

Asset Manager Update

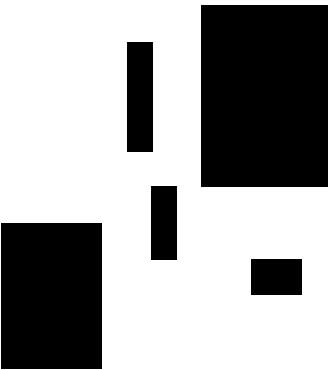
March 2018

Asset Manager Update

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Introduction



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The Willis Towers Watson Research team has always focused on finding differentiated investment solutions uniquely suited to our clients' needs. With Willis Towers Watson researchers' tireless efforts, we believe we have built deep and differentiated knowledge of the global asset management industry and forged relationships with a great number of asset management organisations, including those whom we have entrusted with our clients' capital.

We use a variety of channels to communicate with the asset management community, including data collection, calls, meetings, conferences, industry events and white papers. The objectives of this communication are manifold: ensuring we always know who are the most skilful and differentiated investment teams in our industry, sharing our thinking on which trends we see among our clients, which solutions are likely to be more in demand and exchanging ideas on how we can work together to change our industry for the better for the benefit of the end saver. This year we thought we would try something a bit different and prepare a summary of the key trends and activities we observed in 2017 and our plans for 2018. We hope you find it useful and as always we look forward to your feedback and ideas.

The key priorities for the Willis Towers Watson Manager Research team in 2017 were consistent with previous years where we primarily focused on:



Finding best value added investment opportunities net of fees around the world and across all asset classes



Delivering best investment outcomes to our clients and sustaining our long-term track record of outperformance

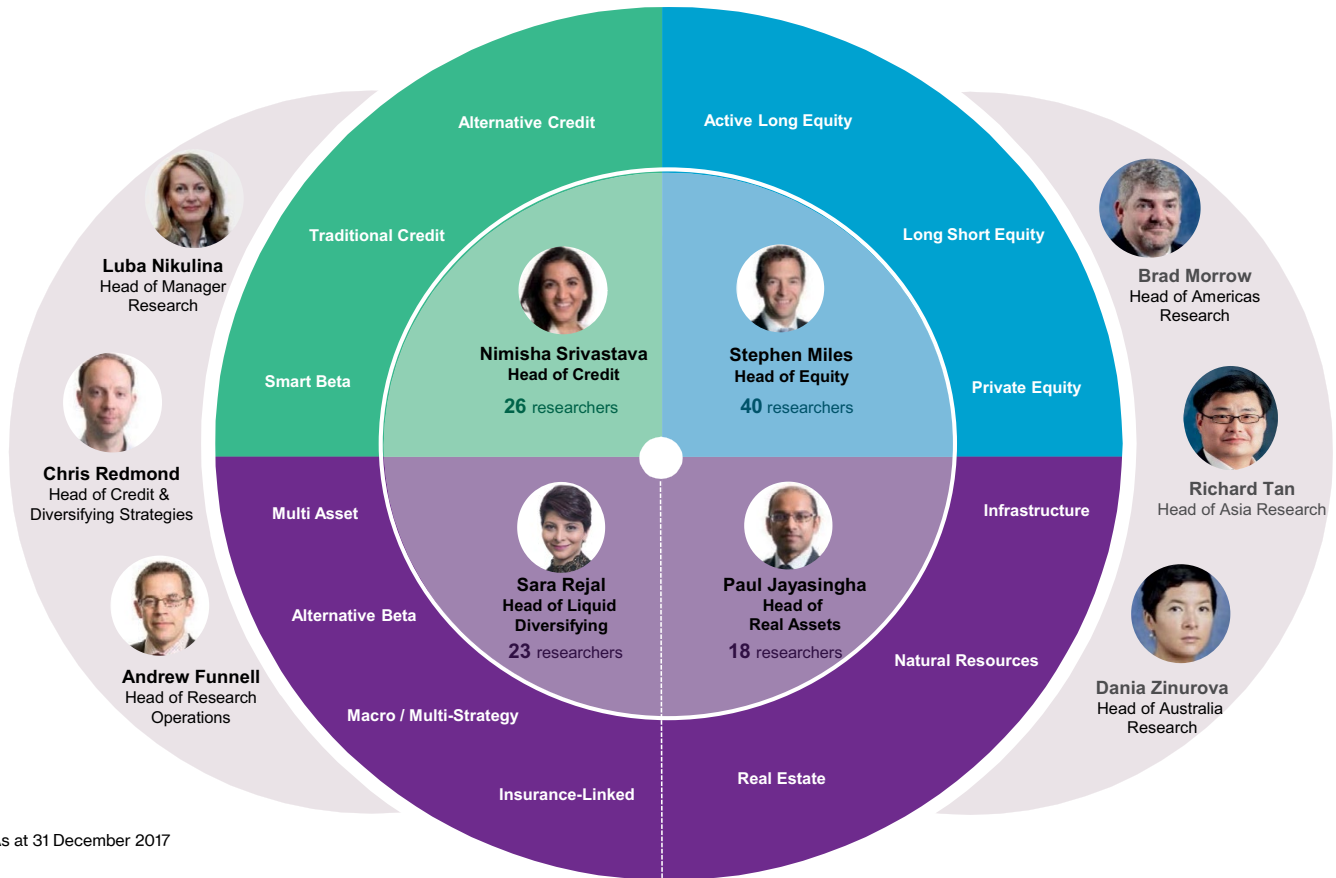


Encouraging innovation in the asset management industry and developing differentiated products in partnership with asset managers

Both short and longer term performance of our highly rated managers has been outstanding across the majority of asset classes. Some of the stand-outs in 2017 were alternative credit, active focused equity and Towers Watson Partners Fund, our flagship multi-asset portfolio of our best ideas across all asset classes. We continued working together with asset managers to create better solutions for our clients, with engagement going far beyond pure fee negotiations and involving better structures, terms and also creating completely new products which capture various gaps between clients' needs and existing off-the-shelf investment solutions. We are extremely proud to have stood behind almost 100 new investment solutions created for our clients in partnership with asset managers, 16 of which were created in 2017.

We continued to evolve our research team structure in acknowledgement of the macroeconomic landscape which presents a unique set of challenges, with a real need to 'make assets work harder' and identify solutions without the constraints of asset class. We created a new leadership role in the Manager Research team to oversee Credit, Liquid Diversifying and Real Assets and ensure robust relative value calls across these areas. Chris Redmond assumed these new broader leadership responsibilities. Reporting to Chris are Nimisha Srivastava, who was appointed Global Head of Credit following Chris's promotion; Sara Rejal, Global Head of Liquid Diversifying; and Paul Jayasingha, who was appointed Global Head of Real Assets following Karen Dolenec's departure in early 2017. Mark Brugner, former Head of Research in Asia Pacific moved on to focus on delivering our solutions to Willis Towers Watson clients, while Richard Tan has stepped up to take responsibilities of the Head of Research in Asia. All our new senior appointments have a long tenure with Willis Towers Watson Manager Research. The rest of the leadership structure within Research remains unchanged.

Manager Research structure



Looking at our priorities in 2018, we continue with our focus on delivering differentiated investment outcomes to our clients and sustaining long-term outperformance of highly rated ideas. To be able to achieve this, we continuously work on improving our research process, where some of the highlights for 2018 include:

- 1** More detailed framework for sustainability assessment of all highly rated products and more active engagement with asset managers to promote further improvement and the long-term sustainability of our industry as a whole


- 2** Stronger focus on culture assessment of asset management organisations as a key indicator of their ability to deliver successful long-term outcomes to our clients


- 3** More focus on cognitive diversity of investment teams as a key indicator of the quality of their decision making and engagement with asset managers to promote better gender diversity in the asset management industry


- 4** More structured approach to how we collect, process and store information to ensure we maintain the information advantage in the fast changing world to be able to serve our clients best



We would like to use this opportunity to thank you for your partnership and co-operation over the years in helping us achieve great investment outcomes for our clients. We are excited about the future and look forward to working together in changing investment for the better.



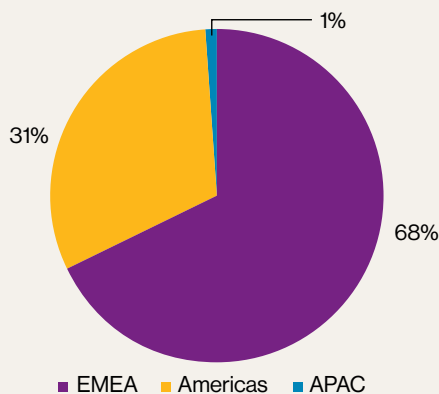
Willis Towers Watson update



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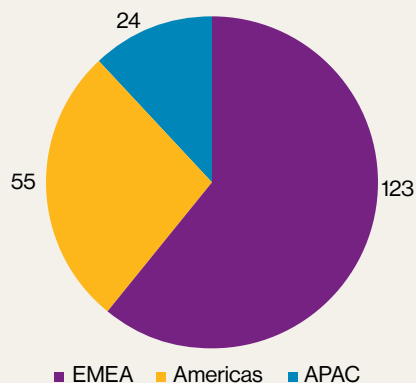
Our business continued to evolve at pace over 2017, driven in particular by the continued growth in our delegated business. While the UK and US remain by far the largest markets for our delegated services, we have also seen significant interest and growth in Germany, Ireland, Canada, Hong Kong, Japan and Australia. Assets under management are now well in excess of \$100 billion. At the beginning of 2018 we won our largest DC delegated client, a US organisation with over \$10 billion in assets across all asset classes, with significant exposure to alternatives.

Delegated Asset Under Management by region (\$)



Data as at 30 September 2017

Number of delegated clients by region



Data as at 30 September 2017

Our goal is to be recognised as one of the world's leading investment solutions firms, not defined by assets under management, but rather by reputation as being able to deliver exceptional outcomes for clients. As a consequence, we always look to align our business with that of our clients, and we manage our business and interact with the asset management community with that mind-set.

It is this mind-set that has led us to do a number of things differently to others:

- We do not think it is always appropriate to invest in off-the-shelf products from the asset management community, but rather we look to partner with you to create solutions that meet the specific requirements of our client base; these tend to fall into the following areas where we would always welcome new ideas:
 - New mandate design within more traditional asset classes in an attempt to increase the probability of alpha generation (for example, concentrated 10-20 stock equity portfolios or niche, specialised alternative credit ideas)
 - New products that give low cost, fully transparent and liquid access to true diversity, often referred to as alternative betas
 - Niche, high-expected return, high-volatility active hedge funds designed to focus on alpha generation rather than traditional or alternative beta
 - Co-investment ideas in private markets where we believe we have a sourcing advantage because of our large client base that is able to commit capital quickly (for example, in the secure income area).
- We continually look to reduce costs and simplify implementation in all areas of the portfolio. This was the main driver behind the creation of the Asset Management Exchange (AMX) in 2017*. The response from the market has been overwhelmingly positive:
 - On the asset owner side, we have already seen UK-based advisory and delegated clients implement over \$3.5 billion in assets via the exchange and it is quickly establishing itself as the preferred implementation approach. Given the positive response in the UK, the AMX is in the process of expanding globally, with the US, Australia, Ireland and South Africa already showing investor demand
 - On the asset manager side, the key benefits that appear to be resonating well are: (i) the ability for AMX to facilitate global distribution and (ii) the opportunity for managers to re-examine their operating model, as the exchange takes on a lot of the costly operational, regulatory and client servicing/reporting burden. The AMX started in the hedge fund space and is currently already in conversations with managers about long-only equity and fixed income mandates to be on-boarded in the first half of 2018. The intention is to accommodate all strategies over time.

- Finally, it is this aligned mind-set that led us to create the not-for-profit **Thinking Ahead Institute** three years ago, with the single purpose of changing the investment industry for the benefit of the end saver. The number of members in the Institute has grown consistently each year to now stand at approximately 20 asset owners and 20 asset managers and we would encourage any asset management organisation that shares the purpose set out in the **attached document** to consider becoming a member.

Of course, as with any business, we face our fair share of challenges, one of which is the ongoing Competition and Markets Authority Review into investment consulting and fiduciary management services in the UK. As you would expect, we are not able to comment on this in any detail other than to make the following points:

- As the founders of the Thinking Ahead Institute, we welcome any regulatory action that is designed to change the investment industry for the benefit of the end saver
- We see this as an opportunity to have the industry formally acknowledge the need for a strong outsourced investment management (OCIO) offering
- We are taking the opportunity afforded by this review to explain why we think the investment consulting community is well placed to deliver a strong OCIO offering as this involves delegation of parts of the asset owners' responsibilities rather than replacing any parts of the asset managers' roles (noting that the same amount of capital is placed with the asset management community whether an OCIO provider is in place or not). The activities in an OCIO mandate include the same functions that the investment consultants have always been responsible for, i.e. strategic asset allocation, liability driven investment (LDI), manager selection, risk management and the integration of sustainability considerations. As a consequence, we as investment consultants form a natural partner for clients seeking delegation of certain execution functions
- We welcome the focus on the best ways to ensure any potential conflicts of interest in how advisory and delegated businesses run in tandem are effectively managed – this is consistent with how we have designed our business over the last 20 years.

* The Asset Management Exchange and AMX are trading names of Towers Watson Limited and Towers Watson Investment Management. AMX is not currently available in the U.S. This is not a solicitation for investment.



Invest Connect



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As our manager research process evolves to address new areas and as the information needs of our clients grow. It has become increasingly apparent that we need to upgrade our current approach of various ad hoc direct information requests with a more structured way of requesting, storing and organising information on key products we recommend to our clients and monitor on their behalf.

With this in mind, we have spent a significant amount of time building a proprietary web-based data collection portal named Invest Connect. The questionnaires on Invest Connect have been designed by our Manager Research team to capture the information we need.

We believe having our own information portal allows us to be more efficient and professional in how we engage with asset management firms. We also expect it to bring other benefits over time once it is fully up and running, such as:

1

Less ad hoc email and spreadsheet requests from different parts of Willis Towers Watson



2

Enabling face-to-face meetings to be high-value add discussions rather than spending valuable time gathering information and facts



3

A platform for sharing sensitive and bespoke information



4

A new window to provide us with information on potentially attractive new strategies should you wish to do so



We will continue to use eVestment as a leading source of industry standard data across the entire asset management universe. Our portal will primarily provide greater depth on a narrower set of products so there is fairly limited overlap in practice.

We recognise that initially this portal may present an increase in workload for your reporting teams. However, it has been designed so that longer term this will be a simpler and easier method for the asset management community to provide the information that we have previously been requesting in a more ad hoc manner. We are trying to focus only on the key information we need and only across a limited set of products with either current or potential future client exposure. While we will still require regular updates shortly after the end of the quarter, we expect most of the information will only be requested annually and typically collected during quieter periods for most reporting teams (avoiding the rush occurring post quarter end).

The portal will become a central and critical pillar of our manager due diligence and monitoring process. It will be an essential part of your communication with Willis Towers Watson's Manager Research team and client consultants.

We have planned a phased roll-out of the Invest Connect portal to asset managers over the course of 2018 as we aim to get coverage of the products we currently rate. If you have any questions with regards to our research process or the new Invest Connect portal, please do not hesitate to get in touch by emailing invest.connect@willistowerswatson.com.



Sustainable investment



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2017 was another important year for sustainable investment, a topic which is now firmly in the mainstream. This is thanks to a year of global regulatory initiatives, widespread media attention, as well as growing investor action and advocacy, including our own and that of the Thinking Ahead Institute.

We define sustainable investment as investing to meet present and future needs through management of long-term risks and opportunities, which involves considering Environmental, Social and Governance (ESG) issues and wider stakeholders. Sustainable investment has always been core to how we think about the investment process and how we believe investors should allocate capital.

The **attached sustainable investment position** outlines our beliefs and philosophy in this area. We continue to work with a number of asset owners to develop their own investment beliefs, more explicitly drawing out their views on sustainable investment and integrating them into their portfolios and decision making process, as well as documenting them in their statements of investment principles and stewardship code statements.

With the aim of changing investment for the better, we have worked to support a number of initiatives and industry actions to promote sustainable investment – some examples can be found [here](#). We have been heavily involved members of the Thinking Ahead Institute, which developed the world's first sustainability beliefs benchmark using survey data gathered from 42 institutional investment organisations, including

29 large asset managers (see more detail on [page 19](#)). In addition, we work closely with Hermes EOS, whom we employ for industry level engagement. These actions are consistent with our views on long-horizon investing and successful integration of sustainable investment principles.

The Manager Research team has researched and rated highly a number of investment ideas where we have conviction in their ability to deliver strong financial returns to investors but simultaneously have the added benefit of strong sustainability credentials. For example, private market investments in a Japanese solar plant project, a Scottish hydro-electric platform and a cybersecurity fund.

We have been asking asset managers to better articulate how they consider and integrate ESG factors into their investment processes, while also being more transparent with their investors about their stewardship activities (voting and engagement with underlying businesses). We have been reporting explicitly on these topics to clients and expect the dialogue and interest in understanding what asset managers do to continue to increase. In the backdrop of a fast-changing environment and evolving attitudes surrounding sustainable investment, we expect the standards of what is considered best practice to continue to advance. We will continue to encourage and expect asset managers to reflect best practice in their investment approaches in a manner that is consistent with their investment process and philosophy, and to improve transparency around their actions as good stewards of our clients' capital.



Increasing diversity in client portfolios



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The concept of 'diversity' has been increasingly embraced in portfolio construction methodologies utilised by institutional investors and now appears firmly embedded in the investment lexicon. Rather than relying too heavily on equities (and thus the profitability of large corporations) to deliver returns, investors have sought to exploit a broader range of asset classes and return drivers to increase diversity in their portfolios, and ultimately to improve portfolio robustness. Since 2010, Willis Towers Watson has conducted in excess of \$140 billion of manager selection activity in asset classes and strategies in order to help improve diversity in client portfolios¹.

A decade or so ago we identified insurance-linked securities related to natural catastrophe events as a perfect embodiment of our diversity goals, with investment returns predominantly driven by weather events rather than economic growth or other traditional macroeconomic factors. The number and range of investments linked to increased portfolio diversity has expanded and evolved significantly since then. This pursuit has pushed our research teams to some far flung, and at times esoteric, corners of the markets, seeking to identify opportunities with different risk-return profiles, different sensitivities to factors, such as economic growth and inflation, and different value realisation catalysts. New examples implemented in 2017 included a new opportunity in the US mortgage market where investment returns are predominantly driven by mortality and a new momentum-based strategy focused on alternative markets.

2017 was a slightly quieter year in terms of manager selection activity linked to the pursuit of increased portfolio diversity. Largely a reflection of the exceptional amount of activity in previous years, and thus successful completion of plans to build diverse and balanced portfolios, last year also saw an uptick in closed and maturing pension funds defeasing long-duration liabilities. Nonetheless, 2017 saw some \$9 billion in diversity-related manager selection activity² in private debt, alternative beta and real estate over the year, seeking to exploit the illiquidity risk premium where well rewarded and adding new and more efficient ways of capturing risk premia linked to behavioural finance type factors.

2017 manager selection activity was heavily represented by the new solutions that Willis Towers Watson has worked with asset managers to create. Rather than simply picking from amongst the universe of available products, we believe our clients increasingly benefit from the innovative solutions that have been created for their needs, with an explicit goal of improving diversity, removing redundancy and best complementing their current portfolios.

¹ Sum of manager selection activity across Alternative Credit, Real Assets, Liquid Diversifying and Private Equity since 2010

² Sum of manager selection activity across Alternative Credit, Real Assets, Liquid Diversifying and Private Equity in 2017



Equity



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2017 was a good year from many angles.

The team worked hard to successfully identify a large number of new top-rated strategies. Just over half were with niche, boutique organisations; some were bespoke strategies designed to suit the needs of our clients; many were stock pickers with concentrated portfolios and long-time horizons – very much a ‘back to basics’ approach.

Over the year we developed a new framework for assessing organisational culture. We believe this is an important driver of long-term returns and organisational stability. We also further developed our framework for researching ESG risk awareness and stewardship.

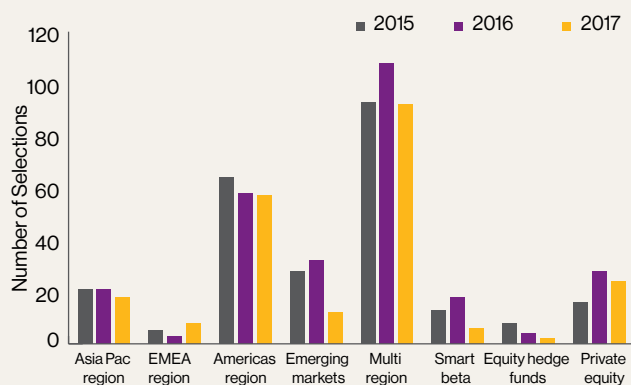
The performance of our top-rated managers was generally very strong across short and longer term periods.

Selection activity remained robust and mainly focused within active long-only equities, but lower than in previous years given the gradual trend towards de-risking, asset owners seeking to diversify away from equities and some groups becoming less willing, or able, to pay active manager fees, for example DC pension funds. We are not disheartened by a general negative sentiment towards traditional active mandates. Instead, this creates more opportunities for our clients to invest with highly skilled managers on attractive fee terms.

The Private Equity team continues to search for attractive, niche fund investments and to explore new co-investment opportunities arising from our most favoured managers. In addition, we have been active in the secondary market

but have had limited success on buy side opportunities given current market pricing. As we look for better alignment and alpha potential, we are spending more time with first time managers (although not first time teams) and sector specialists, and increasingly we are focusing on the smaller end of the market where we think we can find better relative value. As we have communicated in previous years, we continue to maintain our very selective approach in the asset class that fortunately has led to top quartile performance when compared to peers and public markets¹.

2015 to 2017 Equity Selections (by #)



Given the starting point, 2018 is going to be challenging but also fascinating. Many good investors are struggling to fund good ideas at current valuations, suggesting virtue in a highly selective approach as we try and navigate what we anticipate could be choppy waters as the financial world adjusts to a new normal of ‘normal’ interest rates.

¹ Results from 2006 to Q2 2017 Willis Towers Watson Private Markets Alpha track record



Credit



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Throughout the year, the team focused on finding new ways to improve clients' fixed income portfolios, with approximately 20 new strategies rated, about half of which were new products designed in partnership with managers. Idea generation was across the board stemming traditional, alternative and smart beta credit, though alternative credit continues to represent a larger area of focus, with a growing number of delegated alternative credit mandates and solutions across the globe.

Looking back at selection activity, there are a few notable trends:

1 While the number of selections has remained roughly in line with previous years, the magnitude has increased due to a focus on more strategic asset allocation shifts (as opposed to like-for-like strategy replacements)



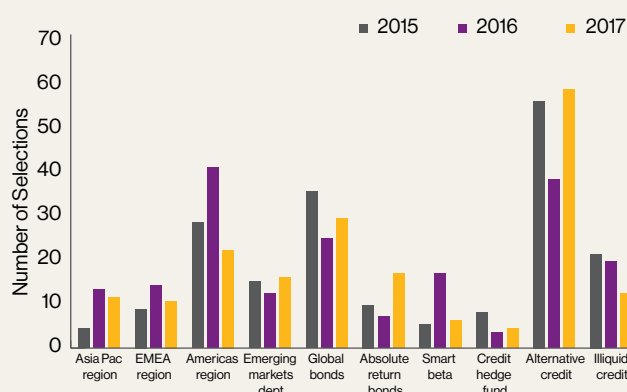
3 Regions with specific regulatory constraints (such as Germany) also experienced an uptick in demand, while other regional investors (such as Asia-Pacific) focused on diversification away from regional credit exposure



2 Geographically, there is still strong focus on alternative credit, coming mainly from the Americas and EMEA. Securitized credit in particular represented a key growth area, as clients focused on diversification by credit risk





2015 to 2017 Credit Selections (by #)





As we move into a potentially more volatile environment for credit in 2018, the need for best in class solutions remains stronger than ever. Key areas of focus for the team include:

1 Attractive specialist opportunities across both **traditional and alternative credit** and investable solutions for specific regions (for example, ERISA-friendly solutions in the US, VAG-compliant solutions in Germany). Particular areas of interest include structured/ securitized credit, emerging markets debt, global sovereign credit and illiquid credit. The team is increasingly sourcing niche investment opportunities, co-investments and targeted themes to capture additional alpha and balancing this by maintaining a strong subset of core options to capture the beta effectively, and we want to hear from managers on any particular topical theme, trade or opportunity as they arise 

2 Continued development of **smart beta** ideas across both traditional and alternative credit links to efficient use of capital, with a particular focus on alternative credit (for instance high-yield bonds) as we believe this will be a key area of demand going forward 



Liquid Diversifying



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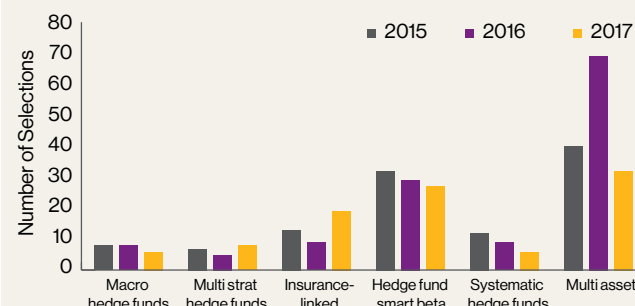
A year of innovation in Liquid Diversifying



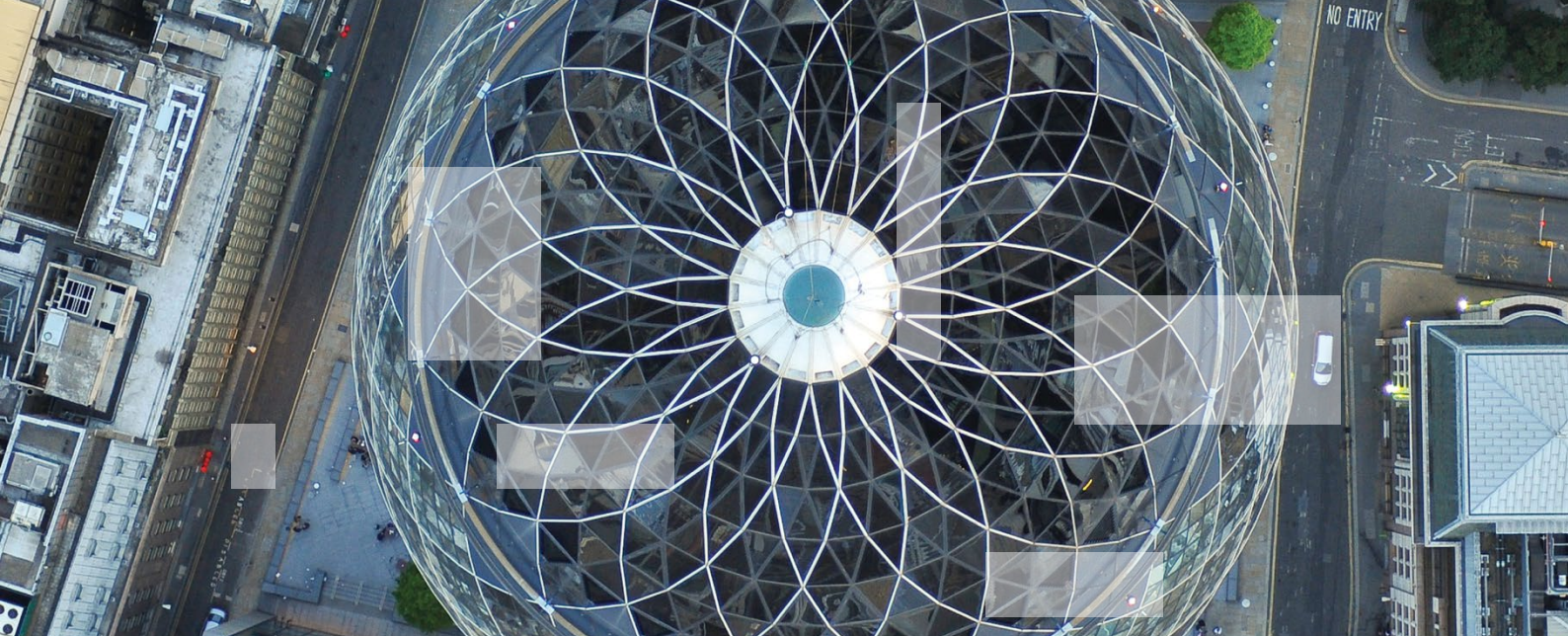
2017 represented another year of evolution and change for our clients' hedge fund portfolios. In particular, we saw a significant pick-up in activity in newly created customised mandates and solutions developed in partnership with best-in-class hedge fund managers. These new solutions have been developed in accordance with our goals of building hedge funds that complement and contribute to clients' total portfolio, with a key focus on ensuring an appropriately high level of active risk, transparency and providing value for money. The customisation took different shapes, including carved-out segments of flagship portfolios where alpha opportunities are greatest and increased exposure levels to enhance the return potential (accepting higher short-term volatility).

We continue to explore new opportunities in 2018. For example, we are now looking at power trading strategies. We are also looking at different ways to invest in systematic strategies and in volatility arbitrage. We look forward to hearing about any solutions and opportunistic ideas you may have which help us achieve high returns with low correlation to markets, offering value for money.

2015 to 2017 Liquid Diversifying Selections (by #)



Alternative beta strategies continue their passage into widespread market adoption over the year, with even traditional hedge fund investors who-shunned these strategies not too long ago, now revisiting this space. We saw ongoing high levels of client interest over the year. We continued to push the boundaries of alternative beta space during the year, with \$3.5 billion of 2017 manager selection activity in alternative betas and diversifying markets heavily influenced by the allocations to new strategies and dynamic rotation of capital. One example includes a macro strategy that seeks to systematise the behaviour of discretionary traders in response to periods of market volatility.



Real Assets



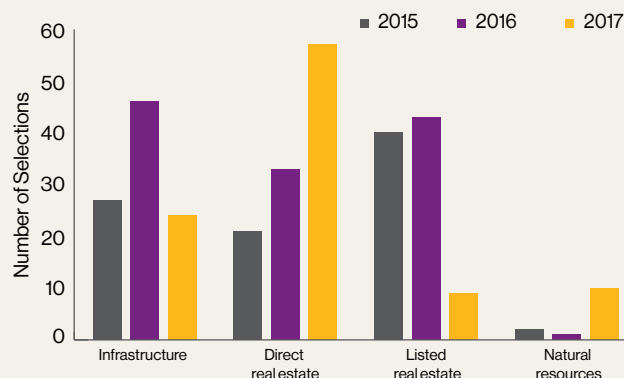
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In 2017 UK secure income strategies (which span real estate and infrastructure) continued to dominate our UK clients' selections in the real asset space, driven by a strategic need for long term, low risk, inflation-linked income. We helped our clients invest through a variety of routes, including seeding new funds with asset managers, secondary fund transactions, co-investments and traditional investments into existing open-end and closed-end strategies. When seeding new funds, we were focused on areas of the market not meaningfully accessed by existing funds, such as specialist supported social housing, smaller lot size government-let properties and 'FIT wind' renewable energy.

Within higher-returning real asset strategies, we remain very selective on highly-leveraged real estate strategies, preferring more focused strategies with compelling thematic tailwinds and pricing advantages. For example, we helped our clients make allocations to a global timber and agriculture strategy and also a mining strategy, significantly increasing the year-on-year selection activity with Natural Resources. We also helped an asset manager seed a new strategy focused on low leverage UK regional offices with residential conversion options.

Within listed real assets we were (and remain) increasingly focused on strategies at the two ends of the active management spectrum: higher active share mandates and smart beta solutions.

2015 to 2017 Real Assets Selections (by #)

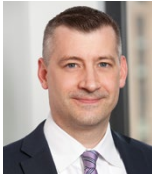


In 2018 we continue to look for attractive UK secure income strategies in niche subsets of the market. Given the narrowness of this market and increasing number of funds coming to market, we are cautious on 'me too' strategies being developed that are too similar to our peers. We are also looking more at Euro-denominated secure income strategies due to increased demands from pension funds in Continental Europe.

Within higher risk strategies, we remain open in looking at a variety of ideas, but we remain highly selective and prefer focused strategies that tap into a clear pricing or thematic opportunity with limited leverage or development risks. At the current time we prefer funds to be patient and highly selective when investing but not at a material 'J-Curve' expense for investors. As a result, we are pushing for lower (or zero) fees on committed capital.

Sustainability considerations remain important to our research process and our clients' needs. They need to be embedded into a strategy at a project level for us to gain conviction in its application.

Operational Due Diligence



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Operational Due Diligence (ODD) continues to be a critical component of our manager research process. With the increasing complexity of the investment world, unceasing regulatory developments and emerging risks around information security, 2017 was another busy year for ODD. In addition to executing our normal ODD program, we spent a lot of time on MiFID II trying to understand the rules themselves, training colleagues and assessing our managers' preparedness. It was interesting to learn how MiFID II was being treated by asset managers within the EU compared to those outside the EU. Non-EU asset managers initially appeared ambivalent before a flurry of activity towards the year-end as the rules became clearer.

We also made a considerable effort engaging with asset managers on the topic of research costs. We polled asset managers on how they intended research costs to be paid. One interesting finding was the clear divide between long-only managers and hedge funds on this matter. While many non-EU long-only asset managers indicated that they would be absorbing research costs in relation to EU clients, they noted that they would continue to use 'soft dollars' to pay for research for the rest of their clients. In 2018, we will assess how this will be implemented and how the attendant risks, such as potential conflicts of interest and treating clients fairly, have been addressed.

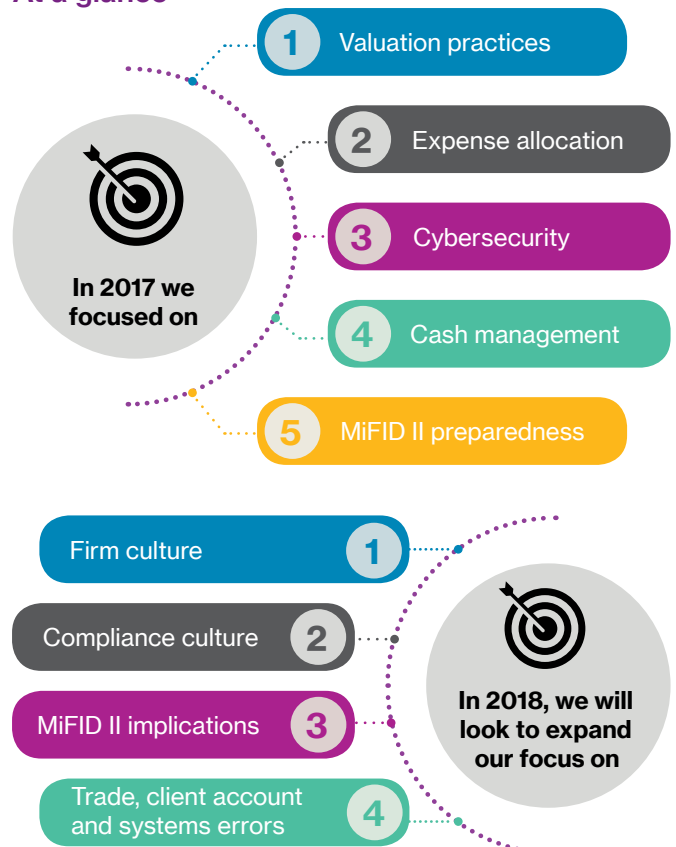
The EU General Data Protection Regulation comes into effect in May 2018 and again we will be looking to ensure that our asset managers are well prepared to comply with this new regulation.

With respect to information security, a lot of our managers have made progress in drafting and implementing cybersecurity policies and procedures. However, our experience is that many asset managers still need to do more, especially around raising employee awareness through formal training and exercises, such as phishing tests. We have been emphasising to asset managers that all employees, including principals and executive management, should attend compulsory training. Having said this, we see small and emerging private markets managers to be lagging behind with respect to cybersecurity, with many still to conduct formal vulnerability assessments. We are also seeing more asset managers adopt cloud solutions. In 2018, we will be focusing on understanding asset managers' policies and procedures around the use of cloud networks and how easily data can be brought back in-house or transferred to another cloud provider.

Fund governance continues to be an important topic for us. We have spent a few years engaging with large long-only managers whose products tend to be governed internally with no independent directors. While some managers have made changes and brought on independent directors, quite a number of large long-only managers have some way to go in this area. In the summer of 2017, the FCA published its *Asset Management Market Study Report* which stated that asset managers need to strengthen their governance requirements by adding more independence to the governance boards. Perhaps this signal from the regulator that they agree with us on the importance of independent oversight may help speed up reform in this regard.

Lastly, we have realised that many operational failures may be attributable to 'culture' issues. In 2018, we will be focusing on developing a culture assessment framework on matters related to operational risk. Whilst this is a difficult and subjective process, we are hoping that this exercise will help us identify cultures that can heighten operational risks.

At a glance



Asset Research Team

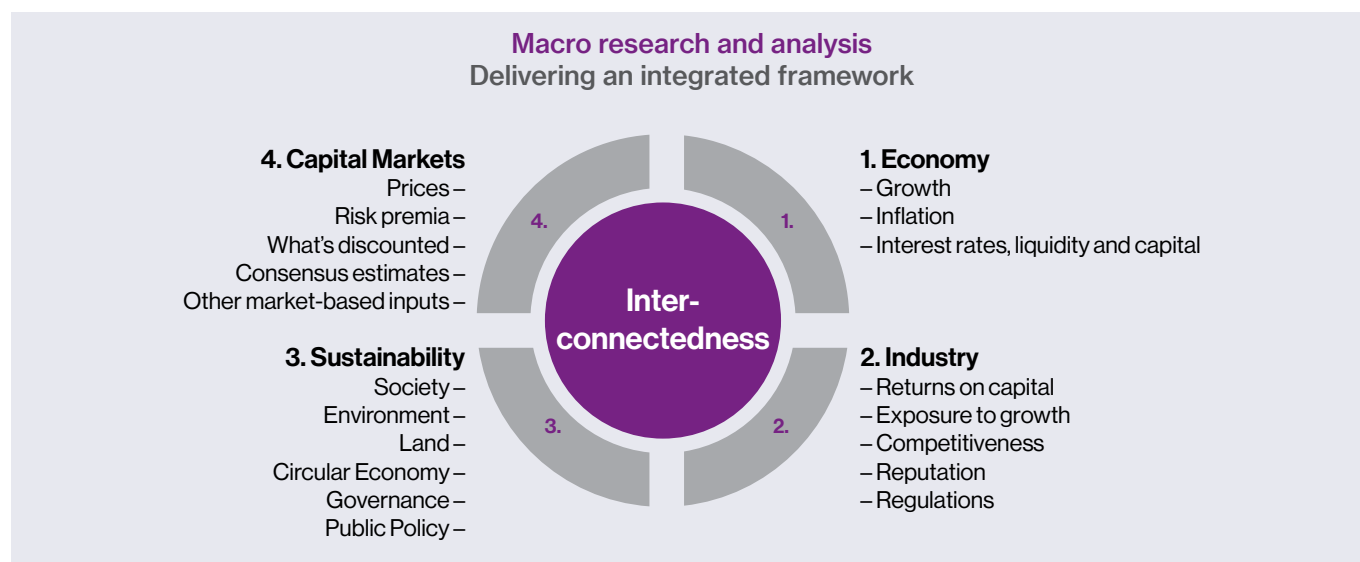


David Hoile

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Organisational design

- The Asset Research Team is the economics and capital markets research and analysis engine for the Global Investment Practice.
- We deliver an integrated macro framework that incorporates material industry and sustainability factors.
- We provide targeted macro-driven input and recommendations to our delegated and advisory clients.



Three examples of our current portfolio strategy and implementation focus:

1. China

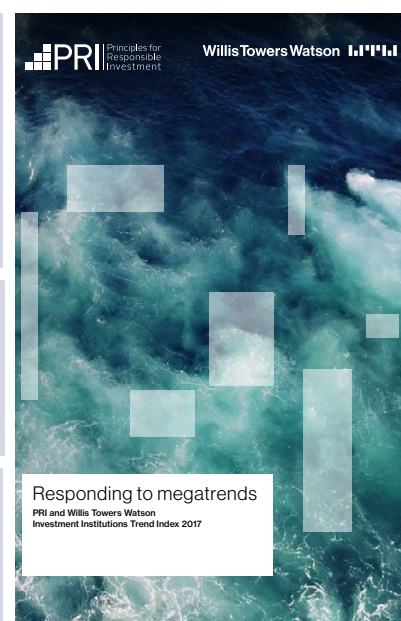
The most material and certain capital flow theme is the opening up of China's financial markets to foreign investors. The China Interbank Bond Market and stock connect policies have already started this process, which we believe will lead to China's markets becoming some of the most important in the world. For global investors this represents a massive shift in portfolio strategy, given the size of China's markets and their current underweight positioning.

2. Implementing the recommendations of the Task Force on Climate-related Financial Disclosures

How the powerful tools of scenario and risk analysis can be used by investors to examine their portfolio, question their time horizon and clarify their objectives when it comes to climate change.

3. Assessment of the investing opportunities from the implementation of the UN Sustainable Development Goals

Tilted/targeted return opportunities where sustainable development investment factors are both material and mispriced.



In 2017, the Asset Research Team published the joint PRI and Willis Towers Watson **Global Investment Megatrends report**.

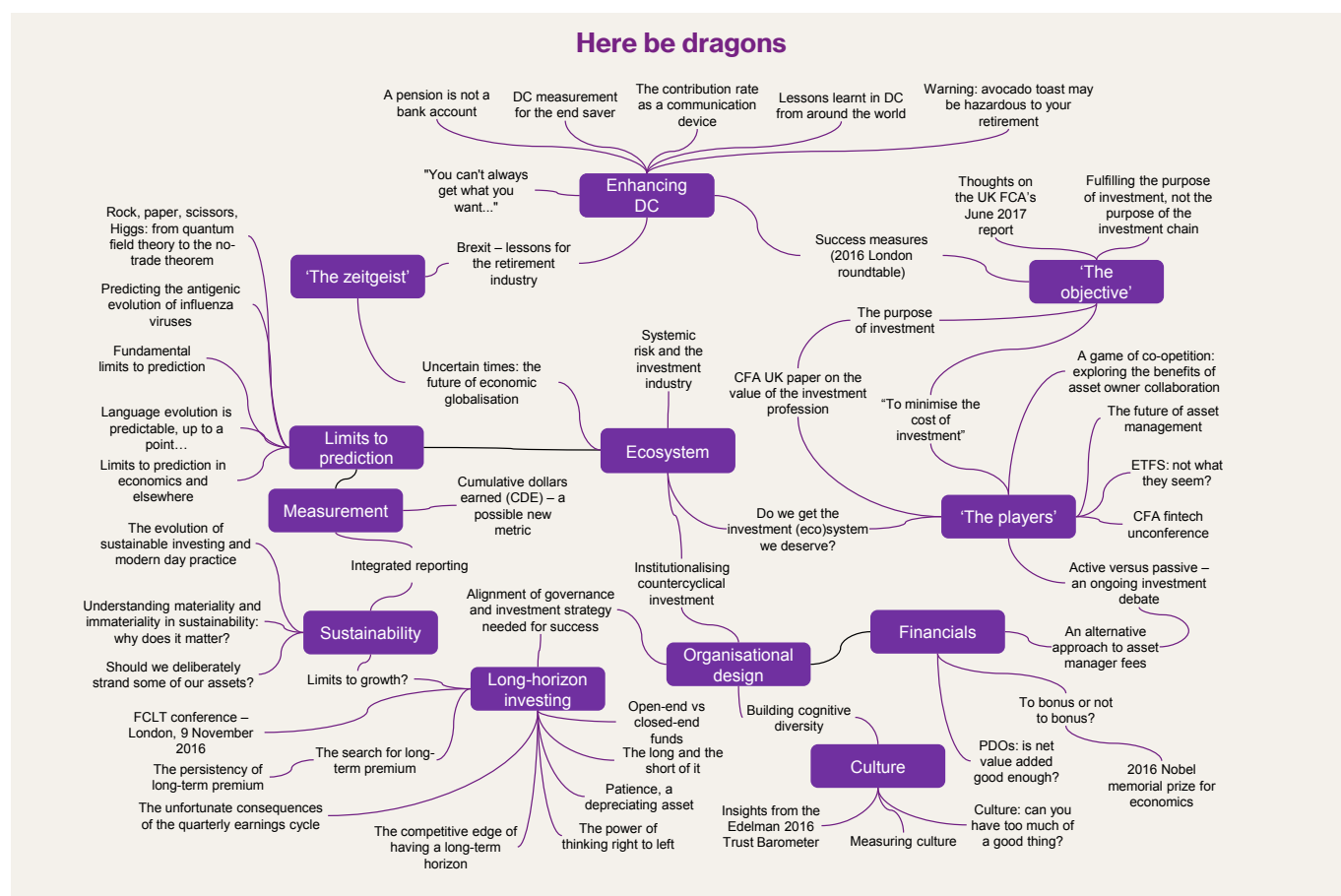


Thinking Ahead Institute



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The **Thinking Ahead Institute** had an amazing 2017. The Thinking Ahead Group, as executive to the Thinking Ahead Institute (TAI), continually tries to improve its investment map. Part of that effort is posting thought pieces approximately weekly, so the 'Here be dragons' map fills out with time.

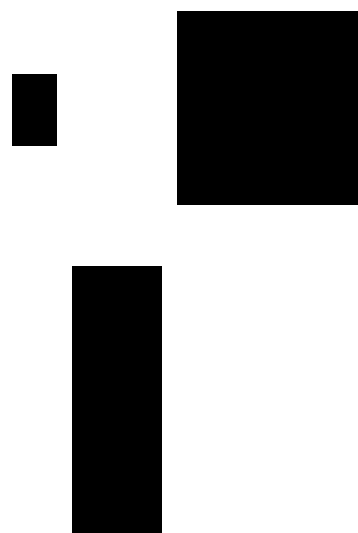


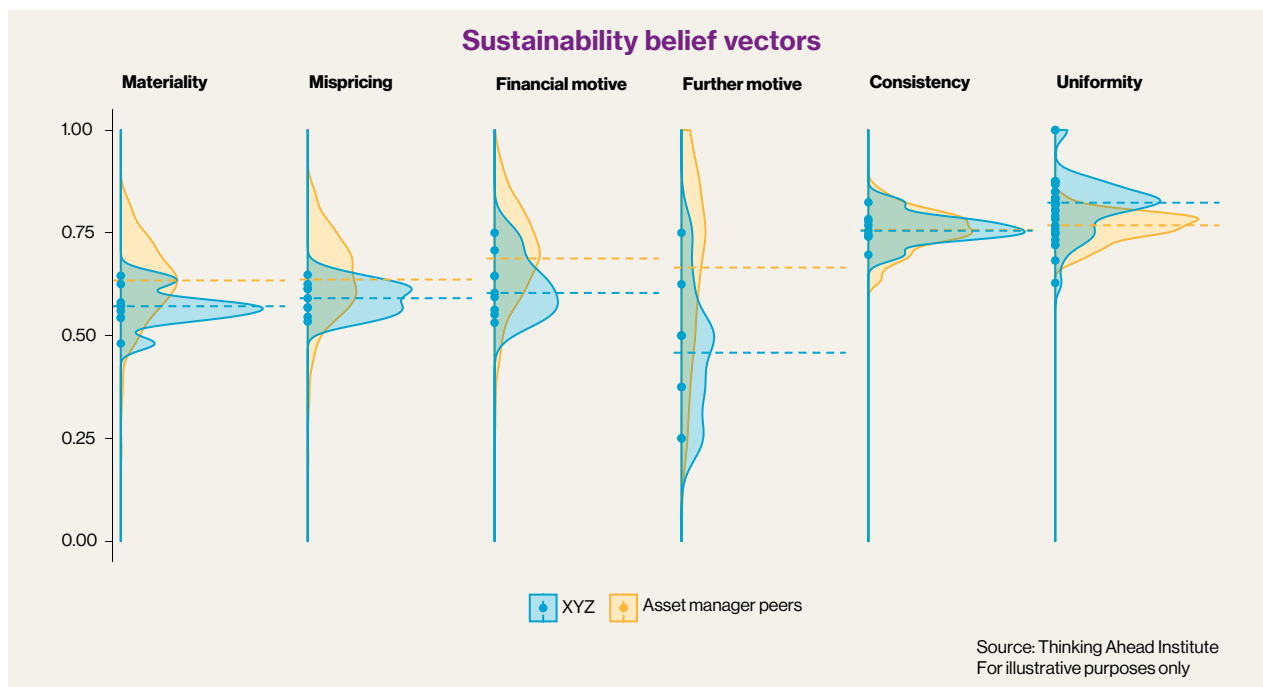
The 36 investment thought pieces posted in 2017 are captured in the infographic below, along with the other activity within the Institute.



The two research pieces we would like to highlight in this update are:

1. **The search for the long-term premium**, where we believe TAI is the first to quantify the size of the long-horizon premium (0.5% - 1.5% pa depending on asset size and governance skill). This was an excellent example of collaborative research within the working group.
2. **Sustainability beliefs: a new measurement tool**. This piece is also an example of collaboration. The tool was produced by another TAI working group, and then we asked the broad asset management community to use the tool in order to create a peer group – which increases the value for all users. An example of the tool's output is shown overleaf, where organisation XYZ can see that its respondents have a lower level of belief in the materiality and the mispricing of sustainability issues than their asset manager peers.





2018 will see us equally busy, pursuing the research agenda shown in the graphic below. The Institute has grown and developed significant momentum in the past three years and we are actively recruiting new members to continue this and hasten change in the investment industry for the benefit of the end saver.

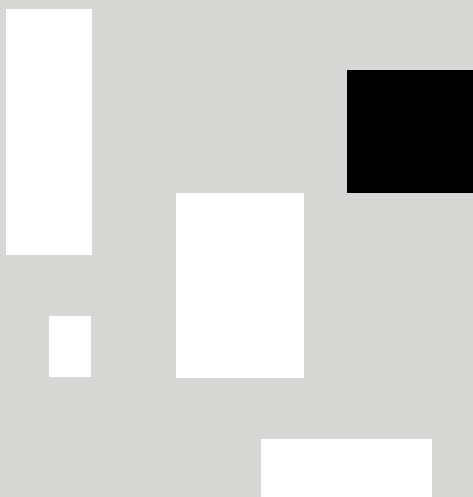
Major	Enhancing DC – big, important, directly affects the end saver
	Decision making individual and group – a practical project enabling change
	Value creation in financial services (IIRC) – understanding purpose
Minor	Measurement and reporting – to support DC (MWR) and long horizon
	Extreme risks scenarios – understanding potential future landscape

We hope you enjoyed reading this Asset Manager Update. As always, we would like to hear your feedback and new ideas. Please do not hesitate to get in touch with your relevant Willis Towers Watson researcher or contact us by email manager.research@willistowerswatson.com. We look forward to hearing from you.

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