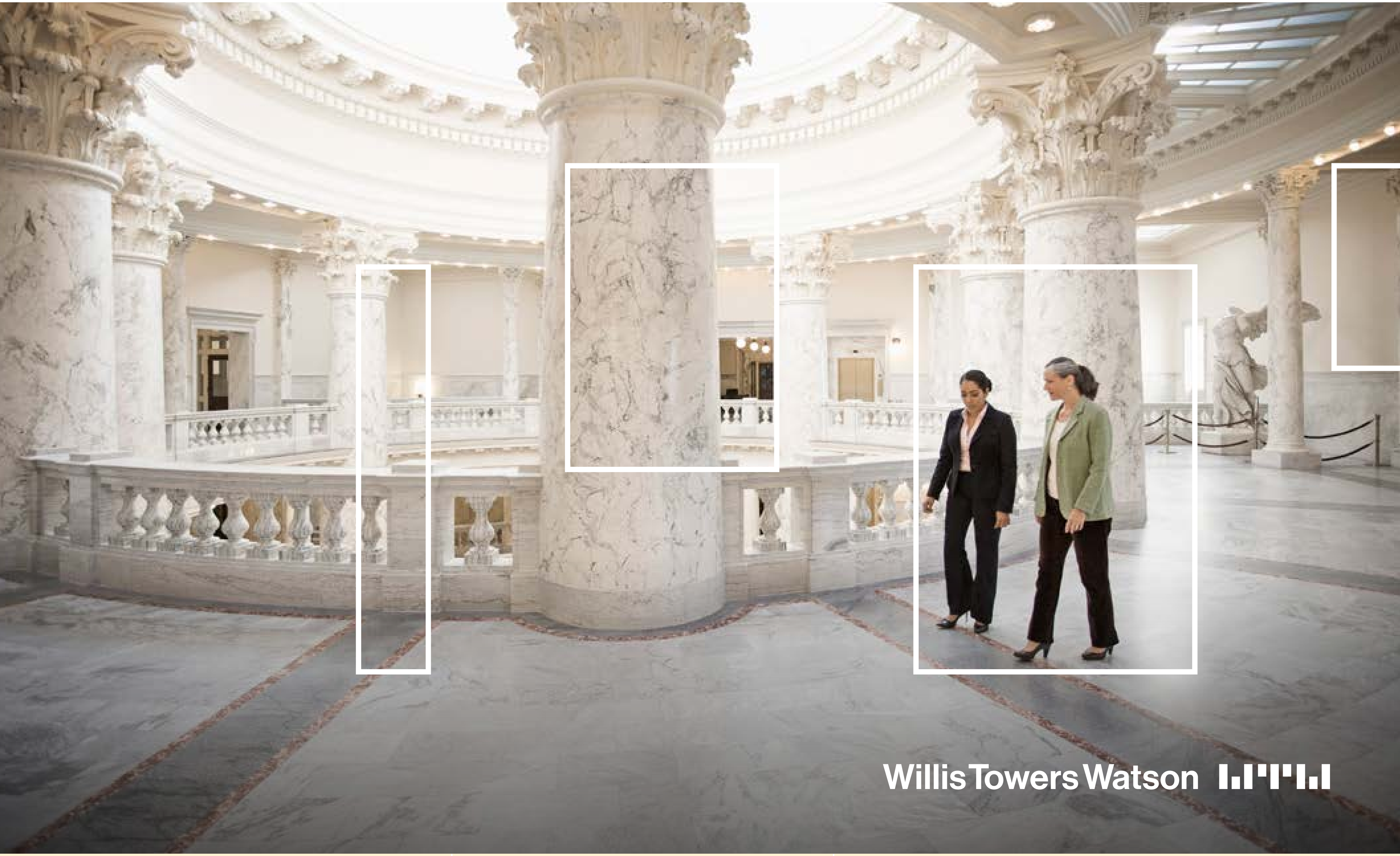
Policy Shift Dashboard



Introduction

Keeping track of the stance of monetary and fiscal policy is crucial to the formation of our economic views, which underpins our portfolio allocation advice for investors.

This dashboard seeks to help investors monitor if the policy shift we identify in our Outlook 2021 report is in tact. This is a function of:

- If monetary and fiscal policy is stimulative or not;
- If there is evidence of implicit or explicit coordination of those policies; and
- If the limits of that policy mix, in terms of disruptive inflation in particular, are manifesting.

We do this through a traffic light system defined opposite. Currently many of the indicators are flashing green. This implies:

- Policy action remains highly supportive of growth prospects in the short term
- Disruptive inflation is not an issue for now. Inflation risk is currently low, but building.

The dashboard is navigable, with more detail underlying the headline indicators shown on the dashboard itself. The scorecard will be updated quarterly.

Key to traffic lights

Indicator is consistent with a

Policy shift not evident and/or inflation is disruptive

Unclear policy and/or inflation impact

Policy shift is evident and/or inflation is not an issue

Interactive Dashboard

Click on a box for more detail

1. Monetary policy stance

+5%

Prospective increase in advanced economy central banks' assets (% GDP) over 2021.

Learn more →

2. Fiscal policy stance

-11.5%

Average government deficit accross selected advanced economies at the end of 2020, as a share of GDP.

Learn more →

3. Policy coordination - qualitative

Extent of fiscal and monetary policy coordination

Policy coordination within advanced economies is supportive of financial conditions in the near-term.

Learn more →

4. Policy coordination - quantitative

+4%

Increase in advanced economy central banks' holdings of domestic government debt over H1 2020 (% of total debt outstanding).

Learn more →

Limit 1: Is economic capacity tight?

-3.5%

The current estimated output gap (% GDP) in advanced economies. This is a measure of economic slack, which remains considerable despite the recovery in Q3 2020.

Learn more →

Limit 2: Is inflation high and/or disruptively volatile?

0.3%

Current headline inflation in major advanced economies is low, reflecting excess slack and low energy prices.

Learn more →

Limit 3. Are inflation expectations unmooring?

2.0% ↑

The 5y forward 5y breakeven inflation rate in the US, plus direction of travel over the past 6 months. Inflation expectations are consistent with central bank targets but have been increasing recently

Learn more →

Limit 4: Are the value of fiat currencies being undermined?

+23%

Increase in the real price of gold over 2020 in USD terms. This may *partly* reflect the impact of central bank liquidity on the value of fiat currencies vs. gold.

Learn more →

Disclaimer

This document was prepared for general information purposes only and does not take into consideration individual circumstances. The information contained herein should not be considered a substitute for specific professional advice. In particular, its contents are not intended by Towers Watson Investment Services, Inc., and its parent, affiliates, and their respective directors, officers, and employees ("Willis Towers Watson") to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. The information included in this presentation is not based on the particular investment situation or requirements of any specific trust, plan, fiduciary, plan participant or beneficiary, endowment, or any other fund; any examples or illustrations used in this presentation are hypothetical. As such, this document should not be relied upon for investment or other financial decisions and no such decisions should be taken on the basis of its contents without seeking specific advice. Willis Towers Watson does not intend for anything in this document to constitute "investment advice" within the meaning of 29 C.F.R. § 2510.3-21 to any employee benefit plan subject to the Employee Retirement Income Security Act and/or section 4975 of the Internal Revenue Code.

This document is based on information available to Willis Towers Watson at the date of issue, and takes no account of subsequent developments. In addition, past performance is not indicative of future results. In producing this document Willis Towers Watson has relied upon the accuracy and completeness of certain data and information obtained from third parties. This document may not be reproduced or distributed to any other party, whether in whole or in part, without Willis Towers Watson's prior written permission, except as may be required by law.

Views expressed by other Willis Towers Watson consultants or affiliates may differ from the information presented herein. Actual recommendations, investments or investment decisions made by Willis Towers Watson, whether for its own account or on behalf of others, may differ from those expressed herein.

Composition

The performance data is an equal weighted composite of total cumulative funded status change of Towers Watson Investment Service's (TWIS) U.S. full plan delegated investment services (DIS) clients for the period presented and limitations below. The composite includes six clients at the outset and fifty-three at the end, with a total of sixty-three over the period. The composite indexes all U.S. DIS clients where TWIS manage the entirety of their assets including U.S. DIS clients where there are constraints on TWIS investment decision making such as the level of liability hedging. It excludes client portfolios where TWIS mandate covers a smaller portion of the portfolio e.g., a single asset-class or return seeking assets only.

Purpose

The composite cumulative funded status change can be used to give an indication of how investment using a more diversified and risk managed approach, as taken in our U.S. DIS client portfolios, compares to the estimated funded status progress of the average U.S. corporate pension plan based on information published for a number of companies via SEC Form 10-K and aggregated by Willis Towers Watson.

Limitations

Our clients have differing objectives, investment beliefs, valuation methodology and constraints which they place upon us. All of these will feed into the exact portfolio we construct, and therefore the performance that is achieved. However, we believe that such client limitation have not restricted our investment strategy. Additional governance and operational benefits of investing through our DIS service are not captured in this composite. We have not adjusted for differences in cash flows, such as contributions or settlements between our U.S. DIS clients and the average pension plan.

Average pension plan

Based on average asset, PBO benefit payments, contributions, expense, discount rate, and asset allocation information for all U.S. DB pension plans sponsored by U.S. Fortune 1000 companies that provide sufficient data in their SEC Form 10-K (c.300 plans). We have estimated the change in assets for the average plan using average benefit payments and contributions as well as widely used indices in the respective asset classes. We have estimated the change in liabilities for the average plan using average benefit payments, service cost, and interest cost as well as changes in bond yields. Actual benefits payments, contributions, service cost, and interest cost are used for estimates prior to the most recent calibration date; expected figures are used for estimates after the most recent calibration date. We have assumed the modified duration of the average US DB pension plan to be 16 years for the entire sample period.

From December 31, 2011 to December 31, 2019, our estimates for returns and discount rate changes exhibited significant correlation with the actual averages calculated when new annual reports are published. On an annual basis (when 10-K information is published and aggregated), we adjust prior periods for the residual error and recalculate model inputs. The last recalibration was as of December 31, 2019.

Time period

The starting point of December 31, 2011 was driven by the sample size of TWIS·U.S. full plan DIS clients. A year prior, TWIS had two U.S. full plan DIS clients, which we considered to be an unreliable sample size that could easily be skewed by non-investment factors.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

WTW550470/02/2021

willistowerswatson.com

Willis Towers Watson