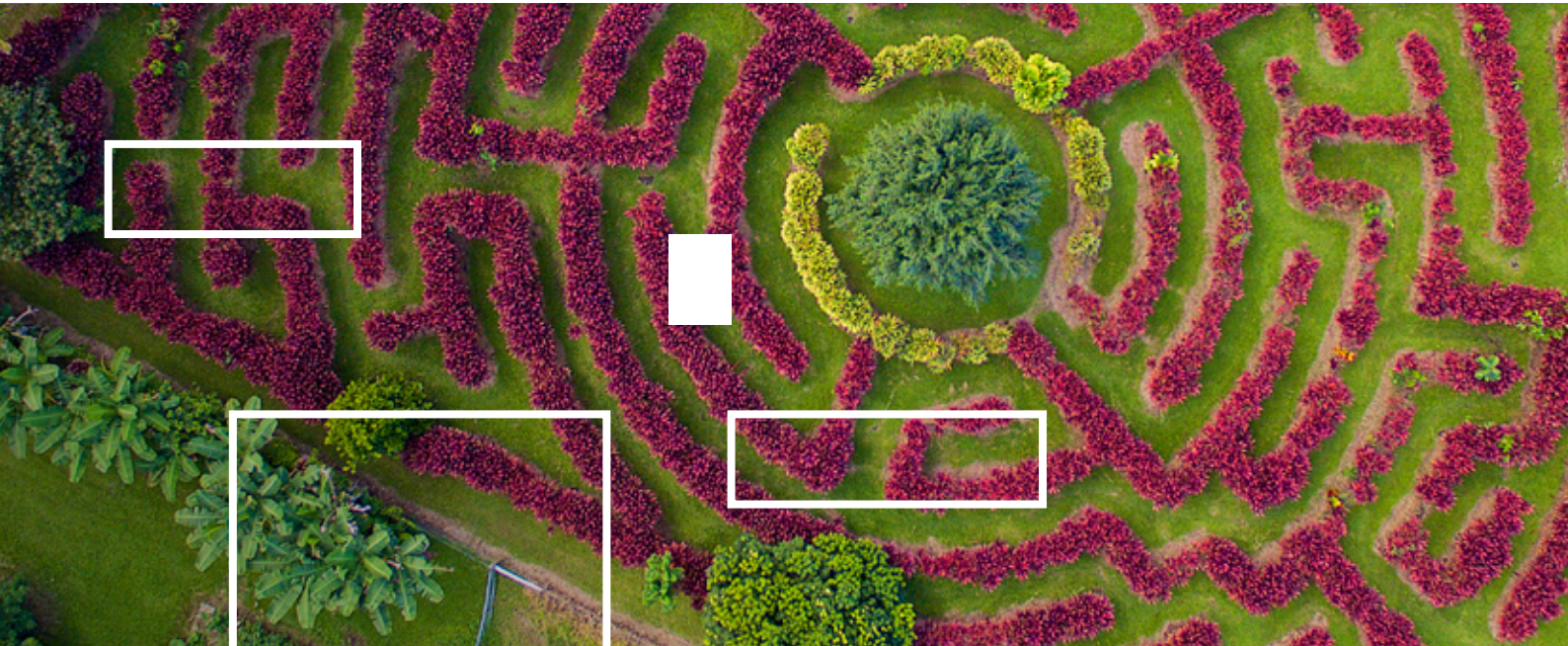


Integrating sustainability

DC Master Trust – LifeSight



Who is LifeSight?

Willis Towers Watson's DC Master Trust. A leading master trust specialising in helping larger employers outsource their pension provision.



What action have they taken on climate change?

- LifeSight has been keen to exhibit leadership in delivering better outcomes for members including a focus on sustainability which includes climate change risk. Sustainability is viewed within the context of the overall risk management framework.
- In 2018, LifeSight allocated around half of its flagship Equity Fund, that underpins all of its default strategies, to two solutions which explicitly integrate Environmental, Social and Governance (ESG) factors in their approach. These are the MSCI Adaptive Capitalisation ESG Universal Index and the Robeco Global Sustainable Multi-Factor Equities Index.

- In 2019, LifeSight engaged with the managers of its real assets exposure in the LifeSight Diversified Growth Fund (DGF), Magellan Listed Infrastructure and Heitman Global Prime Property, regarding their approach to ESG integration. Both funds improve on a range of ESG metrics including carbon footprint relative to a traditional passive market cap-based implementation approach, and have now formally integrated ESG considerations within each of their portfolio construction process.
- In addition to the above, LifeSight remains focused on the ongoing stewardship and engagement of its underlying managers.
- The LifeSight portfolio management team has also developed a sustainability scorecard (which includes carbon metrics) with respect to the LifeSight Equity Fund and DGF which underly all the default strategies. This is currently used for monitoring purposes and as an additional portfolio construction lens, and continues to be developed alongside tools and analytics.

What were the challenges that had to be addressed?

- The focus of the Trustee is on member outcomes from the related perspectives of risk, return and impact (net of costs), which necessitates meaningful actions within the default strategies which hold the bulk of member assets.
- To protect value for members that meant finding product solutions that achieved the sustainability objectives at a price that could fit within the value for member objectives for participating employers and the members.
- Limited options existed in the market place in which Willis Towers Watson had a high conviction in – as such, a process of finding potential partners, explaining the objectives and negotiating terms was required to be able to meet the Trustee requirements.
- The resulting funds (described below) are available to all and have moved the dial in terms what is available to other DC funds in the UK.

The result

- The LifeSight Equity fund and DGF, which are the foundation of the lifecycle strategies, have explicit allocations to ESG-aware strategies of around 60% and 45% respectively.
- This is delivered in a very cost effective way that is entirely compatible with the operational needs of running a large DC master trust for the savings and decumulation phases.
- The risk adjusted returns have met expectations net of fees.

Prompt to action



- Setting strong beliefs has been a priority for the Trustees, including a firm belief that long-term sustainability is important and relevant to consider throughout the investment process.
- LifeSight takes the view that effective ESG integration and stewardship will enhance investment performance, and as part of this has identified climate change to be one of a number of key global megatrends influencing risk and returns.
- The Trustee has a founding member of the TCFD on its board and explicitly recognises the various dimensions of climate risk within its risk management framework.

Process



- The Trustee reviewed and updated not only their investment sustainability beliefs but also their corresponding investment principles.
- LifeSight made the decision to take a holistic approach to the management of climate risk within the context of broader sustainability, implying a preference for broader ESG rather than a singular focus on climate change risk.
- LifeSight looked to translate these investment beliefs and principles into practice by leveraging Willis Towers Watson's best ideas and introducing them into the investment range, including in particular the default strategies.

Results

Two funds used within the **LifeSight Equity fund** explicitly integrate ESG factors within their mandate:



- The Robeco Global Sustainable Multi-Factor Equities Index Fund is managed to a factors based approach (value, momentum, low volatility and quality) and an ESG constraint that targets ESG scoring at least 20% better than a traditional global market capitalisation index on issues including carbon footprint, water usage, energy consumption and waste generation.
- The MSCI Adaptive Capitalisation ESG Universal Index Fund begins with a more balanced weighted index (in terms of market cap), and subsequently applies tilts both up and down to companies that are leaders or laggards respectively on a range of ESG criteria.
- Both mandates apply exclusions to certain industries.

In the **LifeSight DGF**, LifeSight have engaged with the following funds regarding their approach to ESG integration:

- Magellan Listed Infrastructure – This fund improves on passive equivalents as ESG considerations are a core part of the investment process. Many of the firms they invest in have clear plans to reduce carbon emissions.
- Heitman Global Prime Property – This fund has recently introduced an explicit ESG/Climate aware stock screen to its process and excludes the lowest ranking stocks from its investment universe.

What's next?

LifeSight and the Trustee is starting down a path of considering what's next as it starts thinking about what the right mission, purpose and values are for a master trust of scale with responsibility for the financial security in retirement of hundreds of thousands of members in a world that is facing an existential threat from climate change. It is too early to say where this might lead but the Trustee and LifeSight wish to continue leading this field.

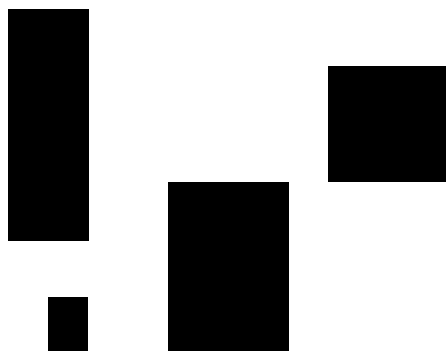


For more information

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