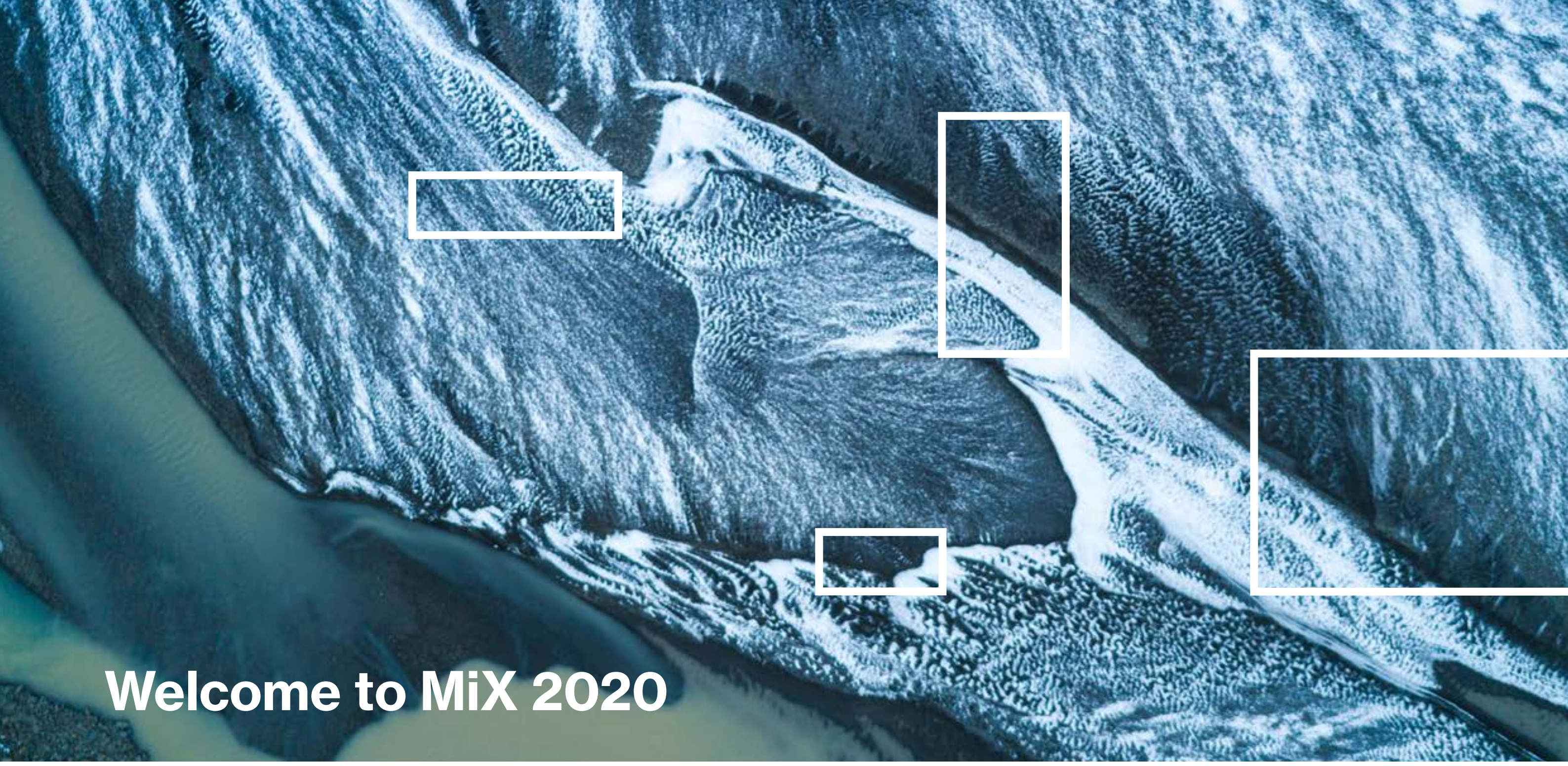
MIX
Manager Ideas Exchange

Annual update to the asset manager community

June 2020



Welcome to MiX 2020

"There are decades when nothing happens; and there are weeks when decades happen."
Vladimir Lenin

This Lenin quote really hits the spot. We are living through extraordinary times. The COVID-19 global pandemic has caused unimaginable misery, a complete change to working practice for all of us, a change to every-day existence, the quickest stock market crash in history, the greatest economic contraction since the Great Depression and the greatest central bank and government interventions in peace time. It is fair to say that none of us can remember anything remotely like this, while the contrast to the preceding years of calm only serves to accentuate the shock.

I start with the really important stuff. The coronavirus pandemic is, first and foremost, a humanitarian crisis. In these troubling times, we hope that you are all staying safe and healthy; and similarly for your loved ones and colleagues.

The recent events in the U.S. are a shocking and timely reminder of the challenges we face as a society. Society is an oft forgotten stakeholder in the investment industry, however we must all do more and become ever more explicit and bold in our actions to do our bit to facilitate change.

Despite this troubling backdrop, now more than ever there is a need for us to collectively help our mutual clients and support the institutional saving industry. Whether it is a request for the latest performance update or portfolio positioning in response to a sharp market swing, we all play a key role in helping to assuage client fears and concerns, helping savers retain objectivity and an appropriately long-term perspective through the current market volatility.

Contents

Please accept my sincere thank you for the role you have played, and will continue to play. We fully appreciate we have layered on additional work at a time of enormous personal and professional resourcing stress; we work hard to avoid unnecessary work and contributing to the noise and panic, even if this might not always appear obvious. We really appreciate the partnership.

For several years we have spoken about culture and the steps we have taken to develop and refine our assessment framework in manager research, including developing the appropriate language to facilitate meaningful discussion. This has allowed the explicit incorporation of culture into our manager research process. It is through these periods of stress that the culture of an organisation shines through. We have observed with interest how asset managers have retained a focus on clients and employees, in addition to markets and shareholders, at a time of extreme market and commercial stress. We share some of our new thoughts around culture later and, as ever, we look forward to continuing to engaging you in this area.

While our short-term focus is necessarily the current turmoil and remaining client focused, we retain our key goal of identifying and creating interesting and innovative investment opportunities that will augment client portfolios and deliver against client needs.

We can now point to over 175 new and innovative products we have helped to create in conjunction with asset managers, where we have sought to isolate a particular investment opportunity set, a particular manager skill, or access a particular risk profile that helps to improve the balance and resilience of our clients' portfolios. We expect to see more innovation going forward and remain keen to maximise opportunities to exchange ideas with the asset management industry, using a variety of channels to share our thinking and hear your thoughts. A growing number of these innovative products sit on the Asset Management Exchange platform, benefitting from reduced costs and strong operational oversight.

If I briefly look back to 2019 (which feels like an age ago), one area sticks out to me about the change in conversations we are having with asset managers and our clients. 2019 represented the transition from "talking-the-talk to walking-the-walk" in sustainability/ESG. While there is clearly not complete global buy-in, and we remain frustrated by the pace of development in some areas, 2019 felt like a watershed in the transition from sustainability being "important to some and peripheral to others", to a key consideration in investment decision-making for a majority of asset owners, asset managers and investment consultants. We talk in more detail later in this paper about our key initiatives and areas of focus, however a key headline message is that sustainability is fully integrated into our manager research process such that it is no longer a nice to have, but rather a prerequisite.

As is typical, this 2020 Manager Ideas Exchange covers the following:

- A snapshot of key numbers relevant to our business in 2019.
- Some developments in our research process
- Key research priorities for 2020
- A selection of thought leadership pieces that we thought you might find useful

Lastly, you will have seen the recent announcements that Aon is to combine with Willis Towers Watson, with the deal expected to close in 2021. Understandably, many of you are already posing questions to our manager researchers about what this might mean. Please bear with us. I'm sure you will appreciate there are tight restrictions around communications and engagement at these early stages. What we do know is that our clients will remain our primary focus throughout 2020 and beyond. A significant number of our research leadership group can trace our careers back to the Watson Wyatt partnership, myself included, and can draw on our experience and success through various previous corporate events that took us to Willis Towers Watson. Indeed, when we look back, we see that these developments allowed us to deliver even better outcomes for our clients and exert greater influence on the investment industry for the benefit of the end saver; notably, from the opportunity to incorporate different perspectives and skill sets, and the benefits of greater scale.

Stay safe,

Chris Redmond
Head of Manager Research

2019 in numbers

A snapshot of some key numbers relevant to our business in 2019

US$147.9
billion AuM globally[1]
(as of December 2019)

US$2.6
trillion AuA globally[1]

1200+
investment clients globally[1]

1,300,000+
savers benefit from our delegated solutions
(as of December 2019)

370
Total number of delegated clients globally
(as of December 2019)

Global research team[2]

U.K. London | Reigate	55
U.S. Chicago | New York | Stamford	25
Australia Melbourne | Sydney	13
Philippines Manila	8
Asia Hong Kong | Tokyo	4
Europe Frankfurt | Dublin	2
Africa Cape Town	1

Willis Towers Watson influenced
35 new product launches in 2019.
That brings us to a total of **175** solutions since 2005.

Invest Connect
1200 products
from **400** firms

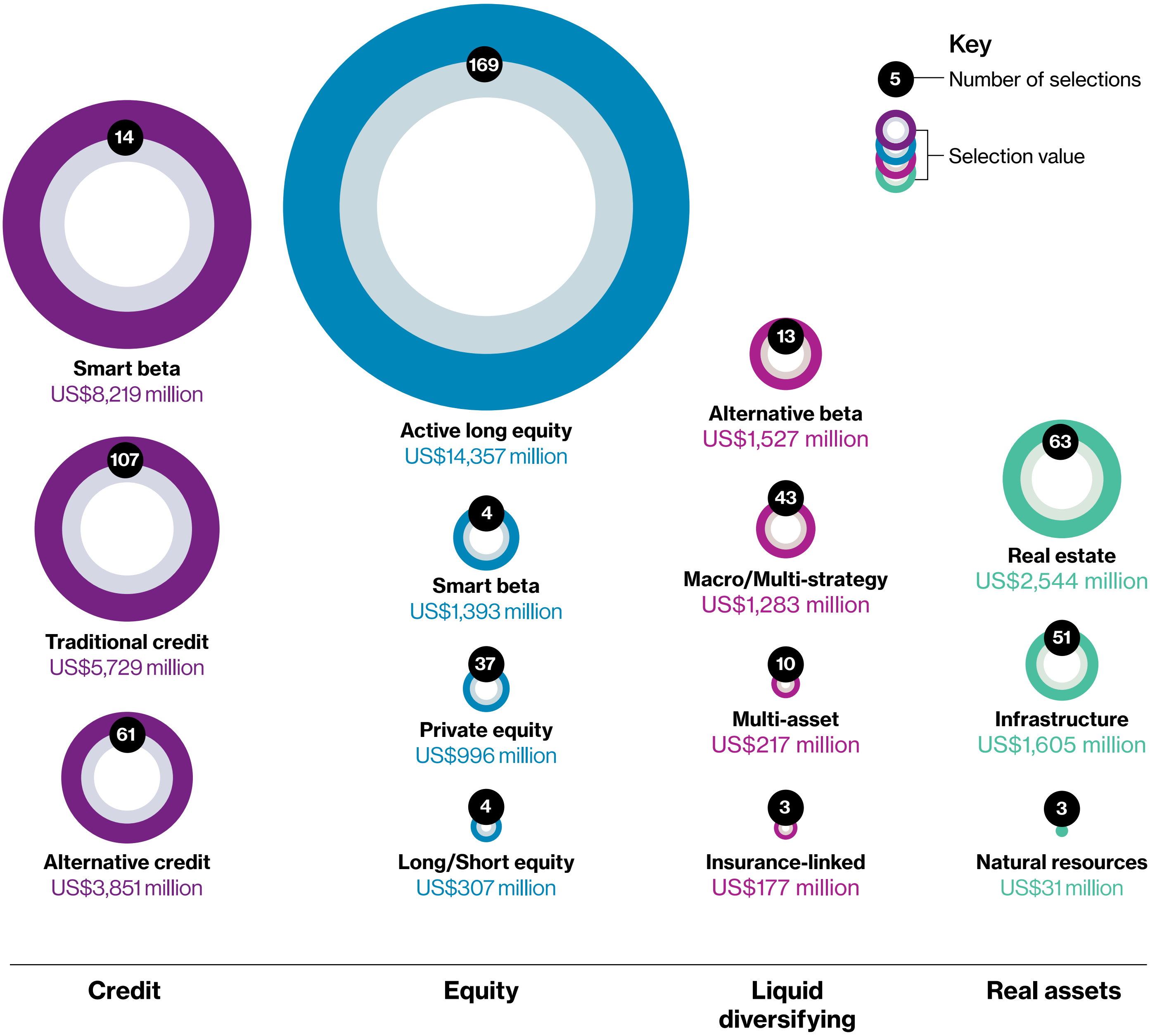
44
Thinking Ahead Institute members with a collective responsibility for
US$12 trillion

[1]Source: Willis Towers Watson. Assets under Advice as at December 2019. Assets under Management and client counts as at December 2019. All figures are subject to change.
[2]Source: Researchers (excluding support staff) from Asset Research, Manager Research, Operational Due Diligence and Thinking Ahead Group as at December 2019.

Manager selections

US$47.9 billion
of new selections in 2019

- Broadly similar to 2018, albeit with a slight slowing in Americas client activity.
- The activity from Willis Towers Watson's delegated clients jumped to 36% of total selection activity.



Against the backdrop of an extending global economic cycle and stretched valuations in many traditional asset classes, 2019 presented investors with a familiar challenge of remaining disciplined around time horizon.

While the market offered exceptional financial asset performance, this needed to be weighed against growing excesses and downside vulnerabilities. Recognising this dilemma, 2019 selection activity was characterised by:

- The ongoing management and refinement of client portfolios to provide healthy returns and diversity and downside resilience, accessing alternative sources of returns and products that provide implicit or explicit protection in an adverse environment.
- A continued transition towards smart beta implementation and integration of sustainability, driven by the ramp-up in required regulatory disclosures across various regions and the changing demands and preferences of the end saver.
- An acceleration in the journey of defined benefit (DB) pension funds towards the terminal run-off portfolio, exploiting the significant improvement in funded status to transition towards investments offering higher income and greater certainty of cashflow.

Credit

- Reflecting significant rotation to alternative credit in 2017-2018, 2019 selection activity was more muted. That said, private debt activity continues to rise as this asset class opens to non-bank investors and offers an attractive return and income profile.
- A significantly elevated volume of selections in smart beta, largely driven by greater adoption of buy-and-maintain type mandates for DB pension liability matching.
- We also saw new smart beta implementation options in the alternative credit space, offering efficient and cheap exposure.

Equity

- The lion's share of public equity selections continued to be in active global equity mandates. China equity also featured strongly in 2019 with over $2.5 billion in selection activity.
- Smart beta saw demand for strategies which could meet sustainable investment objectives, including exclusions, tilts and full integration into the investment approach.
- Within private equity, we continued to favour relatively niche opportunities, selectively participating in opportunities with thematic tailwinds and high return potential.

Liquid diversifying

- Continued interest in alternative beta strategies, although slightly less so than in recent years given many clients have well built-out portfolios.
- Discretionary and systematic macro strategies have been popular in the hedge fund space, with an expectation of strong performance in an environment of greater uncertainty and market volatility.

Real assets

- We saw a drop in the number and value of selections across real assets. This was primarily led by a reduction in the value of selections for both listed real estate and listed infrastructure as many of our clients had increased listed allocations in previous years.
- For a second successive year, our selection activity across higher risk strategies fell as we were far more selective in taking ideas to our clients due to concerns around market valuations.
- Secure income strategies (across real estate and infrastructure) accounted for the majority of selections by value (c50%). Euro denominated secure income strategy selections increased, following the successful adoption of this "asset class" in another market.
- The value of core real estate and infrastructure selections was broadly stable in 2019 but followed our "ignoring the herd" approach. We prioritised certain sector specific strategies such as U.S. single family homes and U.S. social infrastructure.

Manager engagement:

Driving change and aligning stakeholders through engagement

The goals of our manager research process are simple:

1. finding the best asset management organisations capable of delivering superior outcomes to our clients, and;
2. working with these organisations to explore ways to better meet our clients' evolving needs.

Each of our asset manager appointments is seen as a long-term partnership with an institution we rate highly. Our manager research team practises asset manager engagement in the same manner that we ourselves expect asset managers to engage in a constructive dialogue with the businesses they own.

Over 175 innovative solutions created through engagement and partnership

The result is that our manager research team engages with preferred asset managers and other third parties to design and provide seed capital for new solutions where existing offerings do not meet our clients' needs. We have created more than 175 new solutions in the last 15 years that have delivered differentiated solutions to client needs. However, we seek to engage and influence beyond just product design, even if this is often the ultimate output.

The three main areas that dominate our asset manager engagement are sustainable investment, (organisation) culture, and inclusion and diversity. These are all areas we perceive to be development areas in our own business; indeed it is our duty to improve in these three areas. What constitutes best practice in these three areas has been rapidly evolving, and as a result, we engage with asset managers not only to evaluate their current capabilities but also their plans and desired outcomes in the future and ways of achieving them. Our engagement focuses on ensuring continuous progress and improvement in the way our preferred asset managers create long-term value for our clients and act as responsible stewards of the investments in their portfolios.

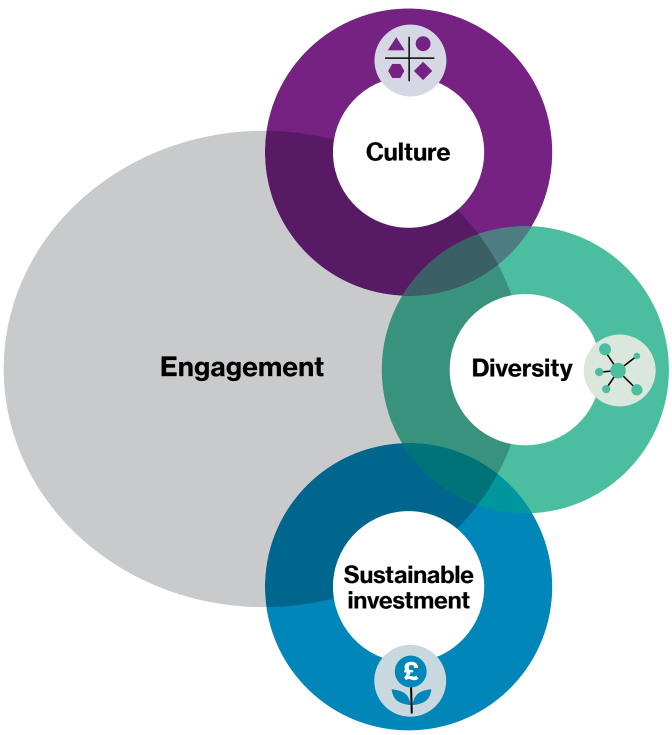
We encourage our preferred asset managers to articulate their purpose beyond pure financial returns and include benefits for clients, employees, society and planet. We want to engage with those firms that recognise their responsibility in actively creating a sustainable future and expect an industry mindset shift in the way leading groups make their investment and business decisions towards more direct consideration of externalities. One important example is encouraging our preferred managers to carefully consider climate change and energy transition in their investment decisions, which we discuss in the next section.

While different firms differ in their approaches, their leadership usually plays the critical role in defining the purpose, motivating their employees and creating the ability to continuously improve. Hence, our asset manager engagement process involves regular interaction with the most senior leaders of the firms with which we partner.

We also highlight stewardship as an area where the industry needs to improve. Engaging with underlying businesses, not on quarterly results, financial models and valuations but on their strategy, culture, leadership, innovation and sustainability is an opportunity for the asset management community to demonstrate actual value creation to society. We have engaged with numerous managers in detail on this, shared best practices and have published research to call for greater efforts.

In those rare instances where our engagement process does not lead to sufficient progress, we will look to allocate capital to other opportunities.

Figure 1: **Willis Towers Watson engagement model**



Sustainable investment

We believe sustainable investment, including the integration of ESG metrics, effective stewardship, long-term investing and managing real-world impacts, is central to successful investment outcomes and should therefore be integrated throughout all investment processes. It enhances returns, reduces risk, and crucially helps us serve people and the planet better, helping to create a sustainable economy and society.

We spoke last year of the importance of a business moving beyond the concept of shareholder primacy and towards a 'new normal' in thinking about its purpose and the triple bottom-line – profit, people and planet. We view the support of this model by institutions such as the Business Roundtable (whose members are the Chief Executive Officers of major U.S. corporations) as a major step forward in helping to mobilise capital. For many, it has taken a tragedy in the form of the novel coronavirus pandemic to showcase the importance of a business' purpose stretching beyond the audited balance sheet to the wellbeing and effective functioning of society at large – including a firm's employees, its suppliers (and their employees) and working towards a collective societal goal. Recent events have further highlighted the responsibility all firms and investors share when actively creating and shaping a sustainable future. We want to work with asset managers who understand this and recognise the role they play within society and on behalf their investors. We recently published our *Sustainable Investment Policy*, documenting the way we embed the best of our research, risk management and idea generation.

Climate change is an area where we see scope for further work and engagement. We believe that climate change presents material risks to investment portfolios alongside negative humanitarian and ecological impacts. The G20 finance ministers, non-governmental organisations (e.g. Inter-governmental Panel on Climate Change) and central bank governors have identified climate change as a systemic threat to the stability of the whole financial system. However, the risks to investment portfolios will ultimately be minimised if the transition to a low carbon portfolio starts as early as possible. This will help to avoid a climate "Minsky Moment". In our pursuit of helping facilitate this transition, we propose asset managers look to develop in three key areas of the investment process that will likely be impacted by climate change: risk management; identifying return opportunities; reporting.

Sustainability is fully integrated into our manager research (and portfolio management) process. As our expectations of asset managers in the areas of sustainability, and climate change specifically, continue to rise, we will increasingly direct capital away from those that lag good practice and fail to address it. We are also in the process of considering greater use of exclusions, reflecting our view that engagement is not always possible and a reflection that some end savers increasingly view this as a requirement. We welcome discussions as to which exclusions might make sense and would encourage all managers to consider the use of exclusions where appropriate. We look forward to seeing the innovations you are working on and partnering with those offering credible climate change resilient portfolios and solutions across the capital spectrum.

A proactive approach to climate change

Willis Towers Watson takes its social and planetary responsibility seriously and is actively contributing to how organisations respond to climate risk and the need to show clear plans for resilience.

As a focal point for the integration of capabilities from across our people, risk and capital businesses, our Climate and Resilience Hub drives our support for corporate, finance and public sector clients to identify, assess and act upon physical, transition and liability risks and opportunities arising from regulatory, investor, consumer, employee and operating pressures.

We deliver this support through our Climate Quantified™ brand. Climate Quantified integrates our deep weather and climate analytical experience from the (re)insurance, broking and investment markets, our knowledge of and role in contributing to climate and resilience policy and regulation, our extensive academic, research and institutional investor relationships, and our multi-discipline expertise and capabilities.

Nor are we simply a service provider. Climate Quantified embodies a proactive approach to helping shape the global community's response to climate risks through our own and cooperative initiatives. These include our founding with the World Economic Forum of the Coalition for Climate Resilient Investment, which aims to improve the pricing of climate risks and climate resilience in investment decision-making.

To learn more about Willis Towers Watson's Climate Risk and Resilience hub click here.

Inclusion and diversity/culture

Our approach to manager research is underpinned by a belief that the most powerful and repeatable way to find high-performing asset managers is to blend thoughtful qualitative insights with objective quantitative analysis of key success factors and areas of edge.

The assessment of culture is a key part of the research process. The completion of almost 200 culture assessments over the last three years has provided us with a fantastic insight into the industry, and allowed us to benchmark and provide feedback around best practices. You might be tempted to ask: “so what?”. Well, the culture assessment is exerting ever greater influence over our research conviction and ultimately driving where we are recommending capital should flow.

Inclusion and diversity (I&D) remains an area where we perceive progress to be disappointingly slow as an industry. We are taking explicit steps to help accelerate progress. This includes steps to challenge unconscious biases that may exist in our manager research process, sourcing a better range of diversity metrics and setting ourselves stretching targets to ensure we are maximising the benefits of more diverse teams at the asset managers entrusted to manage client capital.

In recent publications we have spoken about the ongoing spectre of non-inclusive behaviours that blight our industry (and society) and requested more widespread engagement. The recent troubling events in the U.S. have reinforced that we must do more than just oppose systemic racism (and all other forms of discrimination), but act as vocal agents for change. We are keen to hear what asset managers are doing, be it in broader society or internally focused. For example, what steps are being taken to explicitly address racism and sexism, what steps to achieve equality in key decision-making groups and equity ownership? Or are you taking a proactive approach to recruitment, for example a Returner programme?

We will be engaging asset managers on these topics and expect this issue to become a more important consideration for asset owners going forward.

Breaking the mould on defined contribution

The defined contribution (DC) market represents the future of the global pension industry and is an extremely large and rapidly growing one. The Investment Company Institute reported aggregate U.S. DC plan assets of $8.9 trillion at year end 2019, almost double what they were a decade ago. However, the nature of many DC plans, and the regulatory oversight they face, has often resulted in less than optimal choices available to plan participants, particularly when compared to what we observe for defined benefits. The environment has also translated into highly risk-averse plan sponsors (understandably so). The net result of all of this is that far too many of these plans have become dominated by what we view as relatively generic commingled/mutual fund solutions over more creative ones, which in the U.S. might include white label structures and more attractively priced vehicles such as Collective Investment Trusts (CITs).

The DC market is a critical one for Willis Towers Watson. And in the spirit of changing investments for the better, we have done a significant amount of educational and engagement work with our plan sponsor clients on ways to improve participant outcomes.

For example, in the U.S., we are working with our DC clients on projects such as building white label solutions and funding new, attractively-priced, CITs. However, for many this is a step too far, or a step too soon. Change will necessarily be incremental in nature for many. Consequently, we spend significant time identifying what we believe to be the highest quality options, while conforming with the many constraints and preferences of the various stakeholders.

In 2019, we sought to refresh and augment our list of preferred providers. We want to continue to engage with the asset management community on this critical part of our retirement industry. Specific areas of focus include simplifying plan structure and identifying skilled managers capable of:

- broad approaches that facilitate a move away from style boxes;
- creating more efficiently priced (and funded) vehicles, and;
- integration of sustainable investment and ESG issues, including better and more transparent stewardship.

Evolving the way we work

Recently we have all had to rapidly adapt to a new way of working. Our researchers have quickly adapted to working from home and using technology to stay in touch with each other and you. We greatly appreciate your responsiveness to our requests for updates following the market falls despite the disruption caused by COVID-19. From our side we will endeavour to learn from this experience, further adapt our approach to research and move to make greater use of technology which, amongst other things, should reduce the need for face to face meetings and travel.

Thank you for your continued support of Invest Connect, our proprietary, web-based data collection portal.

Our aim remains for the Invest Connect portal to be a critical pillar of our manager due diligence and monitoring process. We believe having our own information portal allows us to be more efficient in how we engage with asset management firms. We continue to utilise eVestment for broad industry coverage and its comprehensive capture of data across a broad range of areas.

Last year we said that we would continue to improve Invest Connect and are pleased to have been able to deliver the following key improvements:

- **Expanded questionnaires:** To ensure managers are providing accurate and insightful information, we have added and enhanced a number of questions in our foundational questionnaires. Key additions include:
  1. **Sustainability section:** Sustainability is central to our purpose. There are new dedicated sustainability sections in both the firm and product foundational questionnaires.
  2. **Inclusion and Diversity (I&D) questions:** I&D is a critical area for the future of our industry and we have added several new I&D questions into the firm foundational questionnaire.
- **Improved usability:** To make it easier for managers to complete Invest Connect, we have added the ability to download our questionnaires into Excel so that it's easier to share, complete and store responses. Additionally, to encourage the greater transparency which improves our research assessment, we have added fill rate information alongside the ability to provide notes about why data hasn't been provided.

Investment opportunities and areas of focus for 2020

Here we set out an overview of the investment opportunities we are looking for in each area

Credit

New investment opportunities sought:

- **Sustainable credit:** We continue to engage with managers on their approach to sustainability/ESG and are eager to have dialogue with managers who believe they are best in class in their sector(s). We are also looking for more (positive) impact strategies.
- **Re-risking:** We spent 2019 identifying a handful of managers who could re-risk should markets sell-off, as witnessed in March. This has included accessing core markets as efficiently as possible or using highly active managers who can be liquidity providers and purchase attractive securities at discounts across both corporate and securitised credit.
- **Private credit:** We are looking for two to four niche specialists, preferring to capture high returns via specialists rather than leveraging up core exposures. We continue to look for diversity in thought in the leadership of firms and investment teams and are looking at more niche lending and sustainable strategies.
- **Hedge fund credit:** We anticipate further dispersion, stress and distress within the corporate credit markets and, as such, are looking at potential complements to our existing exposure, whether that be more event driven credit, lower beta/relative value, or managers who can be more active in distressed situations.
- **Smart beta:** Our most recent area of focus has been long credit smart beta. We continue to look for specialists and welcome those who want to share ideas and jointly engage on identifying new opportunities.
- **EMD specialists:** Given the increasing dispersion in EMD, we continue to look for managers who can capture alpha in local currency EMD. We have a line-up of hard currency generalists and specialists but are always looking for managers that can offer complementary exposures.
- **Concentrated high yield:** We have a core roster of managers across high yield to run concentrated (30 to 40) bond portfolios. Should demand grow we are looking for an additional one to two complementary managers.

Equity

New investment opportunities sought:

- All strategies should come with an emphasis on ESG integration.
- **Private equity:** New primary investments with an emphasis on niche opportunities plus a flow of co-investment opportunities.
- **Long/Short equity:** Identifying new managers on which we can accelerate research should we need capacity during the year. Emphasis on strong alpha generation at reasonable fees.
- **Concentrated global equity:** Highly concentrated portfolios.
- **Concentrated multi-asset (equity bias):** Concentrated managers with an anchor in equities but with experience investing throughout the capital spectrum.
- Climate/environmental oriented active equity.
- **Emerging market equity:** Both concentrated and diversified products.
- **U.S. equity and World ex U.S. equity:** Diversified products for our U.S. DC client base; in particular managers with established collective investment trust vehicles.
- **Country specific:** Single-country mandates, in particular, China equity, Japan equity, Australia equity.

Liquid diversifying

New investment opportunities sought:

- Innovative strategies incorporating positive sustainable investing attributes, with particular sensitivity to climate change.
- Diverse teams, both as key decision makers and equity holders.
- **Multi-strategy systematic solutions** with low exposure to traditional trend-following models.
- **New alternative beta ideas** with low equity and credit beta, with particular interest in deconstructing hedge fund strategy return drivers.
- **Highly liquid, multi-asset solutions** fit for defined contribution pension schemes.
- **Tactical opportunities:** Dynamic strategies which perform well in volatile and uncertain market conditions and that can capitalise on the opportunities arising from the COVID-19 market impact.
- Isolating best ideas and niche skills in customised mandates, potentially via the AMX (Willis Towers Watson's Asset Management Exchange) platform.
- Enhancing trading efficiencies of strategies; minimising transaction costs, implementing best practice regarding trade errors, improving financing costs and bolstering operational infrastructure.

Real assets

New investment opportunities sought:

- **U.K. and Euro secure income strategies:** Searching for long-term, inflation-linked, contractual income real asset strategies, ideally in less institutionally-owned areas.
- **U.S. long-term contractual income strategies:** Such as social infrastructure, triple net leases, and other strategies in niche/less institutionally owned areas.
- **U.S. "alternative sector" real asset sector funds;** data centres, towers, health care, student accommodation, and other strategies in niche/less institutionally-owned areas.
- **Co-investment and secondary fund opportunities:** Across the risk/return spectrum and across sectors and real asset areas.
- **Listed real assets:** High active share listed infrastructure strategies.
- **Risk mitigated emerging market real asset strategies;** pre-leased real estate developments, renewables on long-term contracts.
- **Opportunistic real assets strategies:** Strategies taking advantage of pricing dislocations with limited leverage.
- **Asia Pacific core real estate strategies:** Searching for open-end structures, and well-diversified funds, ideally without performance fees.
- **Income-focused natural resource strategies:** For example, royalties or leased-based agriculture.

Operational due diligence (ODD):

Areas of focus:

- The operational impacts of COVID-19 on all our managers.
- Effectiveness of disaster recovery plans/business continuity plans and lessons learned given the current environment.
- Expansion of ODD coverage to key service providers including directors, administrators and third party valuation agents.
- Evolving cybersecurity threats and manager preparedness.
- Regulatory changes which may affect operational infrastructures.

ODD will continue to engage managers in order to change investment for the better by improving standards in:

- Cybersecurity preparedness
- Effective compliance frameworks
- Cash controls

Thinking Ahead Institute

Research focus:

- **Sustainability:**

  Sustainability is becoming an ever-more-important theme for the investment industry and is a subject close to the heart of the Thinking Ahead Institute. While broad, it is an area we are well-placed to tackle, given our past work and current passion. Much of our work focuses on equipping investment organisations to have a holistic and actionable understanding of sustainable investing and how they create value for wider stakeholders, such as society and the planet. We do this through providing easy to navigate tools and guidelines, enabling better alignment of mission and broadening the focus of measurement.

  We have launched two workstreams in this area in 2020. One is considering a +1.5°C portfolio and the other, the duty of ownership. The planetary task is straightforward. It is to reconfigure the economic machine to produce the same, or higher, level of benefits but without the waste products that cause global warming and other sustainability problems. The goal is a carbon-neutral economy, and the timeframe is generally set as 2050. For the investment industry, as owners and/ funders of a subset of the economic activity, the task is more complex because the objectives are fuzzier, and there is a possibility we will be forced into certain actions by the inevitable policy response as proposed by the PRI (Principles for Responsible Investment). Regarding ownership, consideration must start with the structural impediments caused by small fractional ownership interests, and go on to consider ownership tools, fiduciary duties, and the extent to which investment should care about a just transition.

- **The power of culture study**

  After many years of research into effective culture in investment organisations, the Institute launched the power of culture peer study for asset managers and asset owners keen to understand their own culture and leadership, where they sit on a spectrum and how they could sharpen their edge. So far over a dozen organisations have signed up and had their culture measured and their leadership empowered to manage it using proprietary Institute tools, including a customised culture dashboard. In doing so they have made the link between strategy and culture more tangible and achievable and discovered opportunities for culture innovation, particularly around diversity and inclusion. In addition, through dialogue with the Institute team, they have explored how greater organisational purpose can be part of the culture and vision conversation. Looking forward there will be an opportunity to participate in a symposium to develop further industry-wide insights and to unveil an investment industry culture peer benchmark.

  Join the study!
  Contact Paul Deane-Williams on +44 (0)1737 274397

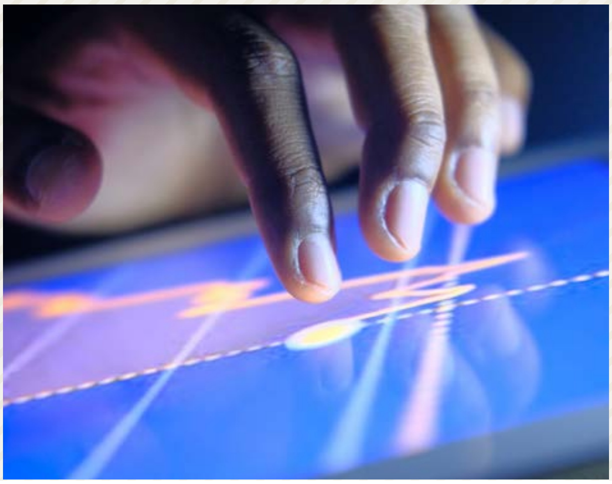
- **Total Portfolio Approach (TPA)**

  The TPA working group continues to build on the findings of a global peer study into the asset allocation practices and aspirations of leading asset owners. The group is following the thesis that TPA is a superior approach to portfolio construction relative to traditional alternative methods, notably strategic asset allocation (SAA). Specifically, that TPA addresses and can overcome three issues with SAA practice: issues of alignment with investors' goals; managing and optimising within sectors to a tracking error; and framing problems within an asset class set-up. It is looking to answer other key questions, including:

  - How asset owners (AOs) optimally design their decision rights and responsibilities
  - What qualities of leadership are needed for TPA success and specifically those related to a one-team culture?
  - Can we foresee a future where AOs write a cheque for the research and execution is done by the asset manager?
  - Can sustainability in the broadest sense be done better using TPA?

For more on Thinking Ahead Institute please see page 16.

A selection of our latest thought leadership



Secure Income

Over recent years, we've seen many pension schemes enter a cashflow negative phase, where the required income to pay beneficiaries is greater than the income generated from the asset portfolio. As such, the need for income generative assets is significant.

The institutional investment 'norm', particularly within the pension fund industry, has been for traditional government and investment grade corporate bonds to play a dominant role in providing the requisite liability matching.

The problem is that those assets now fail the dual requirement of low risk and healthy income generation. Government and investment corporate bonds currently offer close to zero income and zero return potential as central banks have pushed interest rates down to historically low levels.

Secure income, real assets can play an expanded role in investor portfolios. These are strategies defined by cashflow and risk characteristics rather than asset class or sector labels. Importantly, they can help solve the challenge of balancing low risk with reasonable income generation (typically targeting a 3% premium over high quality bonds).

For more information, please contact:

Paul Jayasingha
paul.jayasingha@willistowerswatson.com

Digital Infrastructure

When asset owners, such as pension funds, think about investing in infrastructure, most would generally think of things like roads, railways and bridges. Many have been quite successfully doing a lot more of those kinds of investments in recent years to compensate for bond yields that have declined to historic lows.

Consequently, infrastructure asset valuations have inflated to above long-term averages. But not universally. Our research shows that an often less visible, less obvious infrastructure asset class continues to present some particularly interesting investment opportunities.

Our most rapidly growing infrastructure need is to support the astonishing amount of data we now create; 44 zettabytes expected in 2020. Today's global economy of products and services would come to a standstill without digital infrastructure

For more information, please contact:

So Yeun Lim
so.yeun.lim@willistowerswatson.com

Visit our website to view the relevant papers.

Re-purposing Chatham House BLOG

Delivering a solution to address the poor levels of diversity that exist within our industry requires a fundamental change in attitudes and culture. We collectively need to create an environment that attracts the best talent, to ensure that the negative factors that push certain high calibre individuals away from our industry are addressed.

Consistent with fundamental goals of Chatham House around openness in discussion and ensuring all view are heard, we have embraced a pursuit of thought diversity within our internal meetings and hope a similar model can be adopted for all peer to peer engagements.

For more information, please contact:

Chris Redmond
chris.redmond@willistowerswatson.com

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Mastering Emerging Market Debt BLOG

Over the last 40 years, the emerging market and developing economies' share of global GDP have increased from around 37% to just under 60%. Opportunities for professional investors to seek returns in emerging market debt have grown in parallel, attracting larger allocations. Yet, for all the apparent potential, many investors have been left disappointed by their implementation solution.

We believe investors need greater specialisation, moving away from the "jack of all trades" approach in favour of specialist implementation.

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chris.redmond@willistowerswatson.com

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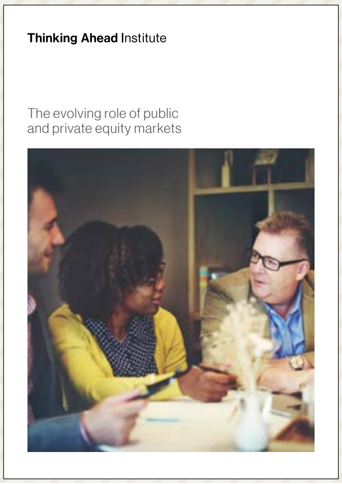


Asset Class of Tomorrow – The evolving role of public and private equity markets

The landscape of equity financing has been through some major changes. For much of history, the general public has been viewed by businesses as the most attractive source of equity capital and therefore a majority of companies have aspired to a stock exchange listing. That has started to shift, driven by the rise of the intangible economy and the abundance of private capital. Going public stops being a need. It becomes a choice. Public market investors are therefore now accessing companies at a later stage of their development than in the past, if they are able to access them at all. When these companies list, they emerge as mature and large companies. On the other hand, public markets are increasingly dominated by huge, mature business (they are fewer and bigger) that generate more cash than they can spend on future growth opportunities. This, in our view, leads to an increasing need for investors to extend their equity opportunity set to cover the entire business spectrum, both public and private. This paper also calls for the private equity investment model to evolve to allow for wider participation but whatever the nature of the private market of tomorrow, it looks likely to be a bigger part of the institutional landscape than it is today.

For more information, please contact:

Tim Hodgson
tim.hodgson@willistowerswatson.com

Asset Class of Tomorrow – The opening up of Chinese capital markets

The world's second largest equity market and second largest bond market are increasingly accessible by investors outside China. It is in China's long-term economic interest to do so. This paper lays out three main reasons with regards to why western investors want to own Chinese onshore assets:

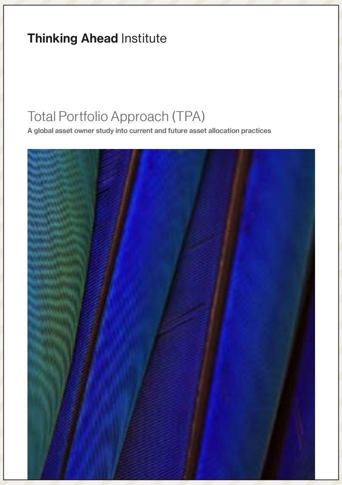
1. A strong long-term diversification benefit
2. Plenty of headroom for active management to exploit market inefficiencies.
3. A hedge for a new world order.

On the risk side of the argument, restricted outbound investment is a potential source of risk that could cause market disruptions. There are legitimate corporate governance concerns. Overall, the opening-up of China is likely one of the biggest changes to the investment opportunity set global investors will witness in their lifetime. Investing in China carries risks that investors should carefully examine but not investing in China could potentially present an even greater opportunity cost.

For more information, please contact:

Tim Hodgson
tim.hodgson@willistowerswatson.com

Visit www.thinkingaheadinstitute.org to view the relevant papers.



Total Portfolio Approach (TPA) – a global asset owner study into current and future asset allocation practices

Willis Towers Watson, in conjunction with the NSW Treasury Corporation (TCorp – a Thinking Ahead Institute member), conducted a global study into current and future asset allocation practices of leading asset owners, with a particular interest in better understanding the characteristics of what has become known as a TPA to portfolio construction. This paper includes discussions on the findings of this 'peer study' and describes the research investigations being carried out in the Thinking Ahead Institute to take this concept further. Total portfolio approaches have been evolved by some leading organisations around the world as a more 'joined up' investment philosophy that results in a more streamlined approach to portfolio construction.

For more information, please contact:

Tim Hodgson
tim.hodgson@willistowerswatson.com

Join the Thinking Ahead Institute

The Thinking Ahead Institute is inviting investment organisations around the world to join the over 60 other asset owners and managers, who have joined in the past, to help shape their organisations and mobilise capital for a sustainable future.

The Institute was established in 2015 as a not-for-profit research and innovation membership group rooted in the belief in the value and power of thought leadership, research and collaboration. It focuses on: better organisational effectiveness (stronger purpose and better governance); better investment strategies (outcome focused); and strengthened societal legitimacy (building trust). In order to achieve this, the Institute carries out original research; works with member organisations through workshops, tools, research working groups and events; and promotes sustainable change in the broader industry. Significant areas of research include: organisational culture (including governance and inclusion and diversity); sustainability and long-horizon investing (notably climate change); a more effective defined contribution system; and the future of the investment industry. Being part of the Institute means being at the forefront of influencing new investment thinking and being connected to people from all corners of the investment world to harness the ideas that lead to solutions for investors' real-world problems.

The Institute is funded by member subscriptions and Willis Towers Watson.

For more information

If you would like more information please visit the website **www.thinkingaheadinstitute.org** or contact

Paul Deane-Williams
+44 (0)1737 274397
paul.deane-williams@willistowerswatson.com

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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, 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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