Sustainable investment

Time for everyone to translate thinking into action

For Professional and Institutional Investors Only

Willis Towers Watson

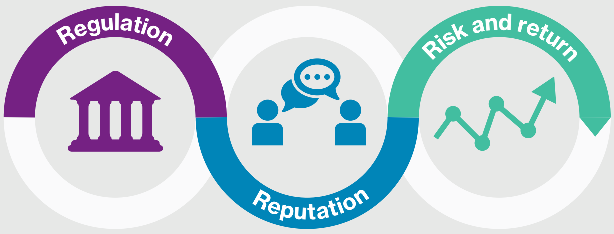
Sustainable investment is an unstoppable train

It is fundamentally about improving investment outcomes – better returns and lower risk.

Sustainable investment has gathered significant momentum in recent years, and while the reasons for it are well-rehearsed, importantly they show no signs of slowing up.

Regulatory pressure, reputational risks and opportunities, and evidence of improved risk-adjusted returns come together with significant public awareness and media mainstreaming to power sustainable investment up many asset owners' agendas. Indeed a lot of investors have already started to make significant progress in this area. It is no longer the early adopters who are in the minority, instead it is those who are yet to act.

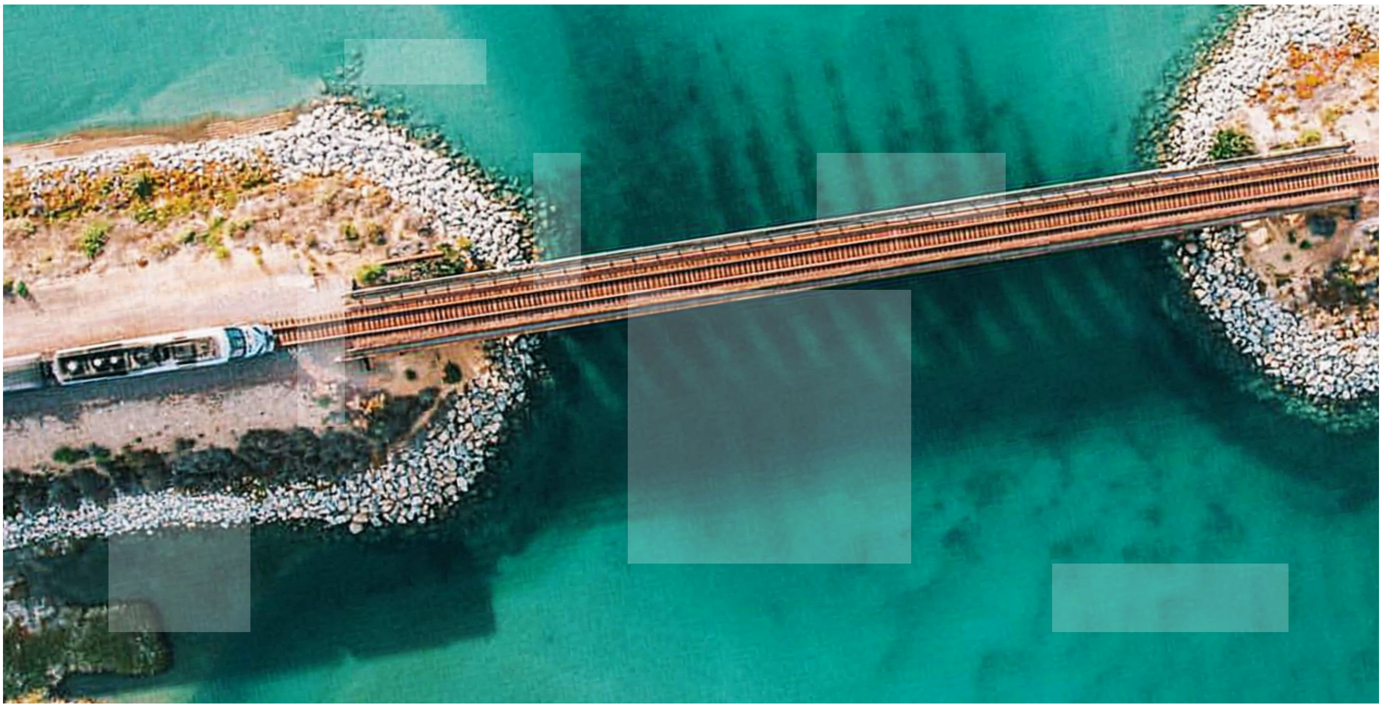
Figure 1. **Drivers of sustainable investment**



Sustainable investing is about long-term, finance-driven strategies – not to be confused with ethical investing. It is central to successful long-term investment outcomes and should be a key part of all asset owners' investment approaches.

In this paper we:

- Provide an overview of the pressures asset owners are facing to consider sustainable investment
- Share how Willis Towers Watson has made sustainable investment central to our investment process and solutions
- List immediate, practical actions asset owners of all sizes should take to embed sustainable investment in their approach



Drivers for change

Asset owners are increasingly building ESG and Sustainability considerations into their investment decisions.

Sustainable investment is mainstream

Sustainable investment has increasingly moved up the agenda for institutional investors internationally. Asset owners with truly long term return mandates are considering the long term impact of their investment on returns, through considering ESG and sustainability themes.

The 'stick' of regulation, supported by guidance from oversight and industry bodies, has given sustainable investment a sense of urgency and need to change in Europe and beyond. These regulations have influence internationally.

A key industry body attracting attention in Asia is the UN PRI (Principle for Responsible Investment). The UN PRI has operated internationally, engaging directly with asset managers, asset owners and consultants to encourage sustainable investments.

A number of institutions in Asia, particularly Japan, have become signatories, working to ensure investments are aligned to the 17 Sustainable Development Goals set out, with commendable objectives to end poverty, protect the planet and improve the livelihood of all people.

In Asia, regulators are beginning to provide (optional) guidance and principles for ESG and Sustainability. In 2016, Hong Kong's Securities and Futures Commission published the "Principles of Responsible Ownership", which sets out to provide investors with advice on how best to meet their ownership objectives. More recently, Japan's Financial Services Agencies continues to reform asset owner engagement with Sustainable investment. The Corporate Governance code issued in 2015 was revamped in 2018.

Values of investment beneficiaries are influencing change in Asia

Pressure has come from the end saver (such as pension fund beneficiaries) for institutions to consider sustainability topics that are important to them. End beneficiaries are increasingly engaged with their investments and want to understand the impacts of their investments on society, the environment and many non-financial issues.

It is not unusual to see mainstream media headlines highlight ESG issues – data privacy at Facebook, corporate scandals such as Wells Fargo, Volkswagen and Uber, as well as industry-wide topics including executive compensation, board diversity and supply chain management.

Indeed, many sustainability-related issues are very much in the general public consciousness, perhaps none more so than climate change, which was recently described as "the single biggest urgency" for investors by Adrian Orr, former CEO of the New Zealand Superannuation Fund, widely recognised as one of the leading global asset owners, not just in the Asia Pacific region but globally.

In Asia, labour law issues have become topical with investment beneficiaries intent on ensuring their investments are not complicit in causing harm to workers operating in the production process. Screening is one method that asset managers can take to determine the ethical impact of their investments.

Regulation is increasing internationally

Regulation requires asset owners to take action. Investment is a global business. Increasing regulation in Europe and America is likely to have ramifications in Asia.

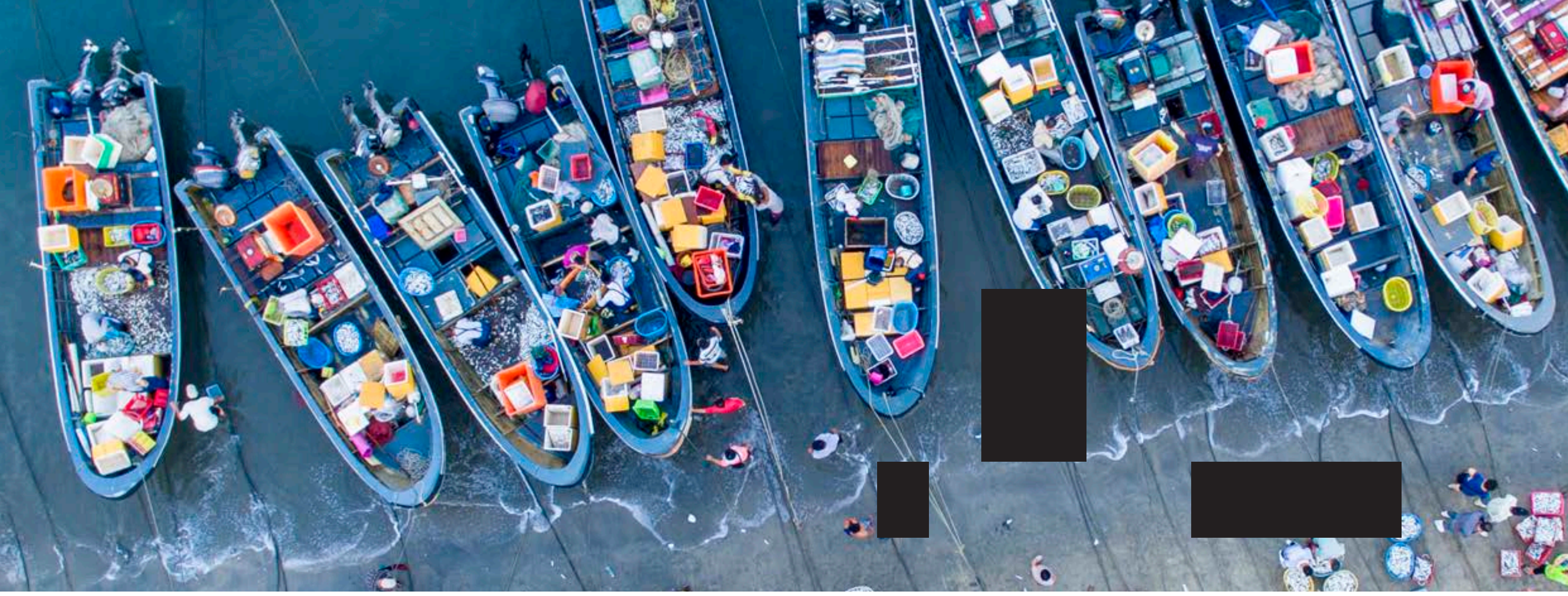
Europe has been at the forefront of change, driven in part by regulations. A few key pieces of European regulations include the Pensions Regulator (tPR) and Financial Reporting Council (FRC) guidance in the U.K., and Institutions for Occupational Retirement Provision (IORP) 2 in the EU.

The Pensions Regulator (tPR) in the UK, has been explicit in guidance to trustees. Emphasis has been made that financially material environmental, social and governance (ESG) factors should be taken into account when making decisions on behalf of members (in scheme design and the setting of investment strategy). EU regulation has been amplified with a call from the European Commission's Capital Markets Union for a "deep re-engineering" of the financial system to support sustainable economies. European parliament has called on pension funds and financial institutions to divest from fossil fuels in order to align investments with the 2 degrees Paris target, and under the new IORP 2 directive, pension providers are required to carry out a self-assessment of risks on a triennial basis, covering "new or emerging" risks, including those related to use of resources, the environment, and asset depreciation due to regulatory change (one aspect of 'stranded assets').

Globally, regulators are also pointing their compass in the same direction with cross-border initiatives such as the Task Force for Climate-related Financial Disclosures (TCFD), as well as the release of new stewardship codes across the world including in the EU, Australia, Brazil and Japan, to name but a few.

Select international regulatory and industry body activity

- The Pensions Regulator guidance on DB and DC schemes to incorporate material ESG factors and undertake effective stewardship (March 2017)
- Financial Reporting Council assessment of Stewardship Code signatories (November 2016); review of UK Corporate Governance and UK Stewardship Codes (ongoing)
- U.K. Law Commission report on pension funds and social investment to parliament, proposing various steps that can be taken to strengthen ESG integration by pension schemes (June 2017)
- IFoA risk alerts and guidance to members on climate change
- SOA risk alerts to members on climate change
- IORP2 coming into force in January 2019
- AMNT and UKSIF initiative stating that trustees and their advisors are under an obligation to act on recent tPR guidance (September 2017)
- EAC letter to top 25 U.K. pension funds on climate action (March 2018)
- UN Sustainable Development Goals (SDGs) – a set of 17 global goals to frame all UN members' agendas and political policies to 2030 (January 2016)
- European Commission Capital Markets Union call for a "deep re-engineering" of the financial system to support sustainable economies (June 2017)
- TCFD report and final recommendations (June 2017)
- Launch of U.S. Investor Stewardship Group (January 2018)
- Principles for Responsible Investment (PRI) – compulsory service provider reporting, and watchlist for 185 signatories to make improvement or face being delisted
- Sustainable Finance High-Level Expert Group final report and action plan (January 2018)
- European Parliament call on pension funds and other institutions to divest fossil fuels to align with 2 degrees (October 2017)
- Article 173 in France introducing mandatory climate change-related reporting for institutional investors (August 2015), and a call on the U.K. Government to consider passing similar legislation in the U.K. (June 2018)



A top priority – in terms of what we do and how we do it

Put simply, we believe an investment approach that integrates sustainable investment effectively will outperform one that does not over the long term. Therefore we continue to strengthen and expand our activities in this area.

Our beliefs

At Willis Towers Watson, we have long believed in the importance of sustainable investment. We also believe that integrating sustainable investment into the entire investment process from setting the mission and objectives, through asset allocation, portfolio construction and manager selection, to monitoring and reporting, is the best way to realise the full value available here.

Our investment beliefs clearly articulate this. In our view, sustainable investment is central to successful long-term investment outcomes and should be a key part of all asset owners' investment approaches. Sustainable investing encompasses long-term, finance-driven strategies that integrate ESG factors and stewardship. This reflects good risk management and supports a robust investment industry. We believe that the principles underlying sustainable investment form the cornerstone of a successful long-term investment strategy.

The supporting evidence for this approach is compelling. (See 'Empirical evidence' on page 9).

Willis Towers Watson beliefs
We believe that sustainability issues have a material impact on risk and outcomes, both financial and non-financial. Our full philosophy and approach to the subject is outlined in "Sustainable investment and stewardship – our position."[1]

Turning beliefs into action

We have long been leaders in the area of sustainable investment, but we recognise there is always more that can be done. To this effect, we continue to strengthen and expand our sustainable investment activities across our business.

Fiduciary management and pooled fund solutions:
Full and partial delegation gives clients access to solutions where our best ideas and implementation are realised, and naturally where the full effect of our sustainable investment research can be integrated. This applies from the genesis of investment ideas and assessment of strategies, through portfolio construction, to the way in which we monitor the performance of our funds. Particular highlights reflecting this include:

- Employment of Hermes EOS (a best-in-class stewardship provider) to act on behalf of our flagship global equity fund, ensuring corporate engagement (including voting) practices are in line with best practice. This complements the recent application of a controversial weapons exclusion policy.
- Our best ideas multi-asset fund continues to target co-investments tied to positive sustainability trends and wider societal benefits (examples include investments in Scottish Hydro, Japanese Solar, cybersecurity, advanced greenhouses and science innovation venture capital).
- Our secure income assets fund targets long-term thematic property and infrastructure investments that align to key megatrends and sustainability issues, and has secured commitments of over $1bn within its first year.

Manager research:
Our focus here is on identifying the best strategies and products in the market capable of delivering outstanding investment results for our clients. We work hard to find these products, but crucially we also work to create new solutions where we feel that there is a genuine need and no suitable solution exists.

The notion of sustainable investment is fundamentally engrained in our research process which is centred on finding asset managers able to deliver a sustainable competitive advantage.

This commitment is demonstrated via our:

- Approach to sustainability being fully integrated within our assessment of managers (our FREX rating) rather than as a separate ESG rating created by a different team. However, we also provide an assessment of the sustainability credentials of our highly rated strategies via our Sustainable Investment reports. These reports focus on the ESG integration and stewardship credentials of asset managers, carried out at a product level and tailored by asset class and investment strategy; this includes, for example, an analysis of how equity managers have voted on issues at their investee companies.
- Identification of niche ideas to take advantage of attractive long-term themes – including those identified in PF above, as well as ones looking at cyber security and social housing for example.
- Creation of two new innovative ESG fund solutions, in collaboration with a manager and index provider, where we felt there was no suitable solution available to address client needs. These soon to be launched solutions comprise an Adaptive Cap strategy applying an ESG overlay, and a multifactor ESG approach, both of which are suitable for large institutional investors.

While our work will continue to evolve over time, we are giving particular focus this year to working with the world's largest (often indexation-focused) managers on their effective contribution to a well-functioning investment system, not least through their stewardship activities.

Asset research:
A key component of tackling the sustainable investment challenge for asset owners comes at the risk management and portfolio construction stages of the investment process. Our dedicated asset research team is exactly focused on these areas, working on how best to integrate sustainable investment at these crucial points. Last year, in conjunction with the Principles for Responsible Investment (PRI), we investigated the 'megatrends' (large-scale, transformative developments that will impact our economies, businesses and societies) that are most important to global investors, in order to better understand the associated risks and opportunities.

Building on this, we have several key initiatives underway, including:

- Climate change scenarios to be applied to asset and liability modelling
- Portfolio resilience and sustainability scoring
- Reverse stress testing tools to focus on individual investor risk tolerances and their exposure to sustainability trends

Thinking Ahead

As ever, our Thinking Ahead Institute[2] – a not-for-profit think-tank set up by Willis Towers Watson with the sole purpose of changing the investment industry for the benefit of the end saver – has been at the forefront of research and innovation in this field. Over the course of 2017, sustainable

investment was a key topic of focus, and the Institute produced three major publications:

- Sustainability beliefs: a new measurement tool[3]
- Sustainability portfolio construction: connecting sustainability risks to asset class returns
- Sustainability portfolio construction case studies

The beliefs tool in particular gives users a clear insight into the issues that an effective beliefs exercise would address, as well as very useful peer benchmarking data.

In addition, the Institute carried out flagship research into quantifying the "long term premium", exploring the organisational skillsets and mindsets needed to effectively exploit that premium available.[4]

Collaborating to drive positive change

The Thinking Ahead Institute is one of many collaborative initiatives that we believe are important to drive change in the industry. There is great power in collective action raising standards and improving outcomes for end savers. These initiatives offer organisations like us, and asset owners like you, the opportunity to extend sustainable investment actions and impact alongside like-minded investors.

Other key initiatives and collaborations we have undertaken include:

- Willis Towers Watson's '1 in 100 Initiative'. Successfully working with the G20 Financial Stability Board, Bank of England, U.S. Treasury, IAIS and other authorities to propel reform on the disclosure of near-term climate and natural-disaster-related risks by financial institutions culminating in the creation of the Financial Stability Board Task Force on Climate-related Financial Disclosures. Willis Towers Watson contributed to the consultation by the TCFD task force in developing its guidelines and signed the final public statement published in June 2017 backing its recommendations.
- Founder members of the Diversity Project, an investment industry initiative to attract and retain diverse talent in the industry.
- Working with the Federal Insurance Office Director, White House Office of Management and Budget and selected U.S. city regions on Insuring Resilient America, which is a programme exploring how insurance-related capability can build resilience to climate risk and natural hazards, including work on developing financial instruments called resilience bonds.
- We employ the services of Hermes EOS to undertake public engagement on our behalf. Particular topics we have encouraged are carbon/stranded assets, corporate ESG disclosure and board governance.
- Membership of ClimateWise, an alignment of leading insurers and brokers, convened by the University of Cambridge Institute for Sustainability Leadership (CISL) to enhance societal resilience to climate risk.
- Being signatories to the Principles for Responsible Investment (PRI) and the UK Stewardship Code with a Tier 1 rating on our stewardship statement.

Fuller details of our efforts can be found in our publication "Collaborative initiatives – working together to address the sustainability-related challenges in investment".[5]

Practical actions asset owners of all sizes can take right now

Sustainable investment is sometimes dismissed as a topic only large asset owners can accommodate, however, we believe that this is largely a fallacy, as there are several immediate, practical actions available to all investors.

We recognise that the interpretation and application of sustainable investment principles will vary according to the context of each organisation. This context includes governance budgets, objectives and operating models, among others. Nonetheless, below are some of the actions that all investors can and should take:

Learn more

- Undertake training on sustainable investment, including the regulatory and legal context

Understand your current position

- Review existing sustainability policies
- Conduct a Sustainable Investment beliefs exercise to examine and benchmark current beliefs – the TAI beliefs tool shows what this could look like and includes useful peer benchmarking data
- Request Sustainable Investment reports for your managers (available for highly rated strategies) to better understand their approach to ESG integration and stewardship practices

Portfolio considerations

- Assess your portfolio's current exposure to climate change risk and understand your portfolio's carbon footprint
- Incorporate ESG integration and stewardship practices as a decision criterion when selecting new managers
- Find out about new ESG focused fund solutions currently or soon to be available, and how they improve upon the status quo for passive equity or factor investing
- Consider availability of the long-term premium and how your portfolio might be better positioned to take advantage of this
- Consider targeted private market investments that exploit attractive long-term trends

Get involved

- Become a member of the Thinking Ahead Institute and change the industry for the better first hand
- Join and help shape collaborative initiatives such as the PRI, and sign up to your national stewardship code

Articulate your sustainable investment stance

- Decide fund positioning and incorporate the sustainable investment stance and actions into investment policy documents

Hold third parties to your standards

- Pressurise your existing managers to improve their approach to ESG integration and stewardship, and be prepared to replace them if they don't
- Ask your managers how they integrate ESG factors, to give examples of how it has affected decisions they've made, and to show you their stewardship data (such as an equity manager's voting records)

Delegate the implementation of your beliefs

- Minimise the governance demands involved in amending and integrating sustainable investment beliefs by considering partial or full delegation
- Consider the use of an overlay stewardship expert such as Hermes EOS either directly or via a delegated solution

Integrating sustainability into the investment process

1. **Select fund positioning** – consider mission and beliefs across a range of financial and non-financial factors. Articulate mission and beliefs, and document in a policy.
2. **Develop a risk management process** – ensuring that the balance between investment risk and funding represents a sustainable and robust strategy for all stakeholders. Carry out specific stress tests linked to long-term macro scenarios.
3. **Portfolio construction** – accounting for material sustainable risks and opportunities. Identify strategies across asset classes and alpha-beta spectrum to manage these risks and exploit opportunities.
4. **Implementation** – through active engagement with fund managers. Monitoring their practices versus policies, and working with managers to evolve their activities in this area.
5. **Monitoring** – to ensure activities are mission-consistent and meeting expectations. Regular reviews of progress versus plan, periodic updates of macro scenario analysis, and regular reviews of manager ESG and stewardship activities.

In conclusion

The momentum behind sustainable investment is powerful and building. However, it is vital to be able to harness this and translate it into affirmative investment actions that capture the potential of the subject. We believe all investors have a part to play here, and that inaction comes with significant risks. Whilst it is often tempting to focus on best practice and what leading asset owners are doing, we believe it is equally, if not more important to highlight what all asset owners can and should be doing. The practical actions outlined here represent a starting point and a call to action that we hope will drive real change.

Figure 2. **Integrating sustainability into the investment process**

Further information

For more information contact your usual Willis Towers Watson consultant or

email: investment.solutions.asia@willistowerswatson.com

[1]"Sustainable investment and stewardship – our position," Willis Towers Watson, available here: www.towerswatson.com/en-GB/Insights/IC-Types/Ad-hoc-Point-of-View/2014/02/Sustainable-investment-and-stewardship

[2]Thinking Ahead Institute brochure, available here: www.thinkingaheadinstitute.org/about-us/overview

[3]Thinking Ahead Institute sustainability beliefs tool, available here: www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2017/11/Sustainability-beliefs

[4]Thinking Ahead Institute long-horizon premium research, available here: www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2017/05/The-search-for-a-long-term-premium

[5]Willis Towers Watson collaborative initiatives brochure, available here: www.willistowerswatson.com/en/insights/2018/03/collaborative-initiatives

Empirical evidence

While data history is limited and results vary, evidence tends to point towards a moderate long-term risk adjusted return advantage for approaches which integrate consideration of ESG risks. While there is support for consideration across environmental, social and governance factors, governance is often found to be the most influential factor in academic papers. There is also strong evidence for a sizeable net long-term premium, depending on investor size and governance.

ESG integration

- As part of sensible risk management it seems appropriate to implement strategies which consider ESG risks and opportunities, especially if the fee/cost difference is marginal
- Higher ESG scoring companies tend to provide moderately better risk-adjusted returns over the long term (see studies 1-6), and there is some evidence for lower credit spreads in fixed income (see studies 7 and 8).
- Governance ('G') is often found to be the most influential factor (see studies 2 and 8)

Effective stewardship

- While difficult to measure, there is increasing empirical evidence to support the value of stewardship – company engagement appears to have a positive impact (see studies 9 to 11).

Long-horizon investing

- There is strong evidence of a sizeable net long-term premium of between 0.5% p.a. and 1.5% p.a. depending on investor size and governance arrangements.
- Eight building blocks of value creation have been identified, split between those that provide long-horizon return opportunities, and those which lead to lower costs and/or mitigate losses (see Thinking Ahead Institute research summary in *Figure 3*).

1. Clark, Feiner, Viehs. *From the Stockholder to the Stakeholder*, University of Oxford, Arabesque Partners, 2014. This used research from Clark, Viehs. *The Implications of Corporate Social Responsibility for Investors*, 2014.
   - Based on more than 190 sources
   - "90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies"
   - "88% of the research shows that solid ESG practices result in better operational performance of firms"
   - "80% of the studies show that stock price performance of companies is positively influenced by good sustainability practices"

2. Fulton, Kahn, Sharples. *Sustainable Investing; Establishing Long Term Value and Performance*, Deutsche Bank, 2012.
   - Based on more than 100 academic studies
   - "100% of academic studies agree that companies with high ratings for ... ESG have a lower cost of capital in terms of debt (loans and bonds) and equity"
   - "89% of the studies ... show that companies with high ratings for ESG factors exhibit market-based outperformance"
   - Within ESG, governance ('G') is often found to be the most influential factor
   - However studies of funds applying an exclusionary approach have tended to achieve mixed results

3. Friede, Busch, Bassen. *ESG and financial performance: aggregated evidence from more than 2000 empirical studies*, Journal of Sustainable Finance & Investment, Deutsche Bank & University of Hamburg, 2015.
   - A second level review study, covering 60 review studies (3718 underlying studies, and when taking out duplicates, this leads to 2200 unique studies)
   - The business case for ESG investing is empirically very well founded
   - Roughly 90% of the studies find a nonnegative ESG-CFP (corporate financial performance) relation. The large majority of studies report positive findings

4. Kumar et al, *Keep it broad: an approach to ESG strategic tilting*, MSCI 2017.
   - MSCI ESG Universal Index demonstrated a back-test annualised outperformance of 20 bps and a risk reduction of 30 bps compared to the parent MSCI ACWI Index for the period ranging from November 2009 to July 2016 while exhibiting a low tracking error with minimum sector and country bets.

5. Khan, Serafeim, Yoon. *Corporate Sustainability: First Evidence on Materiality*, Harvard, 2015.
   - Paper examines the concept of materiality as it relates to sustainability factors. The paper finds that "firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues. In contrast, firms with good ratings on immaterial sustainability issues do not significantly outperform firms with poor ratings on the same issues."

6. Giese, Lee, Melas, Nagy, Nishikawa. *Foundations of ESG investing, Part 1: How ESG affects equity valuation, risk and performance*, 2017.
   - MSCI studied the relationship between ESG ratings and the valuation and performance of companies, both through their systematic risk profile (lower costs of capital and higher valuations) and their idiosyncratic risk profile (higher profitability and lower exposures to tail risk). Their findings can be summarised as:
   - ESG signals are more impactful when integrated into fundamental analysis (as opposed to being treated as a separate factor such as value or momentum)
   - ESG signals are more meaningful over long time horizons and so should feature in long term decision making (including asset allocation)
   - ESG analysis should reduce exposure to left tail event risks by being invested in 'better managed' companies

7. Nguyen-Taylor, Naranjo, Roy. *The ESG Advantage in Fixed Income Investing: An Empirical analysis*, Calvert Investments, 2015.
   - ESG positively influences overall CDS spread performance (timeframe 2002-2012)
   - E & S accounted for meaningful outperformance in CDS spreads, outperformance due to G was still positive

8. Desclee, Dynkin, Maitra, Polbennikov. *ESG Ratings and Performance of Corporate Bonds*, Barclays, 2016.
   - Corporate bonds with higher composite ESG ratings have slightly lower spreads, all else equal (timeframe 2007-2015)
   - Modest incremental return from high ESG rated bonds – G is the biggest contributor to improved performance
   - SRI exclusion (companies involved in controversial activities) has reduced average returns while increasing portfolio spreads

9. Dimson, Karakas, Li. *Active Ownership*, Review of Financial Studies, 2015.
   - Engagements with investee companies on average generated abnormal returns of 2.3% one year following the initial engagement in the U.S. from 1999-2009.
   - The study examined 2,152 highly intensive engagements on ESG areas for 613 U.S. public firms. The success rate for engagements was 18% and on average it took 2-3 engagements before success could be recorded, which on average was 1.5 years after the initial engagement

10. Junkin, *Update to The "CalPERS Effect" on Targeted Company Share Prices*, Wilshire Associate, 2013.
   - Over the five years after CalPERS' engagements, targeted companies on average produced excess returns of 12.3% above the Russell 1000 Index.
   - This analysis evaluated CalPERS' corporate governance effectiveness by measuring the performance of the stocks of the 183 companies targeted by CalPERS from the 1999 engagement process through the 2012 engagement process.
   - Over the three years prior to the initial engagement, the targeted companies on average underperformed the Russell 1000 Index by 38.9% cumulatively.

11. Hoepner, Oikonomou, Zhou. *ESG Engagement in Extractive Industries: return and risk,* 2015.
   - Uses the data from Hermes EOS milestones as part of their engagements in the extractives sector – 167 engagements with 56 companies that were broadly split across environmental, social and governance issues
   - Companies that were the target of engagement generated an average outperformance of +4.4% per annum and were associated with a lower risk profile relative to similar companies. Those that implemented strategies to deal with issues highlighted by the engagement process outperformed those that simply acknowledged the engagement efforts.
   - Further, those companies that responded negatively to attempts at engagement significantly underperformed other engaged companies

Figure 3. **Building blocks of the long-term premium**

Return opportunities

Active ownership

Average excess return of **2.3%** was generated over one year after engagements with investee companies

Liquidity provision

Long-horizon investors have the potential to earn additional returns of **1% pa** by providing liquidity when it is most needed

Capturing systematic mispricing

Exploiting various mispricing effects in smart betas added more than **1.5% pa** relative to cap weighted index in the past decades

Illiquidity premium

Illiquidity risk premium is worth **0.5-2% pa** – additional returns might be available to truly long-horizon investors

Thematic investing

93% of 2016 TAI New York roundtable attendees believe that it is possible to create value through investing thematically

Avoiding drags

Avoiding buy-high-sell-low

Chasing past performance cost U.S. pension funds **1%** (over three years post manager change)

Avoiding forced sale

Liquidity-driven trading in response to redemption reduced returns of open-end mutual funds by **1.5% pa**

Lower transaction costs

0.26% pa could be saved in transaction costs if U.K. medium-size pension funds reduce their active strategies turnover to 60%

Source: Thinking Ahead Institute. *The search for a long-term premium*, 2017.
Past performance and expected performance are not reliable indicators of future results. Return opportunities are shown for illustrative purposes only.

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 over 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimise 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.

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