We consider ourselves lucky if we can assemble three or four articles with similar themes in any issue of the Journal. By that standard, this issue has hit the proverbial jackpot: arguably, all the articles that follow contribute to the theme of “Rethinking the Investment Paradigm”!

Guest editorialist Don Ezra leads things off with an eloquent reminder that we must measure investment success in contexts that really matter to the principals, not to the agents. Placing the needs of principals ahead of those of agents results in a radical reordering of investment and information priorities.

Rethinking the investment paradigm also leads to recognizing three basic investment styles – two that are clearly functional, the third less so. Keynes called this third style “beauty contest” investing, and the first two articles (by Ron Bird, Jack Gray, and Massimo Scotti, and by Jane Ambachtsheer, Richard Fuller, and Divyesh Hindocha) explain its costs and why, despite those costs, it continues to be so popular. Edward J. Waitzer and Douglas Sarro wonder how much longer this state of affairs can persist in a legal environment that increasingly sees fiduciary duties and public duties as two sides of the same coin.

By pointing to mounting evidence of the value of good governance, Anita Anand sets the stage for embracing one of the two functional investment styles in the new investment paradigm: long-horizon wealth creation. Here, institutional investors become engaged investors, genuinely interested in fostering the sustainable wealth-producing power of the companies they invest in. The article I co-authored with Rob Bauer reports the outcomes of a recent workshop attended by many of the world’s thought-leading pension funds. Using Al Gore and David Blood’s Generation IM white paper on fostering sustainable capitalism as its organizing framework, the article lays out five concrete micro and macro steps that participating investment institutions resolved to take to raise their long-horizon returns. Serendipitously, these actions lead to a more functional form of capitalism at the same time.

Realizing these aspirations will require effective collective action by thought-leading institutional investors. Danyelle Guyatt offers both a framework for designing and implementing effective collaborations among investors and empirical evidence that the framework works in practice; her study found a high correlation between effectiveness predictions and effectiveness outcomes. David Iverson and Renato Staub close the issue with an article that touches on the essence of the second functional investment style: managing risk to achieve predictable investment outcomes. Applications vary, with investment contexts ranging from national reserve funds to deferred annuity balance sheets.

Does your investment paradigm need rethinking?