status quo.

CDG functions

- Functions of the CDG would be to:
 - (re)educate the market; a market that may have myopia due to the influence of incumbents, that have conditioned their thinking over (a long) time be prone to behavioral biases, herd thinking and so on;
 - Identify 'unjustifiable pushback' and address common themes through publications and by bringing these to the attention of regulators, special interest groups, politicians and through class actions;
 - Work together navigating the approvals process at the large financial institutions;
 - Provide a single sign on distribution platform through which solutions can be provided to financial institutions at a low implementation cost.

The Hub

- To reduce the costs of implementation, CDG will utilize an automated distribution platform that houses all CDG driven solutions - The Hub.
- The Hub will provide the financial institution with a single sign-on platform that houses different solutions/applications in a secure environment like MS Office 365 and Apple's i-tunes.
- The Hub is fully integrated system on MS Azure's cloud platform.



Comments and questions please

