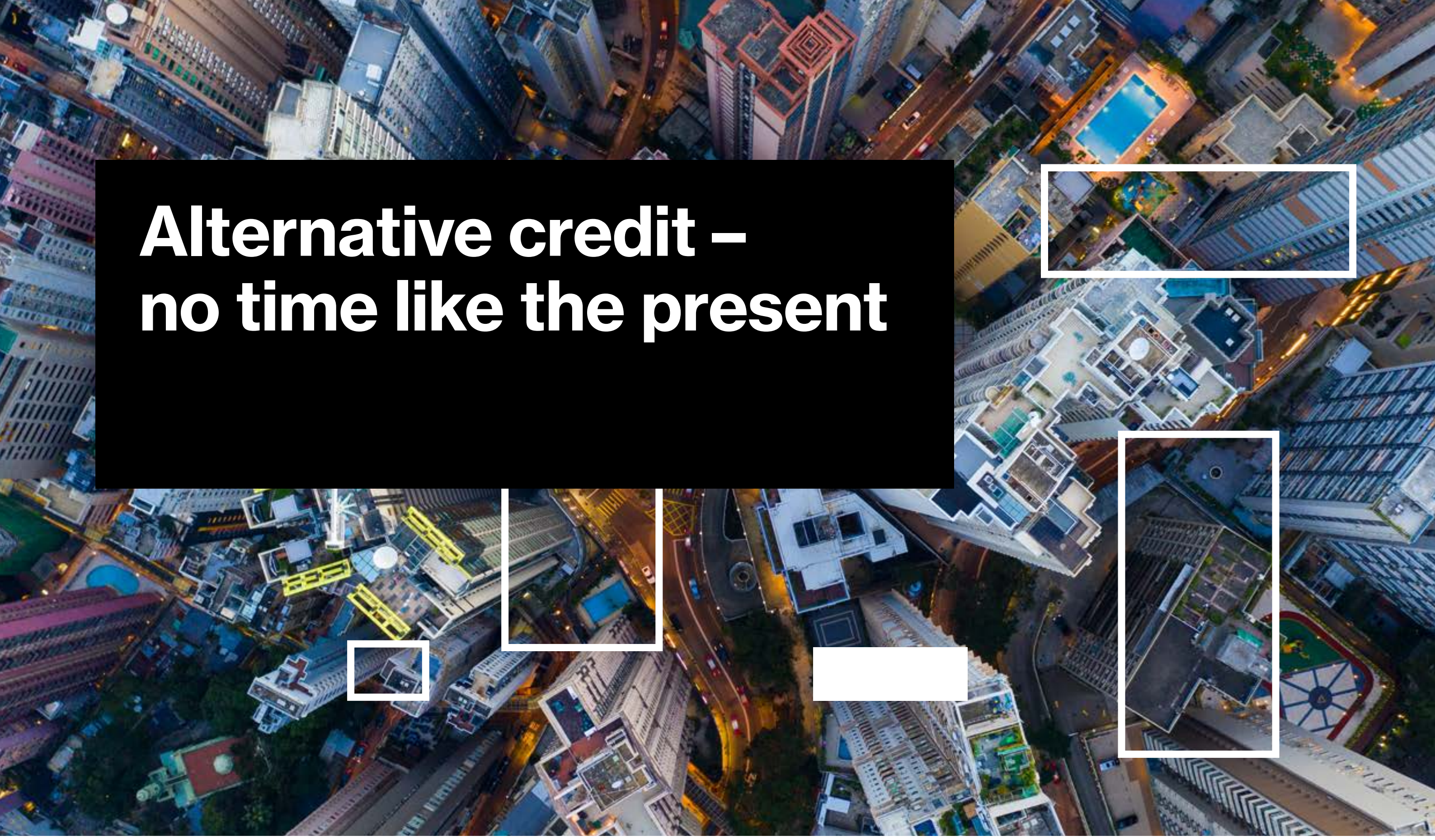


Alternative credit – no time like the present

We believe now is a good time to diversify into alternative credit. Our Alternative Credit Solutions can give you access to a potential high-yielding, diversified and opportunistic portfolio, which includes seasoned and new private debt strategies.

2020 has been an unprecedented year and the outlook remains uncertain from here. Many investors are considering the resilience of their portfolio in this environment.

Our Asset Research team foresees three potential scenarios, as shown in *Figure 1*.

Figure 1: **Potential future scenarios**

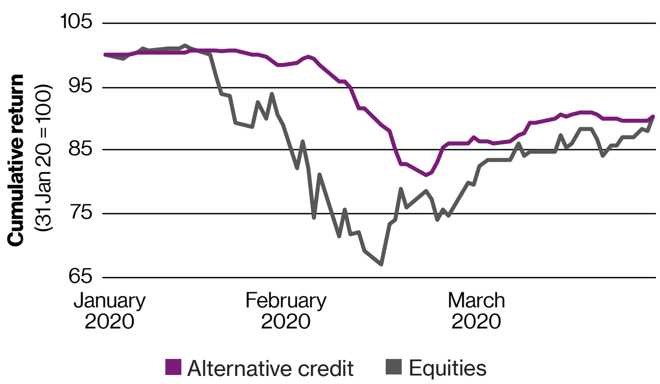
1. **Global recovery in Q3**
2. **Extended global recession**
3. **Credit squeeze and defaults**

Over April, asset classes diverged, changing the value on offer in each; equities and investment grade bonds have priced in a quick recovery while alternative credit markets seem more cautious, reflecting scenario 2.

Alternative credit looks attractive from here

Alternative credit has held up relatively well in the recent market volatility, experiencing only 60% of the drawdown in equities. Equities began to recover in April and were sitting at a similar price to high yields bonds (*Figure 2*). If a better outcome is realised, e.g. scenario 1, alternative credit will have more upside given cautious pricing up until now. However, if volatility reappears, credit may also provide better downside protection.

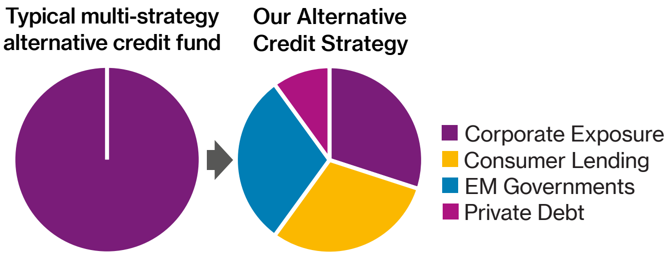
Figure 2: **Alternative credit has been more resilient**[1]



Diversification is critical

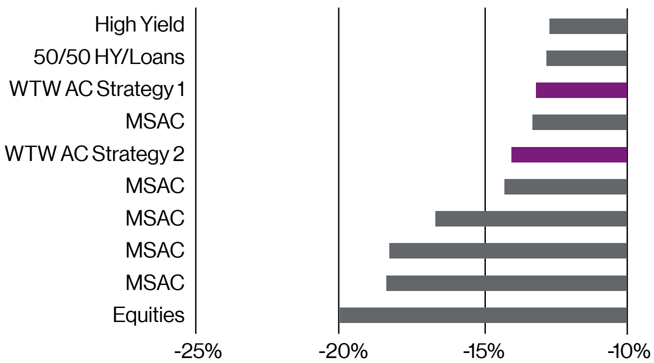
When the range of probable outcomes is so broad, genuine diversification becomes even more critical. We believe alternative credit is a valuable diversifier to equity and investment grade bonds, accessing compelling sources of return outside of corporate balance sheets, e.g. consumer lending, emerging markets and illiquidity premia. A well-diversified alternative credit portfolio should experience much fewer defaults.

Figure 3: **Asset allocations**



Genuine diversification has helped our Alternative Credit Solutions outperform peers who are focused on corporate risk[2]

Figure 4: **Q1 2020 multi-strategy alternative credit (MSAC) Performance[3]**



Many investors are considering repositioning portfolios given recent market moves. So what should investors be thinking about?

- We feel now is the time to revisit top-down positioning to ensure it reflects the new economic environment and ongoing uncertainty. Diversification will continue to be well rewarded
- Recent price moves aren't reflecting fundamentals
  - Equities saw yet more market exuberance in April while some markets such as consumer credit remain squeezed by liquidity despite strong fundamentals
  - This has created an opportunity to lock in elevated yields in credit
- Opportunities may come and go quickly given the speed of market moves; there is a need to act cautiously but in a timely manner

The most resilient portfolios need to be both diversified and opportunistic right now. Investors may need to consider the trade-off in building a diversified credit portfolio, versus timeliness in accessing dislocations and opportunities. Our Alternative Credit Solutions may offer access to a diversified portfolio.

New opportunity case study

Seeking niche alpha

"Fallen Angels" are bonds that have recently been downgraded from investment grade to high yield (HY). The bond's price typically falls due to forced selling and then recovers as this recedes, creating an attractive structural return if you buy after the downgrade.

We expect to see a lot more Fallen Angels in 2020 as ratings agencies consider the impact of the crisis on bond issuers. Increased volumes of Fallen Angels makes now a great entry point, with amplified return potential in the coming quarters. Crucially, Fallen Angels are also higher quality than broader HY. This makes it an attractive means of accessing HY across our expected scenarios. Indeed, Fallen Angels returned 11.6%[4] in April, versus 4.5%[5] for the HY index.

We have partnered with a manager to create a cost-efficient, liquid strategy which seeks to quickly and effectively capture this alpha opportunity for our solutions.

We will be publishing a paper in the near future that will further delve into this opportunity and other corporate credit opportunities.

Our Alternative Credit Solutions capture today's best credit opportunities in a single turnkey solution

Able to **capture opportunities quickly** in a fast-moving market

Niche, specialist mandates **improve quality of execution**

Immediate access to seasoned private debt and other closed illiquid strategies that are well placed to deploy dry powder now

Seeks Downside protection

Notes

[1]Alternative credit is an equally weighted combination of Bloomberg Barclays Global High Yield Index, 50/50 JP Morgan EMBI Global Diversified Index and JP Morgan GBI-EM diversified index and CS Leveraged Loan Index. Equities is the S&P 500 index. As at 29 April 2020. Source: Bloomberg, eVestment

[2]Past performance is not a reliable indicator of future returns. Performance is as of March 31st, 2020

[3]Q1 2020 data for preferred rated multi-strategy alternative credit funds (MSACs) sourced from individual managers and rated by Willis Towers Watson as of March 31 2020. Indices sourced from Bloomberg and S&P as of March 31 2020, where the High Yield Index is the Bloomberg Barclays US High Yield 2% Issuer Cap USD Index; the 50/50 High Yield/Loan index is 50% US Barclays HY and 50% S&P US Loans; and Equities is the S&P 500. Performance for WTW AC Strategy 1 and WTW AC Strategy 2 as of March 31 2020 net of fees. The since inception performance for WTW AC Strategy 1 is 1.5% net of fees, and the since inception performance for WTW AC Strategy 2 is -3.2% net of fees as of March 31, 2020. Performance presented herein is net of underlying investment manager fees and trading costs, but gross of fees earned by Willis Towers Watson. Actual fees are described in Part 2A of Towers Watson Investment Service's Form ADV and will vary depending on, among other things, the applicable fee schedule and account size In addition, it does not include the deduction of custodian expenses that a client incurs. By way of example, an average annual rate of return of 7% over a 10 year period would have resulted in total returns of 96.7%. However, once deductions such as Willis Towers Watson's fees are applied, in this case at a hypothetical rate of 20bps the return is reduced from 96.7% to 93.1%

[4]Bloomberg Barclays U.S. Fallen Angel 3% capped Index

[5]Bloomberg Barclays U.S. Corporate High Yield Index

For more information

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