Investments

China through a sustainable investment lens

Part 2: Incorporating ESG in portfolio design and implementation considerations

WillisTowersWatson

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Contents

Executive summary

Home to the world's second largest capital market, China is an increasingly attractive investment destination for global investors as the nation has gradually liberalised its capital account over the past decade. During the same period, the global investment community has undergone a sustainable investment (SI) revolution, propelling sustainability considerations to the forefront of many investment decision-making processes.

In this two-part series we offer our thoughts on the most important questions that sit in the intersection of these major trends and that are likely to shape global institutional investing for the decades to come. In the first part, we argued that the investment case still holds for allocation to China after the environmental, social and governance (ESG) characteristics of its assets are properly taken into account. In this concluding part, we ask the following question:

In order to manage these ESG-related risks and explore ESG driven opportunities in China, how should investors structure implementation?

From the standpoint of portfolio construction, ESG characteristics need to be weighed against other elements of portfolio quality. **While adding Chinese assets incurs a penalty if looked through the sustainability lens in isolation, at the aggregate level, there is a substantial positive contribution to portfolio quality, mainly driven by increased diversity and higher expected return.**

Our portfolio construction approach has over the years moved away from strategic asset allocation (SAA) towards a **total portfolio approach**[1] (TPA), where any investment idea is considered in terms of its impact on the overall risk and return characteristics of the aggregate portfolio. It **increases the flexibility to spend the "sustainability budget" in multiple ways across asset classes**. In a TPA framework, we can include Chinese assets and still maintain the same level of sustainability performance at the total portfolio level if we reduce exposure to assets that have negative sustainability characteristics elsewhere in the portfolio (e.g. high carbon intensity assets), and/or increase exposure to assets that have positive sustainability characteristics (e.g. investments in climate solutions).

We strongly believe[2] that **skilled active management should be front and centre of any institutional implementation solutions to access China**[3]. Given the current state of China's SI development, **we do not recommend a blanket allocation across Chinese assets** and caution investors against it. In selecting investment managers, there needs to be a strong emphasis on SI characteristics, both in terms of their ESG integration and stewardship credentials and practices.

Skilled active management can significantly reduce risk exposures related to many poor ESG practices that are prevalent in China. For example, to reduce the risk of accounting fraud, it is particularly important to have skilled active managers on the ground who understand the lay of the land and are able to verify and validate reported information through proprietary research and alternative sources. Innovative managers are well equipped to explore cutting edge technologies such as artificial intelligence/machine learning that can massively reduce the time required for searching, sorting, and extracting key information from vast amount of ESG-related data, and accelerate response to risk events.

From a social perspective, skilled active managers can also conduct in-depth, on-the-ground due diligence to minimise the risk associated with practices such as forced labour in investee companies and their supply chains. Exploring climate change driven investment opportunities ultimately requires an active judgement that is based on sectoral know-how and fundamental analysis, supported by a disciplined execution of investment strategy and process. That, by definition, cannot be delivered by a passive approach.

Other mitigation strategies available to investors include position sizing and ongoing monitoring, in which investors can leverage their engagement with key external partners and benefit from their evolving understanding of these risks.

Accessing China's rich opportunity set while navigating its complex SI landscape can pose a significant governance challenge for many asset owners. But the benefit of doing so, as argued in this paper and our previous publications[4], outweighs the risks and incremental costs. **Asset owners** do not necessarily have to have a presence in China or internal staff who can speak Chinese, but they do **need to have well-resourced on the ground partners on whom they can lean when making allocation decisions and selecting managers**.

[1] "Total Portfolio Approach (TPA) – A global asset owner study into current and future asset allocation practices", Thinking Ahead Institute, 2020

[2] As in early 2021 – our view will evolve as Chinese capital markets and China's SI practice evolve but we do not expect this view to change in the near future.

[3] With the exception of maybe sovereign debt.

[4] In the appendix, we list previous Willis Towers Watson publications that build the case for including Chinese assets in a global portfolio and how global investors should approach their China allocation.

Introduction and recap of Part 1

As Chinese capital markets have become increasingly accessible to outside investors over the last few years, we believe that there is a strong case for global investors to add or increase exposure to Chinese assets in their portfolios, based on:

1. Its role as a diversifier in a global portfolio;
2. Ample opportunities for active managers to add value, and;
3. Improving portfolio resilience with respect to an evolving, albeit uncertain, world order.

In speaking to many institutional investors about China allocations, ESG considerations often occupy a substantial part of the discussion.

It is not unusual for enthusiasm to give way to some concerns and scepticism when the discussion moves from economic/return prospects to ESG.

Recap of Part 1:

Considering China's relative weak SI practice, does it still make sense for global investors to allocate to China?

We believe the answer to this question is yes. There are three main parts of our argument:

1. We recognise that there are indeed substantial challenges on the SI front in China. China's SI practice is in its early stages of development and not yet comparable with global best practice. Only a small proportion of listed companies disclose ESG-related information. Controlling shareholders, state-owned enterprises with dual mandates and the widespread presence of very large variable interest entities with structures often titled to favour the founder(s) are some key challenges for investors from a corporate governance standpoint. Investors should not underestimate the local contextual knowledge or the governance capability required to support an allocation to China with SI considerations properly incorporated.
2. That being said, the rate of change is also an important consideration. In the paper we will present evidence that China's SI development has gathered significant positive momentum over the last few years. We will also point to empirical studies that this positive rate of change – the so-called ESG momentum – can be a financially significant indicator in its own right, despite weak absolute ESG performance.
3. SI is not just about properly integrating ESG-related information for risk management purposes; it is also about recognising that long-term ESG-related themes (e.g. climate change) may create return opportunities. China has in recent years emerged as a world leader in funding and developing technologies to combat climate change and its net-zero pledge creates a new sense of urgency.

Having argued for the case for investing in China based on the balance of sustainability challenges and opportunities, this follow-up paper asks the question: "**How should investors implement their China allocation to manage ESG-related risks, as well as exploring ESG-driven opportunities?**"

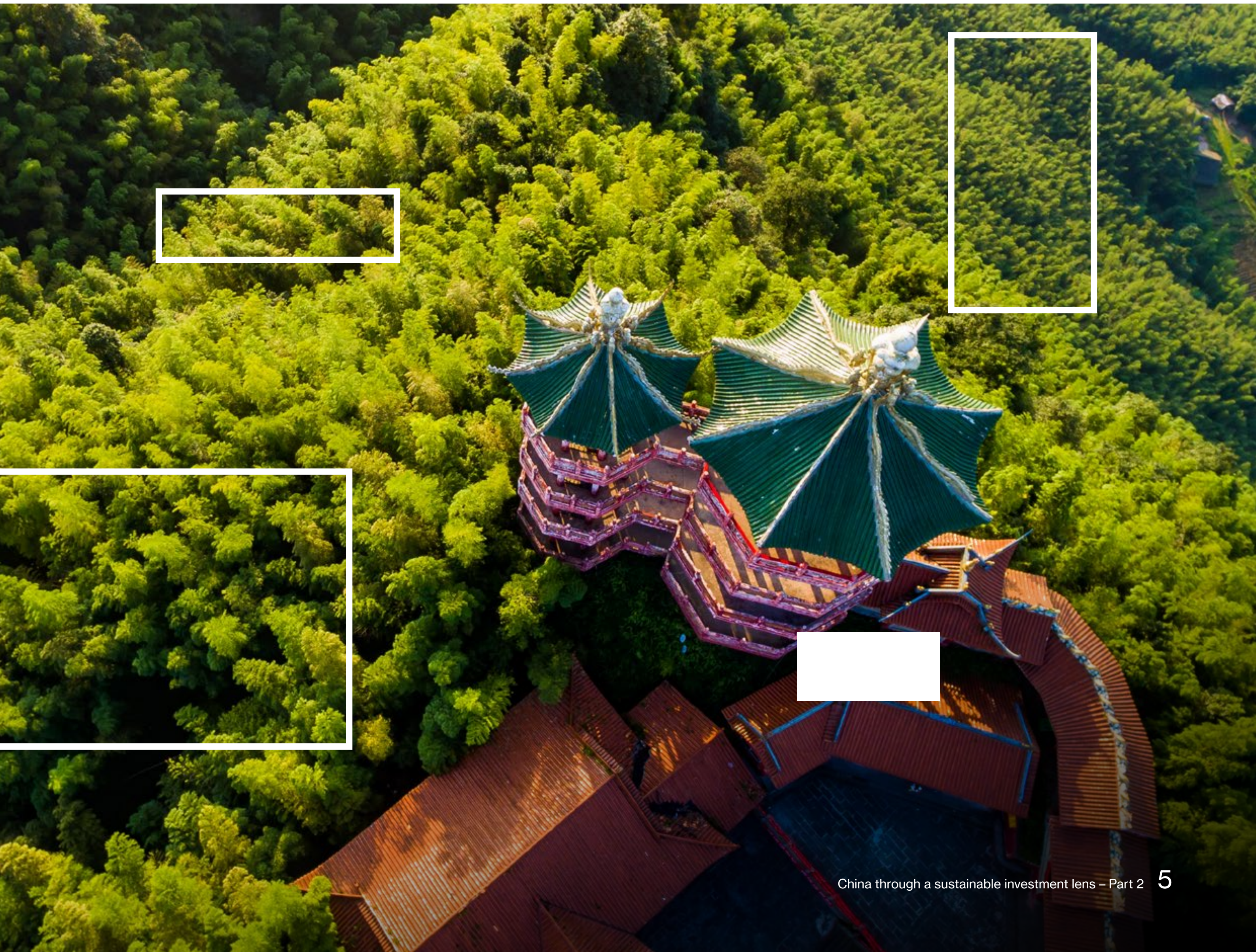
Before diving into the details, we would like to address a question we are quite often asked up front – "what about human rights issues?". Globally, investors are increasingly aware of and concerned about the significant operational, financial, legal, and reputational risks both they and portfolio companies might face when human rights risks are not properly managed.

The Investor Alliance for Human Rights[5] put together a helpful toolkit that guides investors, asset owners and asset managers, to embed human rights considerations in their decision-making processes. Their paper argues that investors are now more exposed to human rights risks globally than ever, as a result of, for example, increasing globalisation of businesses.

Institutional investors have a systemic influence over financial markets and the behaviour of participants within them. This position enables them to contribute to new systems that embed respect for human rights – what every individual is entitled to in order to live a life of fundamental welfare, dignity, and equality.

As with any other ESG issue, human rights considerations should be embedded across the whole of the investment process, including investment decision-making and stewardship of assets. Investing in China should be no different. Asset owners can require from managers that assets are managed in line with the UN Guiding Principles[6]. Human rights due diligence, engaging with portfolio companies and policymakers as well as exploiting the power of collective action are all part of the toolkit available to investors to stop, prevent, and mitigate risks associated with human rights violations.

[5]"Investor Toolkit on Human Rights", The Investor Alliance for Human Rights, 2020
[6]"Guiding Principles on Business and Human Rights", United Nationals, 2011



Chapter 1

ESG characteristics need to be weighed against other elements of portfolio quality

While ESG profiles are indeed important, they are certainly not the only consideration in investing.

Our portfolio construction process is intended to focus on **portfolio quality** (*Figure 1*), as evaluated through numerous key components, or what we call portfolio quality lenses.

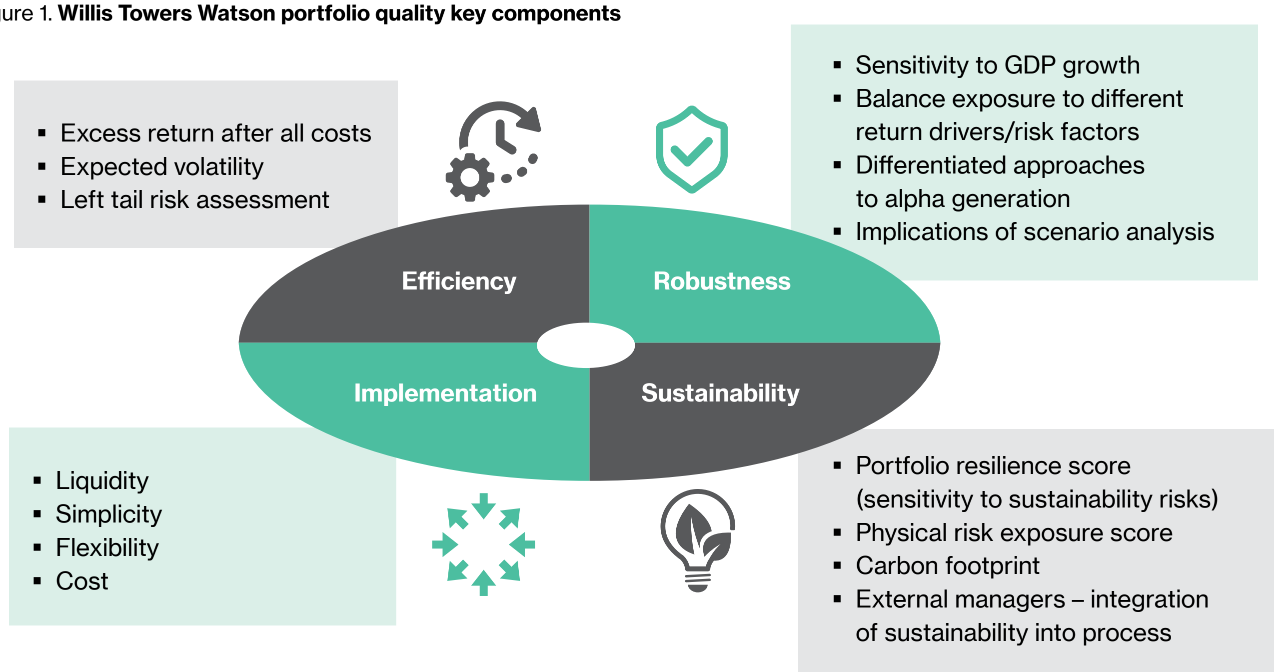
This helps us build portfolios that are intended to be robust and diversified in an effort to meet our clients' risk and return requirements, as well as seeking to ensure our portfolios are resilient to a range of ESG-related issues and/or able to take advantage of ESG-related opportunities.

Simply speaking, the way we incorporate ESG considerations involves a **two-step process**:

- **Step 1** – build a sustainability scorecard, which collects ESG data on all elements of the portfolio and aggregates them to the total portfolio level. The scorecard provides an understanding of the source of ESG-related risks and opportunities in portfolios and guides risk mitigation and value creation solutions.
- **Step 2** – integrate this scorecard into portfolio construction. This involves weighing the ESG characteristics of an asset against other elements of portfolio quality (e.g. diversity; return/risk; liquidity; costs). The sustainability scorecard forms the basis of an SI lens which enables us to systematically integrate sustainability into our asset allocation decisions so that investment opportunities compete for capital in a holistic manner.

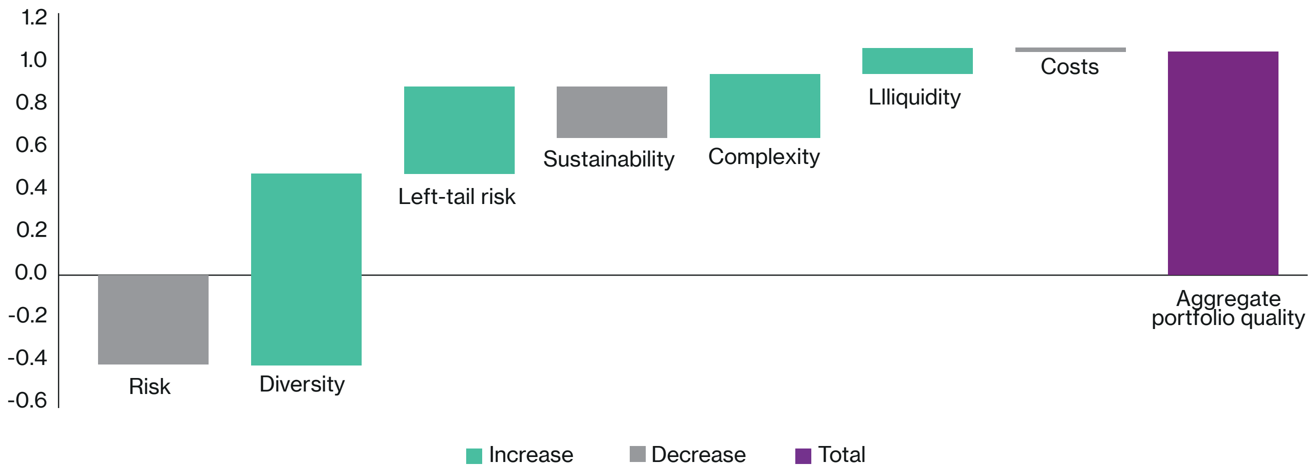
Our understanding and integration of climate-related risks and opportunities benefit from being able to leverage Willis Towers Watson's firm-wide climate analytical capabilities[7]. For example, Willis Towers Watson assesses natural catastrophe risks for hundreds of (re)insurers worldwide and has been supporting a number of UK insurers to meet the requirements of the Prudential Regulation Authority climate stress tests. We launched the Thinking Ahead Institute[8] (TAI) in 2015. Propelled by a compelling vision to mobilise capital for a sustainable future, over the years it has grown into a global research and innovation hub that brings together nearly 50 asset owners and service providers with collective responsibility for over US$12 trillion[9]. In 2020, TAI has collaborated with our portfolio management group and together we developed a climate impact reporting framework[10] to document progress towards net-zero objective.

Figure 1. **Willis Towers Watson portfolio quality key components**



[7]Please visit our Climate Quantified website for more information.
[8]www.thinkingaheadinstitute.org/about-the-thinking-ahead-institute/
[9]As of 2020
[10]www.thinkingaheadinstitute.org/research-papers/1-5c-portfolio-working-group-papers/

Figure 2. **Impact of China A-shares inclusion on portfolio quality**



Source: Willis Towers Watson

In addition, our firm has recently enhanced its capability to help organisations address the challenges of climate change across physical, transition and legal liability risks by integrating Acclimatise[11], a market-leading provider of climate change adaptation analytics services and the Climate Policy Initiative's[12] Energy Finance team, including its carbon transition analytics (e.g. Climate Value At Risk (CVaR) methodology).

In 2019, our delegated portfolios included China A-shares (funded from developed market equities) for the first time in the equity sleeve of its strategic model portfolios[13], having been through the process described above. The relatively lower ESG quality of Chinese companies compared to developed market companies was flagged as a potential SI issue. *Figure 2* demonstrates the impact of this decision on the change to portfolio quality from the perspective of various key contributors. **While adding Chinese assets incurs a penalty if looked through the sustainability lens in isolation, at the aggregate level, there is a substantial positive contribution to portfolio quality[14], mainly driven by increased diversity and higher expected return, which is embedded in the calculation of portfolio quality calculation**.

It is worth noting that over time we would expect this sustainability penalty to decrease as China's SI practice evolves to close the gap relative to global best practice.

Furthermore, our portfolio construction approach has over the years moved away from strategic asset allocation (SAA) towards a **total portfolio approach**[15] (TPA). TPA has been adopted and evolved by some leading organisations around the world as a more "joined up" investment philosophy. In comparison to SAA, TPA is more bottom-up oriented, where any investment idea is considered in terms of its impact on the overall risk and return characteristics of the aggregate portfolio.

There is a genuine competition for capital among all investment ideas, not just relative to those in the same asset class.

As a result, **it increases the flexibility to spend the "sustainability budget" in multiple ways across asset classes**. In this case, as described above, we are willing to tolerate a negative impact on the overall sustainability characteristics because, on balance, including China A-shares improves the overall quality of the entire portfolio. But the flexibility associated with TPA means that we can still maintain the same level of sustainability performance at the total portfolio level by reducing exposure to assets that have negative sustainability characteristics elsewhere in the portfolio (e.g. high carbon intensity assets), and/or increasing exposure to assets that have positive sustainability characteristics (e.g. investments in climate solutions).

[11] www.acclimatise.uk.com/
[12] www.climatepolicyinitiative.org/
[13] It is worth noting that our clients have many different constraints and types of mandate with us. Each portfolio management team must make different trade-offs to create the best quality portfolio possible through our lenses, guided by our portfolio management group, which is responsible for setting model portfolios for delegated clients globally.

[14] The exact methodology of calculating the change in portfolio quality is beyond the scope of this paper. In a nutshell, portfolio quality is defined as excess return divided by total penalty score and its change depends on whether the increase in excess return exceeds the increase in the underlying penalty. For example, in this case by including China A-shares, volatility (risk) of the aggregate portfolio goes up proportionately more than excess return, so the contribution from risk is negative. The increase in portfolio quality on the diversity front is driven by both increased expected return and improved diversity. It is worth noting that we define diversity as having access to a wide range of risk/return drivers, which is different than the concept of diversification. The latter is normally discussed in an investment efficiency framework that measures the trade-off between volatility and excess return.

[15] "Total Portfolio Approach (TPA) – A global asset owner study into current and future asset allocation practices", Thinking Ahead Institute, 2020

Chapter 2

How should investors structure implementation given the challenges on the SI front?

Largely due to various ESG challenges confronting investors who would like to invest in China, we strongly believe that **investors should not make a blanket allocation across Chinese assets**. That being said, we also believe that **there is a large and rich opportunity set that investors should access through skilled active management, having properly incorporated ESG considerations**.

It is worth stating that addressing ESG-related risks and challenges are not unique to investing in China. Globally, mitigation strategies are commonplace (e.g. controversial weapon exclusions or engaging with oil majors to transition their energy mix).

So, what are those mitigation strategies?

First of all, **skilled active management should be front and centre of any institutional implementation solutions to access China**[16]. There needs to be a strong emphasis on SI characteristics of managers under consideration here – both in terms of their ESG integration and stewardship credentials and practices.

Skilled active management can significantly reduce risk exposures related to many poor ESG practices that are prevalent in China.

For example, doubts over the validity of China's official economic data are not new. Active managers, as well as our own economic research team, monitor a wide range of economic indicators from diverse sources that allow them to build proxies to economic activities to verify the official numbers. Many of these economic indicators are a lot harder to manipulate (e.g. total electricity consumption, the railway cargo volume, bank lending or import/export).

As another example, to reduce the risk related to accounting fraud, it is particularly important to have skilled active managers on the ground who understand the lay of the land and are able to verify and validate reported information through proprietary research and alternative sources. Innovative managers are well-equipped to explore cutting edge technologies such as artificial intelligence/machine learning that can massively reduce the time required for searching, sorting, and extracting key information from vast amounts of ESG-related data, and accelerate response to risk events.

From a social perspective, skilled active managers can also conduct in-depth, on-the-ground due diligence to minimise the risk associated with practices such as forced labour in investee companies and their supply chains.

Exploring climate change driven investment opportunities ultimately requires an active judgement that is based on sectoral know-how and fundamental analysis, supported by a disciplined execution of investment strategy and process. That simply cannot be delivered by a passive approach.

Engagement service providers can also be leveraged to undertake corporate engagement to improve business practices.[16] In addition, in recent years they have stepped up their efforts to engage with regulators to support policy making that meets global best practice[17] in markets such as China.

On **selection of investment managers**, we have a formal process for integrating SI into our manager research decisions, which, while applied consistently, is tailored to be most appropriate for the asset class and strategy in question. Our assessment of an asset manager's SI practices and implementation, in the context of individual strategies and products, feeds into our overall view of their ability to sustain a competitive advantage and the suitability of those products for our client's portfolios.

[16] With the exception of maybe sovereign debt.

[17] "Supporting market progress through public policy engagement: the case for Mainland China and Hong Kong", Federated Hermes International, 2019

We have developed a set of guiding principles (see *Figure 3*) to provide a consistent framework for identifying good practice at asset managers across all asset classes. They can also be used to guide engagements with managers.

Figure 3. **Willis Towers Watson manager research SI principles**

Culture and leadership	Sustainability principles, policies and the commitment to meet them should be set by the leadership and transmitted through the firm and to clients via effective culture
Integration of ESG information	Appropriate resources should be allocated to the identification, measurement and management of material ESG information to both portfolios and the underlying investments to improve decision making
Stewardship	Engagements with key stakeholders on sustainability issues should be used to improve investment outcomes
Improving the system	Enlightening self-interest requires asset managers to engage with and improve the investment system to make it more sustainable
Transparency and disclosure	Sustainable investment practices and ESG data should be routinely recorded and reported so that stakeholders can hold them to account for their actions

Figure 4 provides further details on one of our preferred equity managers' SI practices and implementation.

Figure 4. **Case study:**

SI credentials of a Willis Towers Watson Preferred equity manager

This is a China A-share equity manager with a purely bottom-up investment approach. The investment team has a long history of investing in Asian markets, including China. The investment approach is centred around investing in businesses with strong stewardship credentials and protection for the interests of minority investors. As such they undertake a long-term investment approach to allocating capital, and take a targeted approach to identifying appropriate businesses to invest in. While being aligned with founder-owned and operated businesses may present a risk to the treatment of minority shareholders, the investment team undertake considerable work to try to ensure that as minority shareholders their interests are aligned with that of company management and its major shareholders and that those majority shareholders and company management are trustworthy. This, along with the long-horizon investment approach, allows the investment team to build long-term relationships with the companies they invest in. Seen as a trusted investor, they are able to engage with the company in an effort to improve investor outcomes over the long term. Corporate engagement and effective asset stewardship are key parts of the investment process.

While there is a strong focus on corporate governance within the investment approach, the investment team see themselves as having a duty to also act responsibly and as good corporate citizens. As such they are aware of social and environmental issues, monitoring and engaging with management around material risks which may arise, such as water scarcity and carbon intensities of business practices. The portfolio has a substantially lower carbon intensity compared to the benchmark.

This is a sample representation of our work with an investment manager. Outcomes will vary and there is no guarantee that we can achieve similar outcomes with any particular manager in any particular asset class.

As discussed earlier, we recognise that long-term themes may create return opportunities and we explore these through our manager research process too, where we look for positive alignment, particularly in private markets.

Figure 5 is another case study in the private equity space where a Willis Towers Watson preferred manager leverages its technology know-how to explore climate change driven investment opportunities in China.

There are other mitigation strategies in addition to active management.

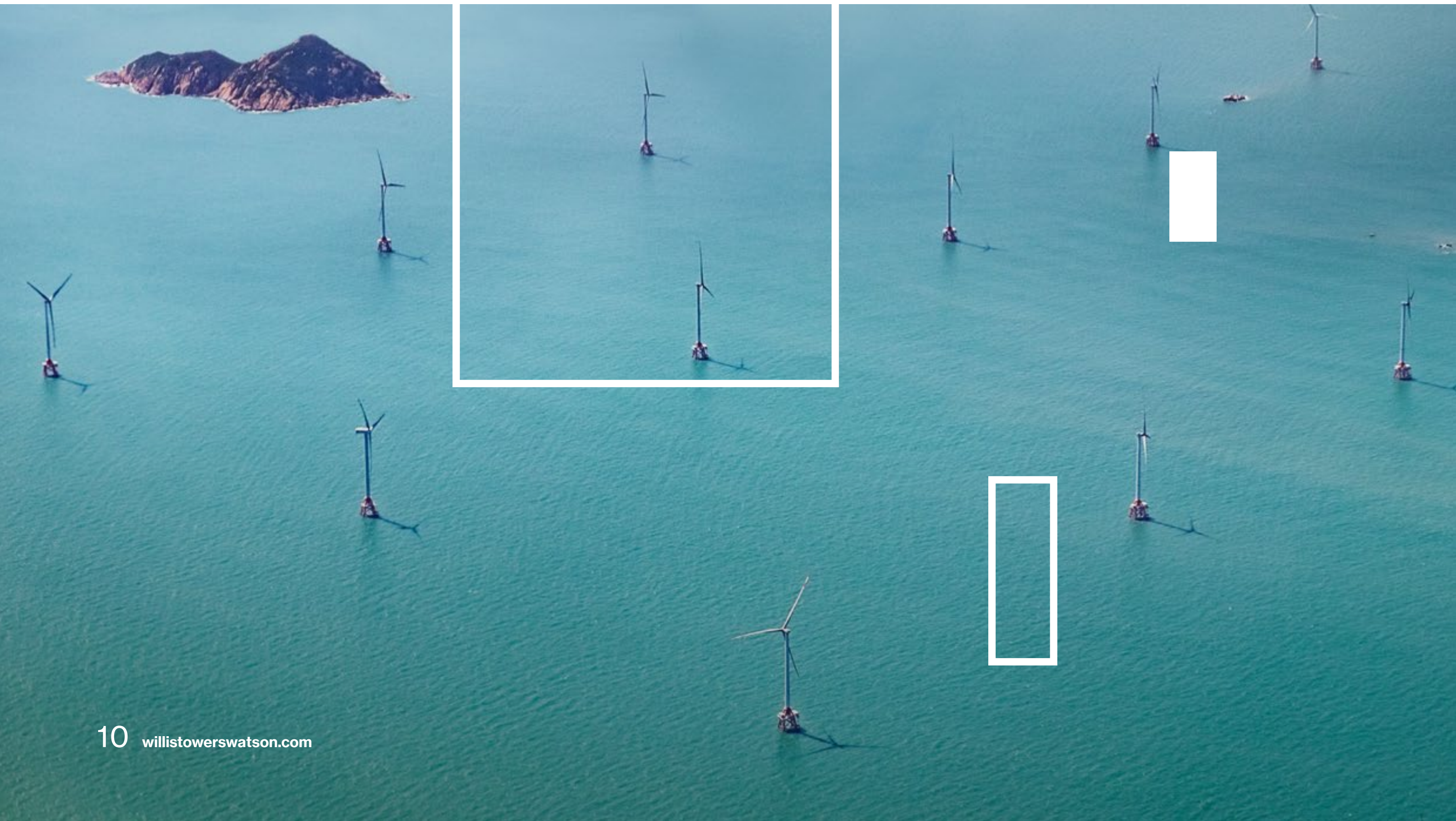
If market-wide governance standards and business practices (e.g. risks to capital from state intervention) are primary concerns, **position sizing** is a useful tool to manage the total risk exposure. Many investors find it more comfortable to start with a relatively small position and gradually increase the position size to the strategic weight when SI and other market practices improve over time. A minimum standard, which varies by investors, needs to be met to start a position. This is consistent with our overarching message that building exposure to China is best viewed as a journey that balances the pace of market improvements (and therefore manages risk) with the imperative to achieve diversity in a global portfolio for many investors.

Figure 5. **Case study:**

A private equity investment in a leading electric vehicle (EV) charging service provider in China

This is an investment made by a venture capital/growth fund that makes minority investments in the healthcare, consumer, supply chain and technology sectors in China. The investee company is currently China's largest EV charging service provider with a market share of around 35%. Given the rapid growth in China's EV industry that is underpinned by accommodating government policies, the manager identified a looming gap in charging infrastructure. The company pioneered a world-leading automatic charging system that is capable of intelligently scheduling the charging process to achieve safe charging during a period of low residential power consumption. This innovation, along with a versatile operational model, allowed the company to quickly expand its network with improved utilisation ratio, which augmented its market leading position. As a trusted partner, the private equity manager has been working closely with the company to organise and monetarise its data pool collected from EVs and also better manage its mobile app.

This is a sample representation of our work with an investment manager. Outcomes will vary and there is no guarantee that we can achieve similar outcomes with any particular manager in any particular asset class.



During this journey, **ongoing monitoring** is crucial. Investors can leverage their engagement with key external partners (e.g. ESG data providers, engagement overlay managers, investment managers and consultants/OCIOs, industry/trade bodies) to benefit from their evolving understanding of these risks. We undertake regular monitoring of our portfolios and use SI reports as a key tool to keep clients informed about the evolution of managers' SI practice (see *Figure 6* for sample output).

Accessing China's rich opportunity set while navigating its complex SI landscape can pose a significant governance challenge for many asset owners. But the benefit of doing so, as argued in this paper and previous publications, outweighs the risks and incremental costs. **Asset owners** do not necessarily have to have a presence in China or internal staff who can speak Chinese, but they do **need to have well-resourced on the ground partners on whom they can lean when making allocation decisions and selecting managers**.

Figure 6. **Willis Towers Watson SI reporting sample output**

Equity Manager - Product XYZ

Executive summary

ESG research & integration seems an area of strength. Voting activity is below best practice with only 62% of eligible votes being exercised at the firm level and limited product level voting statistics made available. Engagement activity is limited given the size of the firm.

Success factors	Strengths	Weaknesses or issues
ESG integration	There is a policy in place which covers when and how ESG risks are to be assessed as well as how this is integrated into the broader analytical / portfolio management process Consistent consideration and documentation of ESG factors embedded within the mainstream research process The manager is a supporter of sustainability initiatives, including the UN PRI Ability to consistently screen for potential ESG risks within a portfolio through a third party ESG data provider	Given Manager XYZ's size we view the level of research resource supporting ESG risks analysis as behind best practice
Voting	There is a voting policy in place which covers the approach to handing conflict of interests and which sets out beliefs around typical voting on particular ESG-related issues Voting policy is publically available Summary voting activity is disclosed publicly, with details on votes provided to clients at the firm level Corporate governance or ESG specialists are primarily responsible for making more contentious voting decisions but this is always with input from the investment team	There is no regular policy review process although the policy has been reviewed within the last 2 years At the firm level only 62% of proxy share votes were exercised over the last calendar year globally. Best practice is for all votes to be exercised where practical Product level voting statistics not available There is security lending agreement in place and shares are not recalled for key votes Voting activity differs significantly by region
Engagement	A publically available policy around engagements is in place The investment team is responsible for all engagement decisions	Limited proactive engagement activity particularly given the size of the firm Manager XYZ does not participate in collaborative engagements with industry bodies or peers Engagement is concentrated in particular regions Limited product level engagement statistics available

Key: Strength Neutral Weakness

Equity Manager - Product XYZ

Manager position statement

XYZ LLP seeks to enhance and protect client value through a rigorous and transparent investment process that focuses on active company engagement, risk management, corporate governance, financial analysis and fundamental research. Over the past twelve months, a number of new initiatives have been commenced and existing practices strengthened.

We identify sustainable investment issues via our initial due diligence process. This entails an understanding of recent history, the strategy and assets of the business, the people involved in managing the company and any competitor/supplier conversations. If there are sustainable and corporate governance issues, we do not proceed with the investment. If sustainable and corporate governance issues arise after an investment is made, we assess the scope the issue and its effect on the earnings power of the business. At this point we will decide whether to liquidate the investment or not.

Firm background	
Firm assets	$300,200 m
ESG/sustainability lead	John Doe
# stocks >3% owned	500
Supported initiatives	UN PRI, UN Global Compact, Red Line Voting, Multiple Others...

Firm Voting activity	
Count of eligible votes exercised	1,432 (1,231)
% eligible votes exercised	85% (90%)
Voted against or abstained	11% (15%)
Top two topics voted against or abstained	1. Anti-takeover related 2. Corporate Governance

Firm Engagement activity	
Number of engagements	121 (104)
Top two engagement topics:	1. Anti-takeover related 2. Corporate Governance
Most intensive company engagement and topic	Exxon Mobil Corp – Corporate Governance

Product background	
Product assets	$2,600 m
Product type	Active – Fundamental
Turnover	35%
# stocks in product >3% owned*	15
ESG exclusions available	Yes
ESG exclusions applied as standard	None

Product Voting activity	
Count of eligible votes exercised	52 (48)
% eligible votes exercised	50% (45%)
Voted against or abstained	0% (2%)
Top two topics voted against or abstained	1. Remuneration 2. Environmental

Product Engagement activity	
Number of engagements	10 (8)
Top two engagement topics:	1. Remuneration 2. Environmental
Most intensive company engagement and topic	Verizon Communications – Capital structure

Source: Manager as at calendar year end 2015 (trailing calendar year 2014)

*Based on firm-level holding for stocks in the portfolio.

Source: based on information provided by the asset manager

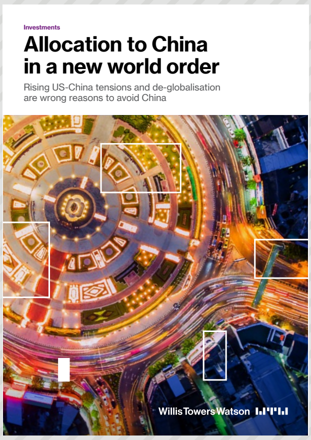
Appendix – Willis Towers Watson China research

Considering Chinese assets

In this paper we argue that Chinese assets offer compelling diversification benefits to typical investor portfolios from a strategic point of view. As a result, we believe all global investors should consider an allocation to Chinese assets as a building block within their portfolio.

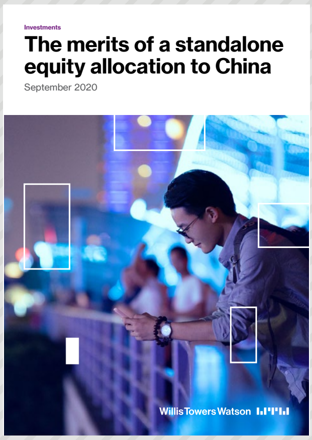
The opening up of Chinese capital markets

This paper provides detailed answers to eight often asked questions about the opening-up of Chinese capital markets. What exactly does it mean? Why does China want to open up and how committed is China to this process? Why do global investors want to take advantage of the opening-up and own Chinese onshore assets? What are the risks and challenges?



Allocation to China in a new world order

In this paper we put forward an argument that, for global investors who have a long time horizon, the rising geopolitical tensions and the movement towards de-globalisation actually reinforce the need to own more Chinese assets to make their portfolios more resilient to a changing, albeit uncertain, world order. We recommend an allocation of 20% (within the growth portfolio) based on a scenario exercise, compared to average institutional allocation to China of between 4% and 5%.



The merits of a standalone equity allocation to China

This paper calls for a standalone equity allocation to China. China is under-represented in most global investment portfolios. Its size and scale make it worthy of a standalone allocation, but most asset managers lack the expertise to handle this. In particular, the China A share market offers a dynamic and broad opportunity set within a ripe market environment for institutional investors to deliver alpha.

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About Willis Towers Watson

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