

2020 UK Stewardship Code

WTW annual report for 1 Jan 2020 to 31 Dec 2020



Introduction

Purpose of this report

Willis Towers Watson ('WTW') supports and recognises the 2020 UK Stewardship Code ('the Code') as setting good practice standards in the advancement and implementation of investor stewardship.

The purpose of this report is to demonstrate our adherence to the Code for the period 1st Jan 2020 to 31st December 2020.

Scope of this report

This report is in respect of investment services provided to institutional asset owner clients ('asset owners') by Willis Towers Watson's Investments line of business ('WTW Investments'). Legal entities reflected within the scope of this report include:

- Towers Watson Limited ('TWL')
- Towers Watson Investment Management Limited ('TWIM')

Given the range of business activities undertaken by WTW Investments, including fiduciary management, and in line with the recommendations and guidance provided by the Code, we will report against the principles for asset owners and asset managers as well as those for service providers.

Our investments business activities can broadly be split into the following two areas:

- Advisory investment services – where we advise asset owners in supporting best practice stewardship through advice, recommendations, education, training, manager research, reporting, monitoring and other forms of direct and indirect engagement.
- Outsourced investment services (including delegated / fiduciary management and fund of fund solutions) – similar to our advisory services, we also help asset owners carry out best practice on stewardship but take on greater direct responsibility for portfolio construction, and oversight of manager voting and engagement activity. It is important to note that we do not ourselves vote or engage directly with individual securities or assets held within these portfolios.

In addition, we note our significant interaction with the wider investment industry including regulators, other consultants and third-party intermediaries, and so recognise our ability and responsibility to encourage and improve processes in respect of stewardship of the system as a whole, and the benefits that this can deliver to all our clients.

Shareholders Rights Directive (EU) 2017/828

This report is also intended to document our activities as required under the Shareholders Rights Directive (EU) 2017/828 ('SRD II').

- TWIM & TWL

SRD II includes a requirement for asset managers who invest in shares traded on regulated markets to disclose and make publicly available their policies on how they engage with the companies they invest in and how their strategies create long-term value. In respect of our compliance with SRD II, we highlight our Sustainable Investment Policy and this UK Stewardship Code report. TWIM & TWL either invest in funds and/or outsource the investment management to external asset managers. As a result, the firms do not vote or engage with investee companies directly but uses its influence where appropriate. Willis Towers Watson believes that its adherence to the Sustainable Investment Policy and Code meets the objectives of the SRD II's Engagement Policy as they work towards the same goals.

Further information and key policy documents

In addition to this report, our Sustainable Investment principles, policies and activities are captured in further detail in the following places:

- [Sustainable Investment Policy](#)
- [WTW Investments Sustainable Investment webpage](#)
- [WTW Investments Climate Change webpage](#)
- [WTW Environmental, Social and Governance webpage](#)
- [WTW Principles for Responsible Investment \(PRI\) Transparency report](#)
- [WTW Thinking Ahead Institute Sustainability Spotlight](#)



Section A – Purpose and governance

Principle 1 – Purpose, strategy and culture

Asset owners and asset managers: Signatories’ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Service providers: Signatories’ purpose, strategy and culture enable them to promote effective stewardship.

Context

WTW Investments purpose

Our overarching WTW Investments purpose is described as ‘investing today for a more sustainable tomorrow’ and thus sustainability is at the heart of what we do.

Sustainable Investment (‘SI’), in our view, describes long-term, finance-driven strategies that integrate Environmental, Social and Governance (‘ESG’) factors, effective stewardship and real-world impact in investment arrangements. We believe SI is central to successful long-term investment outcomes and it is therefore a key part of our investment processes and activities.

In particular, we believe effective stewardship is a critical aspect of sustainable investment and important to a well-functioning investment industry.

We recognise our role as an influential industry participant, and seek to exercise our stewardship responsibilities, either directly or via third parties, across a range of activities:

- Third party (especially asset manager) engagement
- Issuer- and asset-level engagement
- Voting
- Public policy, advocacy and collaboration

We also engage extensively with our clients, and other asset owners in general. This is partly to ensure that we provide the best possible services and outcomes now and into the future with a close understanding of their needs. However, this engagement is also important to help them shape and contribute to a sustainable investment industry where they themselves can be influential and advocate for and support positive change.

Culture and values

We strongly believe in the value of culture and see it as a key part of our success. Our culture is all our collective behaviours that give practical life to our values which are outlined as follows:

Client Focus

We are driven to help our clients succeed. In every interaction and with every solution, we act in our clients’ best interests – striving to understand their needs, respecting their perspectives and exceeding their expectations.

Teamwork

When you get one of us, you get all of us. We bring innovative solutions and world-class advice to our clients by working across boundaries of business, geography and function. We help each other succeed and create more value by working together.

Integrity

Our clients invest more than their time and money with us; they also invest their trust. We seek to earn that trust every day through professionalism, doing what is right and telling the truth. We are accountable to the organizations and people with which we interact – including clients, shareholders, regulators and each other for our actions and results.

Respect

We listen to and learn from each other. We support and celebrate differences, foster an inclusive culture and operate with openness, honesty and benefit of the doubt. We manage our relationships, inside the company and out, with fairness, decency and good citizenship.

Excellence

We strive to lead and sustain excellence. Most importantly, this means an unwavering commitment to professional development and personal growth for our people. Our colleagues take responsibility to develop their expertise, competencies and professional stature, while the company invests in the tools and opportunities that allow for continual development. In business, we place an unrelenting focus on innovation, quality and risk management.

Our values – client focus, teamwork, integrity, respect and excellence – are more than words. Living our values every day drives our success – they frame our approaches and ways of working, and embed the behaviours that drive our performance.

We believe that our purpose, culture and values as articulated above are clearly aligned to enable a focus on effective stewardship – both at the level of individual holdings and portfolios, as well as at a systems and industry level.

Beliefs

We have a core set of ten investment beliefs which apply across all of our investment services. One of these ten beliefs focuses specifically on Sustainable Investment and is as follows:

We believe sustainable investment is central to successful long-term investor outcomes.

- Sustainable investing is about employing long-term strategies that integrate ESG factors and effective stewardship, with regard for the impact on society and the planet now and in the future, recognising that this influence both risk and return
- Sustainability risks tend to be inaccurately appreciated by the market. Investors should look to use informational and implementation advantages to improve long-term outcomes by avoiding unrewarded risk, seeking opportunities, undertaking effective stewardship and managing impact
- Collaborative engagement and advocacy are important to give the investment industry a stronger voice and improve investment outcomes for all participants
- Climate change, and a just transition to net zero carbon emissions, is a systemic and urgent global challenge which necessitates specific risk management, opportunity identification and collective action



Services, business model and strategy

WTW Investments provides investment advice and solutions to institutional asset owners, covering all aspects of their investment arrangements. Our services activities can be broadly split into the following two areas as detailed above:

- Advisory investment services
- Outsourced investment services

In addition, we note our significant interaction with the wider investment industry including regulators, other consultants and third-party intermediaries, and so recognise our ability and responsibility to encourage and improve processes in respect of stewardship of the system as a whole.

As a result, we continue to sponsor and pursue important collaborative initiatives including via our WTW-sponsored think tank the Thinking Ahead Institute ('TAI') and the Willis Research Network ('WRN'). These two groups, amongst many other initiatives with which we actively engage, play a key role in developing and socialising our work on sustainability, bringing together leading practitioners, academics and organisations to complement and leverage our thinking. We also continue to engage with and challenge the asset management (and wider investment) industry to develop and provide appropriate solutions for asset owners, carry out effective stewardship, and drive positive change. This work is also amplified via our partnership with EOS at Federated Hermes ('EOS') who undertake significant public policy engagement and advocacy on our and our clients' behalves.

Advisory investment services

We transmit our sustainable investment beliefs and the importance given to stewardship throughout our advice to clients, and in the growing importance we place on sustainability on client agendas, together with ongoing delivery of education and training on ESG and broader sustainability topics.

Given the variety of client relationships we have, the areas of focus, depth of engagement, and extent of portfolio integration vary, with our advice bespoke to the needs and situation of each client. Our advice and recommendations most often take place through long-term trusted relationships rather than one-off ad hoc requests, and over discussions that include trustee training (e.g. on regulatory developments, implementation approaches, monitoring frameworks), interactive beliefs sessions, policy setting and documentation, specific SI board meetings, running agenda items, and broader sustainability strategic reviews.

Outsourced investment services

Fiduciary / delegated investment services involves management of assets in conjunction with, or on behalf of, clients in order to meet their specific objectives, and partial or full delegation of investment management activities has become increasingly popular to enhance governance and support a more robust investment process of clients' assets. Our fiduciary / delegated services are flexible and can be tailored to match the needs of both very large and highly sophisticated investment programs with significant internal resources, as well as resource-constrained funds in need of cost-effective solutions. This full spectrum enables our clients to delegate to a level of authority that meets their specific requirements and governance.

Our delegation process operates via two core models as follows:

1. 'Total Fund Solutions': where we manage the entirety of a client's assets to outperform their specific set of liabilities (or specific return target), while minimising risk relative to those liabilities
2. 'Specialist Portfolio Solutions': where we manage a portion of client assets, for example within a specific asset class such as equities or credit

Both models look to be a complete reflection of our investment expertise – building portfolios comprising our best thinking on return generation and robust risk management. We leverage the breadth of our research and insight to integrate sustainability, including ESG factors, stewardship, long termism, climate and real-world impact across our investment processes, tools and decision making. Our approach to integration is similar to our core consulting business, but given delegation of assets, we have greater opportunity to fully reflect and implement the agreed investment beliefs in client portfolios compared to a typical advisory relationship. Our fiduciary / delegated mandates are therefore our best opportunity to fully embed and leverage our research and idea generation, across manager research, asset research, TAI and wider collaborations, to build portfolios for clients that will ultimately deliver better outcomes.

Activities

Purpose

We recently undertook a significant project to update our purpose, which was finalised at the start of 2020. This process was very collaborative across the Investments business, led and sponsored by our Global Chief Investment Officer. In particular, we looked to articulate our purpose in the context of a full set of our key stakeholders – our clients, our people, our shareholders, wider society and the planet. We believe that this helps enable effective stewardship given its explicit multi-stakeholder approach and consideration.

Our purpose is summarised as 'investing today for a more sustainable tomorrow'. This is grounded in the fact that within WTW Investments, we exist to deliver better outcomes for savers. Better outcomes mean better, long-term returns with well-managed risk along the way. To achieve this we must continue to innovate and focus on the forward-looking risks and opportunities. This includes the risks and opportunities associated with sustainability, and recognises the importance of effective stewardship.

Sometimes achieving better outcomes will also mean improving the quality of the savings system so that savers' confidence in that system increases and they are willing to save more. It may also mean investing in a way that has a positive impact on the world that savers live in and will retire into. Effective stewardship is clearly central to both of these.

We recognise our duty to multiple current and future stakeholders – clients, employees, shareholders, wider society and the planet – as these are all interconnected. Better outcomes require changes – for us as individuals, as a firm and as an industry. We therefore take our role in changing investment for the better very seriously – and indeed see effective stewardship as key to that.

Culture

We have [published extensive research](#) on the value of culture, leadership, inclusion and diversity and in particular its application within investment organisations. Culture and inclusion and diversity have also been two of the three key pillars of our [engagement with the asset manager industry during 2020](#) alongside sustainable investment.

Internally, we have done a culture assessment on WTW Investments, facilitated by the Thinking Ahead Institute, and have subsequently identified areas of strength and potential improvement. Following this, we have socialised the assessment, its findings and our priorities, including through all-colleague town halls and a dedicated intranet site. We expect to do further work on strengthening our culture during 2021.

In respect of our research of asset managers, a formal culture assessment, based on a defined framework covering three areas – Leadership, Client Value Proposition, and Employee Value Proposition – is required before we upgrade our rating on a strategy to Preferred (signalling a high level of conviction from our manager research team).

These culture assessments include aspects which we believe are important to effective stewardship and the client value proposition that an asset manager delivers to its investors. For some managers, weaknesses identified during these culture assessments have stopped managers from being awarded our top "Preferred" status, or led to them being downgraded, which demonstrates the importance that we place on culture and these assessments. Recently, we have downgraded at least two managers as a result of our assessments of organisational culture.

Beliefs

Our investment beliefs are subject to ongoing review and evolution as appropriate. Our current set of ten core investment beliefs was formulated following an extensive internal exercise harnessing the views of over 150 colleagues globally. Our belief in respect of Sustainable Investment (as outlined above) is one of these core ten beliefs, and was further strengthened particularly in respect of climate change during 2020. During 2020, we have also continued to socialise our beliefs widely, both internally and externally with our clients. Our SI beliefs were clearly articulated within our Sustainable Investment Policy which was updated in 2020, and is publicly available [online](#).

Our beliefs explicitly mention the importance of "undertaking effective stewardship", recognise the importance of collaborative engagement and advocacy "to give the investment industry a stronger voice and improve investment outcomes for all participants", as well as the collective action necessitated by the "systemic and urgent global challenge" presented by climate change and the transition to net zero.

Strategy and client service

Given that we look to embed Sustainable Investment in all our research, process and work with clients, it is sometimes difficult to separately attribute actions taken or portfolio outcomes to our SI beliefs, strategy or culture. Nonetheless, we have highlighted below some examples of these actions taken in 2020 that explicitly reflect the importance which stewardship receives within our work:

- Development of a “Sustainability Lens” to enhance our portfolio construction process, as part of our Total Portfolio Approach. This lens includes assessment of asset-level ESG data, strategy-level SI assessments, and top-down risk and opportunity identification. Stewardship is explicitly assessed within this, particularly identifying the ability for the value of certain strategies and assets to be protected and enhanced through effective stewardship. The use of a Sustainability Lens

in portfolio construction helps us to build robust, diversified portfolios that are resilient to a range of sustainability-related risks and/or able to take advantage of sustainability-related opportunities.

- Our asset manager research team has enhanced its assessment of SI at a strategy level, both in terms of the depth of assessment and data analysed, as well as by raising the standard expected. For each top-rated strategy, we produce an annual Sustainable Investment Report which assesses the ESG integration and stewardship credentials and activities of the strategy in question.
- Manager research has also established a set of sustainability principles (below) which are used to assess and monitor the sustainability credentials of asset managers. Our mission is to improve investment outcomes by incorporating sustainable investment principles into the manager research process.

- WTW launched the [Coalition for Climate Resilient Investment \(CCRI\)](#) at the UN Climate Action Summit in 2019 in partnership with the World Economic Forum and the governments of the UK and Jamaica. During 2020, it has grown rapidly in membership and its collaborative relationships to include over 75 supporting institutions. CCRI aims to create a more resilient global financial industry in which key incentive structures foster an accurate pricing of physical climate risks in investment decision-making, resulting in more resilient economies and communities across the world.
- With advisory clients, both as part of ongoing engagements and as discrete projects, we have undertaken a significant amount of work in respect on stewardship. Examples have included assisting clients appoint a third-party specialist stewardship overlay provider; helping clients settle their stewardship beliefs and articulate a stewardship policy; working with clients to identify managers with strong stewardship credentials for manager selection; providing monitoring and reporting on the stewardship activities of managers, including the development of a proprietary voting analysis tool; and setting a ‘carbon journey plan’ which emphasises the benefit and importance of better engagement.

some measures described below which we look to that give us confidence that we have done so successfully over 2020, and over the longer term.

At a general level, we have been able to competently address technical client questions and requests using our experience, expertise and tools. This has included helping our clients meet growing regulatory and reporting requirements.

Within both client retention and business development, our SI and stewardship credentials and capabilities have been a significant part of our proposition, and on occasion have been explicitly cited as a key driver of the decision to retain or hire our services during 2020.

We look to collect and respond to client feedback on an ongoing basis, and some further detail of this is included later in this report. As part of this process we undertook an annual survey with our UK delegated clients, and three headline results are:

- 63 out of 67** responses described the overall experience of working with WTW delegated investment services over the past 12 months as very good / excellent
- 65 out of 67** responses said portfolio performance met or exceeded expectations
- 65 out of 67** responses described the relationship and the quality of advice and communication from their WTW team as very good / excellent

We recognise our clients have different levels of ambition, beliefs, and objectives around sustainability and operate in different business environments according to different governance structures, context and regulatory regimes. Our approach therefore varies according to the individual client context, and the nature of our relationship and engagement.

Outcomes

It is difficult to precisely assess or attribute the outcome of all these activities in serving our clients’ best interests, but there are

Ultimately, we can look to the performance of our delegated solutions to help illustrate how we have been able to help our clients meet their investment and funding objectives. The chart overleaf shows the change in funding level over time (to 31 December 2020) comparing WTW’s fiduciary management clients and the average UK Defined Benefit scheme.



- During 2020, we engaged extensively with the asset manager community on SI, and conducted over 200 such engagements with over 70 managers. Where we have identified material areas of concern, we have set milestones and expectations for improvement. If these are not sufficiently met, then we will look to review our rating of the strategy which may result in the strategy being rejected for further research (if during the initial due diligence phase) or downgraded. During 2020, we made 18 such late-stage rejections or downgrades primarily on sustainability grounds.
- In terms of collaboration, during 2020 we have continued to participate in a wide number of industry initiatives, and have looked to take a leading or highly active role wherever appropriate. We have also co-founded the Investment Consultants Sustainability Working Group (‘ICSWG’), as well as joining the Investor Group on Climate Change (‘IGCC’) and

Asia Investor Group on Climate Change (‘AIGCC’). Our efforts in this area are further reflected in several appointments of senior WTW representatives during 2020, including membership of the Principles for Responsible Investment (‘PRI’) Stewardship Advisory Committee, and chair of the Client Advisory Board for EOS at Federated Hermes. Please see Principle 10 for further details on our approach to collaborative engagements.

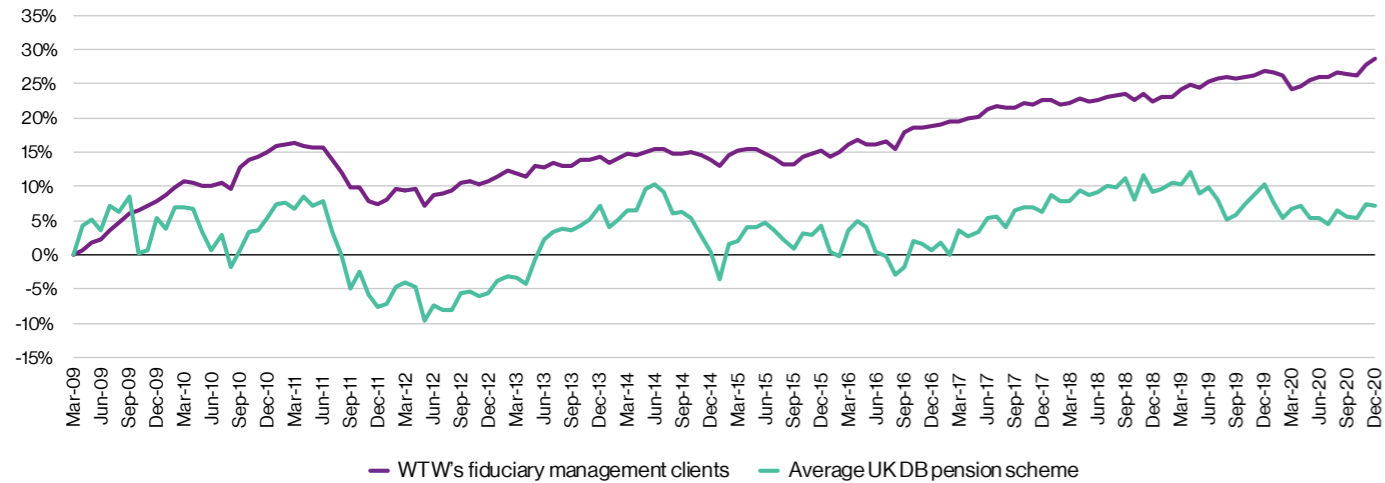
- Sustainability is at the heart of the [TAI research](#) agenda given their mission “to mobilise capital for a sustainable future”. During 2020 this research centred around two major workstreams that benefitted from over 20 member organisations actively contributing – the “Duty of Ownership” and the “1.5°C portfolio”. TAI also held a major mid-year virtual summit – [The Climb to the New View](#) – and a two-day [sustainability summit “Closing the gaps”](#) which explored gaps around skills, data, collaboration and purpose, and outlined a [roadmap for the industry](#).



Section A – Purpose and governance

Fig 1: How has fiduciary management (FM) added value for our clients?

Change in Funding Level (FL) over time up to 31 December 2020



	Change in FL	Risk (pa)	Efficiency
Willis Towers Watson (WTW)	28.7%	2.8%	10.1
Average UK DB Scheme	7.3%	7.6%	1.0

Notes:
 Data sourced from the PPF7800 Index (Pension Protection Fund) and Willis Towers Watson as at December 2020
 Risk is measured as the volatility of the monthly change in funding level since inception in March 2009
 Efficiency is defined as the change in funding level divided by risk since inception in March 2009
 The figures refer to simulated past performance, and past performance is not a reliable indicator of future returns
 Please also refer to the further information disclosures and disclaimers in the appendix of this report.

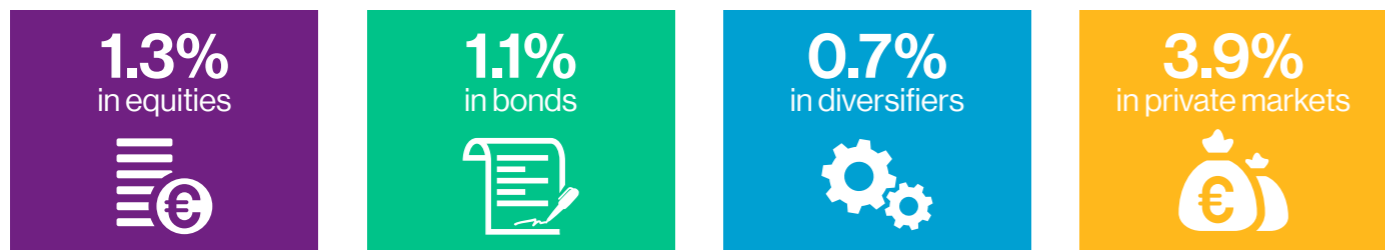
The discrete funding level performance numbers for the 12-month period to 31 December 2020 are as follows:

	December 2019 to December 2020
Willis Towers Watson (%)	1.8%
Average UK DB Pension Scheme (%)	-1.8%
Relative (%) Willis Towers Watson	3.6%

Notes:
 The figures refer to simulated past performance, and past performance is not a reliable indicator of future returns.
 The risk measure is not shown over a 12-month period, as this is not a suitable indicator of performance.
 The change in funding level performance should be considered over the long term.
 The figures have been rounded to the nearest decimal place.
 Please also refer to the further information disclosures and disclaimers in the appendix of this report.

In respect of our manager research and ratings, we can look to the following annualised model outperformance over the ten years to 31 December 2019¹ (the most recent data available as at time of publication):

71% of preferred products (equities, bonds & diversifiers only) have outperformed relative to their suitable benchmark²



Notes:
 Simulated past performance is not a reliable indicator of future returns.

Performance for Equities, Bonds and Diversifiers presented in this document reflects model performance an investor would have obtained had they invested equally across preferred products in these asset classes. It does not represent performance that any investor actually obtained. Model performance is displayed gross of manager fees and gross of Willis Towers Watson fees for Equities and Bonds as client specific fee levels vary, with Willis Towers Watson clients often paying significantly below rack rates, making it impossible to provide accurate net performance. Model performance is displayed net of manager fees and gross of Willis Towers Watson fees for Diversifiers given the tendency to report on a net basis and to allow for performance fees.

Private markets model performance is calculated using a hypothetical program of commitments to each preferred private markets fund that Willis Towers Watson recommended to its delegated clients. The commitment sizes are equal-weighted across vintage years and their internal rate of return (IRR) is compared to public equities IRR calculated using Public Market Equivalent (PME) methodology. Outperformance of private markets versus the MSCI AC World Index. It is net of all underlying manager fees and net of Willis Towers Watson's fees.

¹ Private markets simulated performance is shown for the period starting 1 January 2006 and ending 31 December 2019. Willis Towers Watson has chosen to present performance over a longer period because it believes performance over shorter periods generally does not reflect how a manager's investment strategy will perform over a market cycle. Returns may differ materially if Willis Towers Watson had chosen a different performance period. Commitments made in 2017–2019 have not been included in the analysis as they are in the early stages of value creation and performance reported would be misleading. This simulated performance represents that of a model portfolio which was not made available as a specific product to any clients, nor did any specific clients obtain this performance.

² Proportion of preferred products with at least 3 years of return which have outperformed from inception to completion across equities, bonds and diversifiers only. Model performance is gross of manager fees and Willis Towers Watson fees for Equities and Bonds, and net of manager fees and gross of Willis Towers Watson fees for Diversifiers.

Please see "Methodology" and "Disclosures" pages for additional information regarding suitable benchmark considerations.
 Sources: eVestment and investment managers
 Please also refer to the further information disclosures, methodologies and disclaimers in the appendix of this report.

Principle 2 – Governance, resources and incentives

Asset owners and asset managers: Signatories' governance, resources and incentives support stewardship.

Service providers: Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

Activities and outcomes

Governance structures

We look to align our governance, resources and incentives with our investment beliefs on sustainability and stewardship. We aim for Sustainable Investment ('SI') to be embedded throughout our investment process, from setting a mission and belief framework, through risk management, portfolio construction and manager selection, to implementation and monitoring. We view SI as an integral input to the decisions we make, not a separate or disconnected consideration, and consider stewardship as an integral aspect of SI.

In order to best achieve this integration, we have looked to embed SI and effective stewardship throughout the organisation and as part of each colleague's role, rather than restricting SI to a separate team or function. SI is the ultimate responsibility of the Global Chief Investment Officer who is responsible for and oversees all our investment research, content and portfolio management. The Head of Sustainable Investment, who reports to our Global Chief Investment Officer, is tasked and empowered to ensure teams and individuals are applying best practice SI principles, as well as providing advice and training to associates as necessary. Each associate applies SI and effective stewardship as tailored to their particular role, further supported by a network of over 80 SI champions across the business. These SI champions are key in applying our beliefs and framework to their particular team and area of expertise, and the network has representation across all our teams and geographies.

In addition to the above, the following groups have been given an explicit mandate to oversee and coordinate our SI activities and objectives over 2020. These groups, which are governed by documented Terms of Reference, are supported by a dedicated Project Management function. Together, we set clear objectives at the beginning of the year, with supporting actions, clearly assigned responsibilities, and a regular reporting structure.

- SI Steering Committee – a decision-making body whose members are the Global Chief Investment Officer, the Head of Sustainable Investment, the Global Head of Research and the Global Head of Portfolio Strategy. This group meets at least monthly.
- SI Taskforce – a collaboration group comprising around 20 senior leaders representing all key functions of the business, including Research, Portfolio Management, Compliance, and Communication. This group meets at least bi-monthly.
- A series of workstreams aligned to each area of the business, led by their respective SI Taskforce representative. These groups meet at varying intervals, ranging from weekly to monthly.

We also engage extensively with our clients, and other asset owners in general. This is partly to ensure that we provide the best possible services and outcomes now and into the future with a close understanding of their needs. However, this engagement is also important to help them shape and contribute to a sustainable investment industry where they themselves can be influential and advocate for and support positive change.

Training and knowledge management

To support the effective integration of SI and effective stewardship within our investment research, processes and client services, there is an extensive programme of training and knowledge sharing. This includes compulsory all-colleague SI training as part of graduate induction programmes and analyst training programmes, as well as all-colleague townhalls, a dedicated intranet site, internal newsletters, blogs, and more. We also run colleague training sessions on specific topics of importance, and include external experts in the delivery of that where appropriate. The network of over 80 SI champions also acts as a key source and conduit of knowledge and training for all colleagues. Many of our colleagues complete either the CFA programme or pursue an actuarial qualification, and we provide extensive study support to help facilitate that. We have engaged during 2020 with both the CFA Institute and the Institute and Faculty of Actuaries around the ongoing development of their curricula and courses, particularly in respect of the incorporation of SI, climate and stewardship.

We have identified knowledge management and training as a key area for further effort, and we will look to continue and strengthen these training programmes, including making use of external courses, in the coming year. We have already begun a series of training sessions linked to the collaborative initiatives and specialist third parties we work with (see Principle 10), and colleagues from across our different teams and geographies have also enrolled in two climate change courses delivered by academic institutions. We believe these initiatives will strengthen our ability to support our clients' stewardship activities as well as positively influence the stewardship activities of the wider investment industry.

Investing in data and analytics

We recognise also the importance of data, and have invested in specific SI data throughout 2020, particularly through MSCI ESG Research. During 2020 we conducted a review of our SI data provision and use cases, and as a result extended our SI provision to include further forward-looking climate assessment and impact data. We continue to explore further options here, leveraging both external expertise as well as in-house resources from outside of WTW Investments.

In the last quarter of 2020, [WTW acquired Acclimatise](#) and also transferred the [Energy Finance team of the Climate Policy Initiative](#) to our central Climate and Resilience Hub. This hub is now comprised of around 75 colleagues with deep expertise on climate, and a range of sophisticated analytics and tools to help quantify and manage climate risks and opportunities. We will continue to partner with the Climate and Resilience Hub, and are in particular looking to apply some of the analytic capabilities around asset-level transition risk and physical risk quantification to our investment clients. In particular we believe this level of analysis and information can help target and inform better stewardship practices.

Working with EOS at Federated Hermes

We believe EOS at Federated Hermes ('EOS') are a leading stewardship service provider, and we have partnered with them for many years. We have specifically engaged them to undertake public policy engagement and advocacy on our and our clients' behalves and have more recently extended this relationship to include corporate engagement and voting advice on a variety of our pooled fund solutions for clients to strengthen the asset-level stewardship being undertaken. We believe that EOS's stewardship experience, expertise, scale and influence adds significantly to our work in this area, and ultimately helps deliver better investment outcomes for our clients.

We have a dedicated relationship manager at both WTW and EOS, and regular ongoing and open communication. We receive regular reporting, including via their online 'EOSi' portal, as well as email alerts which are sent to a broad group of stakeholders including our network of SI champions.

During 2020, a senior member of our team became chair of EOS's Client Advisory Board which reflects our level of engagement with EOS, and this is in addition to attendance at the bi-annual Client Advisory Council events. This has typically been in-person attendance by senior representatives from WTW, but during 2020 the events were online which enabled a larger number of colleagues to attend.

We have ongoing channels of communication which can pick up specific queries, for example around certain corporate engagements, votes or case studies, as well as more widely on issues such as reporting and enhancements to their client servicing and EOSi platform.

In particular during 2020, we had input into EOS's engagement plan and prioritisation, and engaged around key voting policy changes, including on climate change. Having developed our proprietary voting analysis tool as described above, we were also able to engage in a detailed discussion around their overall voting patterns and the evolution of key policies.

We would highlight [EOS's 2020 Annual review](#) as providing an excellent summary of their approach, activities and outcomes over the course of 2020. This has included:

- Engaging with 1,245 companies on 3,965 issues and objectives
- Making voting recommendations on 123,988 resolutions at 11,759 meetings, including 17,669 vote recommendations against
- 52 consultation responses or proactive equivalents (such as a letter)
- 173 discussions held with relevant regulators and stakeholders
- Receiving an A+ rating from the Principle for Responsible Investment ('PRI'), A+ InfluenceMap Climate Engagement Score, and an A for the Real Impact Tracker, all for the international business of Federated Hermes, recognising EOS activity
- Active participation in many collaborations including Climate Action 100+, where EOS lead or co-lead 30 engagements and support another 14

Further information on EOS's activities and our work with them is detailed later in this report, including in response to Principles 4 and 8-12.

In addition, background on EOS and further detail on their services can be found on their [website](#), in their [Stewardship services brochure](#), and in the [2020-2022 Engagement Plan](#). This includes details on the team, the approach to engagement and voting, and the influence that comes from combining each client's assets with other institutional investors around the world. EOS have assets under advice of approximately US\$1.3tn (as at 31 December 2020).

Performance objectives

Given that we look to embed SI and effective stewardship within all of our colleagues' roles as appropriate, we also use the annual cycle of individual objective setting, feedback and review as a mechanism to increase accountability and incentivisation. Where SI is relevant to a colleague's role, specific objectives will be included in their annual performance plan, and performance against those objectives will inform compensation and related decisions. Colleagues with SI objectives include those in the SI Steering Group, the SI Taskforce, the various workstream working groups and the network of SI champions.

Working with clients

The fees we charge to our clients depend on the nature of our engagement with them, and can typically be a basis point fee based on assets under management (for delegated and fund of fund solution mandates), a fixed retainer or charge on the basis of time cost.

SI considerations are typically embedded within agreed scope and terms of services to the extent they are explicitly called out. Irrespective of whether they are detailed separately, or whether we have been specifically asked to embed SI considerations in contracts or business plans, sustainability is fully integrated across all our client services and offerings we provide.

Given the work we are doing with clients on more detailed and explicit SI beliefs and objectives, these frameworks and targets can then become targets and measures that clients can assess us against as part of their annual assessment of our advisory services.

Willis Towers Watson does not receive any compensation or payments from asset managers in relation to our recommendation of their products, consideration for recommendation, inclusion in our manager research database or otherwise mentioning to clients. We do not receive soft commissions from third-party managers. We do not charge managers any fee for inclusion in our manager research database and investment managers cannot pay for recommendations.



Principle 3 – Conflicts of interest

Asset owners and asset managers: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Service providers: Signatories identify and manage conflicts of interest and put the best interests of clients first.

Context, activities and outcomes

Willis Towers Watson approach

We are conscious at all times of our licence to operate, in all parts of our business and all geographies around the world. A global conflicts of interest policy applies to all WTW entities and this is supplemented with specific policies, staffing and reporting required for each legal entity.

We take a number of general steps to manage actual and potential conflicts, including the following:

- Procedures to prevent or control the exchange of information between colleagues engaged in activities involving a risk of a conflict of interest, where the exchange of that information may harm the interests of one or more clients.
- Separate supervision of colleagues whose principal functions for clients may conflict, or who otherwise represent different interests that may conflict.
- Measures to prevent or control the simultaneous or sequential involvement of a colleague in separate activities where such involvement may impair the proper management of conflicts of interest.
- Reporting lines which limit or prevent any colleague from exercising inappropriate influence over the way in which another colleague carries out their work.
- All colleagues are required to identify and disclose any personal associations that may give rise to an actual or potential conflict of interest.
- Internal guidance and training on the identification of actual and potential conflicts as they arise.
- Escalation procedures which ensure that issues identified are referred to and considered at the appropriate level within WTW.

- Other relevant policies and procedures, including those relating to ensuring fair deal allocation between clients, to personal dealing, to gifts, entertainment and hospitality, and an Anti-Bribery and Corruption Policy and other Financial Crime policies.
- In some jurisdictions, Willis Towers Watson associates are required to pre-clear account openings and transactions, in compliance with local regulations. Willis Towers Watson also has an insider trading policy and observes blackout periods and ad-hoc blackouts to protect associates from allegations of insider trading.
- The company's personal dealing policy, insider trading policy and other guidelines in avoiding conflicts of interest are embodied in its Code of Business Conduct.
- The audit programme conducted by our Internal Audit department would include a review of financials and fraud arrangements covering potential conflicts and adherence to our Code of Business Conduct. The Willis Towers Watson Code of Business Conduct and Ethics provides the general framework of principles and rules to guide the manner in which we do business.

Our Code of Business Conduct and Ethics states that: Willis Towers Watson is committed to providing our clients with services that are impartial and objective.

Willis Towers Watson Investments

In WTW Investments, our general framework of principles is:

- We avoid situations or relationships that may compromise the best interests of our clients.
- We do not receive commissions from fund managers or broker-dealers.
- We do not accept soft dollars for payment.
- We identify and evaluate the possible conflict before accepting an assignment.

Section A – Purpose and governance

We also manage potential conflicts that might arise from the actions of individual Willis Towers Watson employees; our policies on the acceptance of gifts and invitations, and on personal dealing are examples of this. In addition to the firm-wide policy, there may be cases when lines of business or geographies set more restrictive policies. WTW Investments also issued guidelines in accepting gifts and invitations from entities providing investment-related services to our clients on which we are or might be asked to give an opinion. As an example, all gifts, regardless of amount of value, coming from organisations providing investment services may not be accepted. These organisations include investment management organisations, custodian banks, fund administrators and financial institutions offering investment-related services, which may or may not be currently providing services to our clients.

There is ongoing education and training on conflicts management and an independent compliance function where concerns can be raised. Once conflicts have been identified, further procedures and controls monitor the effectiveness of the management arrangements of such conflicts and details of such measures are captured in registers.

Asset manager research

Conflicts of interest are also a topic which forms part of our research, and in particular assessment of asset managers. We expect managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of their clients are prioritised. We conduct ongoing monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern, and this is formally documented at least annually in a Sustainable Investment Report. As an example, for listed equity investment managers our assessment includes:

- consideration of whether the investment manager's policy includes: an explanation of how they act in the best interests of clients; how conflicts of interest are identified; and the process followed when a conflict of interest is seen to exist; and
- a summary of voting and engagement activities in a consistent form.

During our engagement with asset managers particularly on stewardship, we have consistently raised conflicts of interest as an area of importance, and looked for managers to evidence that conflicts (potential, perceived or actual) do not inhibit effective stewardship. This was one of the topics that we highlighted, for example, in our research into stewardship at large indexation managers, which is available [here](#).

Engagement and voting execution

We use third party asset managers to vote and undertake engagement. They have discretion regarding individual engagements and votes. We also use EOS at Federated Hermes ('EOS') to guide third party asset manager voting and for additional corporate and policy engagement. We contribute, alongside other EOS clients, to the formulation of EOS voting and engagement policies, but again EOS has discretion to recommend specific votes and engage with individual companies as they see fit. There is no involvement from WTW in the company-specific decisions which is where potential conflicts could otherwise lie.

EOS has a publicly available [Stewardship conflicts of interest policy](#). EOS conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

As an illustration of the independent processes, EOS recommended voting against WTW company management on at least one vote proposal in 2020.

Some further specific examples of potential conflicts of interest are outlined below:

Allocating managers with limited capacity

We manage the allocation of any limited capacity that becomes available in a systematic manner so that all clients receive fair and equitable treatment. Our fair allocation policy is administered by the portfolio management and advisory groups following a clear process and is overseen by the Global Chief Investment Officer ('Global CIO').

The guiding principle is proportionate allocation to each client in relation to their stated aggregate requirements, acknowledging that it may be appropriate to manage the number of line items and allocations, in order to align a portfolio with client governance. Decisions of this nature will be made at senior governance levels of the Investment consulting business – including the Global CIO – and documented to ensure our fairness principle is met for all clients over time.

For the avoidance of doubt, this fair allocation policy applies to all clients, whether fiduciary or advisory, therefore all clients receive the same access to limited capacity manager research ideas.

Keeping clients informed

We inform all clients (including advisory clients and those within our multi-manager funds) or the clients' portfolio managers as appropriate of key developments and downgrades of ratings in their managers at the same time, through our automated email alert system, sent directly from our manager research database.

Using both in-house pooled fund of fund solutions and external third-party funds

Willis Towers Watson is independent of any asset manager and we do not receive any remuneration from the managers we recommend to clients or include in our internal funds.

We 'package' our highest conviction managers in WTW wrapped funds to give clients access to complex parts of capital markets where available funds have historically been poorly structured, too expensive, or both. If a client wishes to access these opportunities directly, they can do so. Our advice on which strategies or managers to use would not change, and for a fiduciary management client the fee charged would not change.

Fee negotiations and discounts

Fee discounts that we negotiate with managers are passed to our clients in their entirety.

Within our multi-manager funds, we separate the fee we receive from the fees paid to the underlying managers. As a result, any savings made in the underlying manager fees, or if the portfolio evolves over time to using managers charging lower fees, will be

passed on to the client. By keeping our fee and the underlying manager fees separate we promote transparency and avoid this conflict.

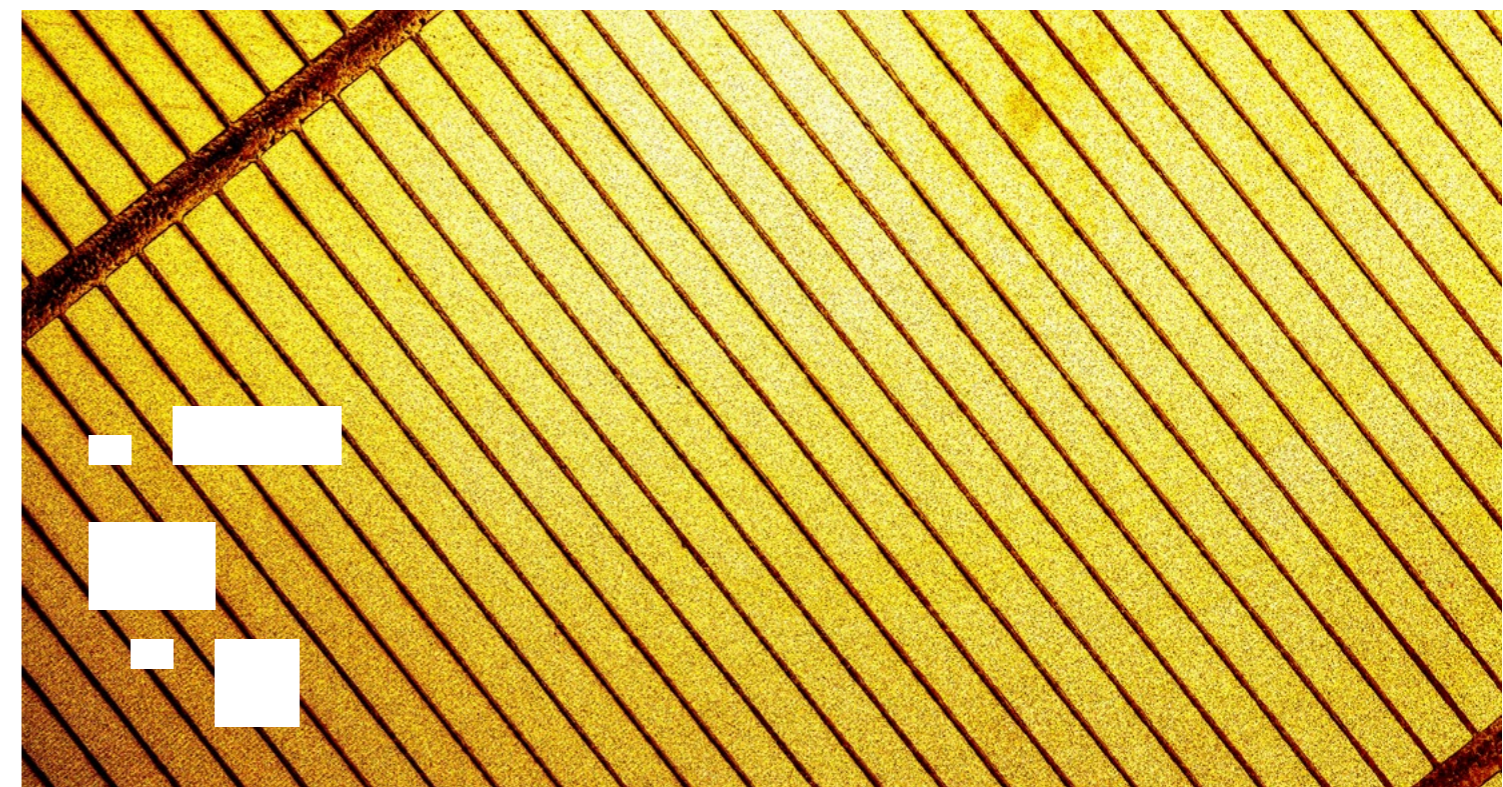
There is no fee for our fiduciary management clients accessing our internal pooled fund wrappers, fiduciary management clients use the zero fee share class. In this way we are agnostic of how our clients access our ideas.

Asset manager remuneration

Willis Towers Watson does not receive any compensation or payments from asset managers in relation to our recommendation of their products, consideration for recommendation, inclusion in our manager research database or otherwise mentioning to clients. We do not receive soft commissions from third-party managers. We do not charge managers any fee for inclusion in our manager research database and investment managers cannot pay for recommendations.

For clarity, we provide investment services to some organisations that either are asset managers or are the parent companies of asset managers in relation to their pension arrangements or insurance capital.

In addition, as a very broad professional services firm Willis Towers Watson will provide services to asset management firms, but these services are in no way connected to or conditional on the investment research we conduct into those firms' asset management products.



Principle 4 – Promoting well-functioning markets

Asset owners and asset managers: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Service providers: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activities

Identification of market-wide and systemic risks

The identification of market-wide and systemic risks is considered across many teams within WTW Investments, but is a particular area of focus for our Asset Research team, our Thinking Ahead Group, and our Manager Research team.

Asset Research Team

Our Asset Research Team is a group of specialist economists who are responsible for our macro-economic and capital market views. Their work includes identifying market-wide risks, long-term thematic research, dynamic asset allocation views, and systemic risk identification, and they are an important input to our portfolio management processes.

Regular publications from this team include:

- [Global Markets Monthly](#), which examines what asset markets are pricing-in and our economic outlook
- Medium-term outlooks, such as this [Global Outlook publication](#), and our Five-Year Outlook
- Thematic research on specific topics such as [Covid-19](#)

Thinking Ahead Group

The Thinking Ahead Group is the WTW executive to the [Thinking Ahead Institute](#) (TAI), which is a global not-for-profit group whose vision is to mobilise capital for a sustainable future. Its members comprise asset owners, asset managers and other groups motivated to influence the industry for the good of savers worldwide. It has 48 members with combined responsibility for over US\$12 trillion. Given its forward-looking focus, systems focus and systemic mandate, TAI has done extensive research on market-wide, systemic, and extreme risks, and effective risk management. Further information is available online, including via the dedicated [Sustainability Spotlight](#) and [Coronavirus coverage hub](#).

Manager research

Our manager research team, whose work is described in greater detail elsewhere in this report (including in response to Principles 7 and 8), also looks to identify market-wide and systemic risks in its research and assessment of asset managers. This is particularly important in the assessment of asset manager stewardship. One such example of a long-running research and manager engagement project in this area is our work on indexation manager stewardship. We wrote [a paper on this in 2019](#) following extensive research and manager engagement, and further highlighted the importance of [stewardship in fixed income](#) in 2020. We have continued our close engagement with indexation managers in this area – as well as the wider [asset management community](#) – and believe we are seeing some positive progress from these efforts.

Within manager research, we have also focused on critical topics such as [diversity in the asset management industry](#), and the [importance of culture](#).

Core beliefs

Our investment beliefs are foundational to how we conduct our research and provide advice and solutions to our clients. Within these beliefs, market-wide and systemic risks are explicitly mentioned in several aspects:

- We believe climate change, and a just transition to net zero carbon emissions, is a systemic and urgent global challenge which necessitates specific risk management, opportunity identification and collective action
- We believe that asset owners need to consider how important they believe their role to be in ensuring the 'system' works and whether their actions help create a better world for their beneficiaries
- We recognise the importance of differentiating between rewarded and unrewarded risks, the value of effective risk hedging, and that ultimately the key risk is that of mission impairment
- We believe that markets are complex adaptive systems, and therefore the consideration of market-wide and systemic risks is critical to effective long-term investment

Response to market-wide and systemic risks

We respond to market-wide and systemic risks in a variety of ways, but fundamentally do so within an integrated risk management approach looking holistically at a portfolio and a client's fundamental investment objectives. We are also mindful that some market-wide and systemic risks affect us as a business, and are therefore considered as part of our Enterprise Risk Management framework (see Principle 5 for further detail). Below we have outlined our response to some of the significant market-wide and systemic risks we have identified:

Climate change

Given our recognition of climate change as a systemic and urgent global challenge we have undertaken a significant amount of work to analyse, quantify, assess and reflect the risks and opportunities it presents throughout our processes and portfolios. Some examples of this include:

- The development of a 'Sustainability Lens' with an explicit and significant weighting applied to climate. This lens is used as part of our Total Portfolio Approach (TPA) to portfolio construction looking to build robust portfolio that maximise 'portfolio quality' as judged through a series of lenses (such as sustainability, diversification, liquidity, etc.)
- The integration of climate into our asset manager assessments, analysing both climate integration and climate stewardship as tailored to the strategy in question. This is also formalised through our annual SI reporting on managers where we have explicitly focused on climate change in our questionnaires and analysis
- Identification of climate opportunities, and making significant investments in areas such as renewable energy, electrification infrastructure, sustainable agriculture, forestry and others
- Development of detailed monitoring and reporting which be used both internally for our research and portfolio management, but importantly also provided to clients as part of standard reporting to facilitate better monitoring of key risks and opportunities within their portfolios
- Development of proprietary climate tools and analytics, looking at both transition and physical risk, incorporating a variety of climate metrics including those which are more forward-looking (e.g. climate value-at-risk)
- Development of four climate scenarios, in line with the Network for Greening the Financial System ('NGFS') framework, which we have used with clients as part of an integrated risk management approach (looking beyond just asset portfolios to consider liabilities, covenant and members)
- Acquisition of Acclimatise and the Energy Finance team from the Climate Policy Initiative (as highlighted in response to Principle 2)

Active contribution to a significant number of collaborative initiatives focused on climate change – see Principle 10 for further information

Covid-19

Our response to covid-19 can be broadly divided into two areas – our investment processes and portfolios, and our own operations as a business.

In terms of our investment process and portfolios response to covid-19, important context is our:

- Structural focus on robust diversification
- Defensive dynamic positioning given market outlook heading into Q1 2020
 - Underweight equities and equity beta
 - Overweight less market sensitive assets such as hedge funds
 - Focus on areas offering great value, e.g. emerging markets
- Use of downside protection strategies
 - Levered US Treasuries
 - Equity options

As an example in greater detail, given our concerns over stretched equity valuations and the risk of recession coming into 2020, we worked with a specialist volatility trading manager to design an option strategy to provide protection in a pooled fund format. We implemented this strategy for clients in early February 2020, structured with a series of 'monetisation triggers' to progressively lock in gains. The strategy hit three triggers during March and ultimately removed substantially all exposure to realise significant gains, returning approximately 200% during March, adding around 1.5% to growth asset returns and significantly protecting our clients' funding levels.

We also spend significant time within our manager research function doing detailed underwriting of all our preferred rated strategies, undertaking close monitoring and engagement through the market volatility. This close contact also allowed us to selectively identify re-risking opportunities and new strategies which we were able to implement quickly within our clients' portfolios.

From a business and operations perspective, we moved globally to home-working in accordance with national regulations and guidance. Given our business continuity planning and infrastructure, this transition did not materially impact our ability to serve our clients.

Section A – Purpose and governance

Several of our client relationships transitioned from typical quarterly meetings to weekly meetings in the height of the crisis to ensure clients were up to date on actions required or any changes being made to portfolios. Our Portfolio Management groups were meeting daily at some points throughout the crisis to ensure correct levels of liquidity in portfolios (given the liquidity in the market was very low at some points in the crisis), to monitor Liability-Driven Investment ('LDI') hedging as yields moved significantly, and to monitor the dynamic positions such as the downside risk strategy mentioned above.

From a people perspective, in addition to our usual engagement efforts, during 2020 we made a special effort to ensure our colleagues remain engaged during the sudden change in lifestyle. We did this through a variety of initiatives, for example: through regular town hall meetings (containing not only business updates but suggestions on how to maintain a work life balance), weekly emails from a different member of the Investment Global Steering Group to the whole investment business, frequent surveys to collect a variety of anonymised and un-anonymised data to understand how colleagues were managing, a variety of video montages featuring clips of 100s of colleagues working from home, and informal social events.

Alongside this we held, and still hold regular informal coffee catch ups in smaller groups for a chance for colleagues who might not work directly with each other to socialize. As well as virtual check-ins, Willis Towers Watson recognises that the situation for working parents is a challenging one, as many will be trying to balance work commitments with having children at home. To assist during this period, colleagues are able to work on a flexible basis subject to manager approval (the only requirement is that the contractual working hours are completed each week, with flexibility on working days, split working time, early, late or weekend working as required). We have also taken time to ensure line managers have the adequate tools and guidance to ensure their teams are maintaining a healthy work life balance during this period. Wellbeing and mental health support has been crucial this year, and we have ensured our mental health first aiders are well equipped to handle the additional support they may be needed to provide.

Key market-wide risks, including interest rates and inflation

Liability hedging has been a core function of our business for many years and we have significant actuarial expertise and experience to create liability benchmarks given the complexities of the underlying liabilities. We believe we have an edge in truly understanding liabilities and the importance of matching assets with liabilities. We have a dedicated Structured Products team responsible for liability hedging strategy and valuations as well as other derivative strategies.

Our approach for clients is based on a view that that interest rate and inflation risk are largely unrewarded risks and should be hedged where possible. We recognise that there are structural downsides to a 100% hedge, be they fees, expenses, costs of leverage, an "inflation risk premium" – or having to make compromises in the return-seeking portfolio to ensure that the hedge is sufficiently collateralised. In general, these considerations tend to point towards reducing "real" hedging over nominal hedging.

The exact way in which these risks are managed will depend by each client context. For delegated relationships, most decision-making authority would be delegated to WTW, but in a few cases the client will put restrictions as to a range of hedge ratios that they are comfortable with, or perhaps a specific set of instruments. WTW then tend to take ownership of the "strategic" hedging decisions (which mix of instruments at what types of tenors) and the investment manager will take on implementation discretion (who to trade with and at what price, how to roll leverage, which exact instruments to buy, what to post as collateral, etc.). The manager selection is subject to the same due diligence, research, ongoing monitoring and engagement as described for other asset managers elsewhere in this report. With advisory clients, we would provide our advice based on the scope and terms of our client engagement, but are often involved in all of the above elements.

Currency risk is another market-wide risk which we consider as part of an integrated risk management framework and look to size appropriately in the context of the overall portfolio risk. The most common ways we manage currency risk across our fiduciary portfolios, or advise clients to manage in advisory relationships, would be to a) invest in hedged versions of funds, where the fund manager hedges the exposure of foreign currencies back to the domestic currency, or b) use an overlay manager if the client has one in place (or has a preference to use one) that would apply derivative positions to hedge the exposures of each manager back to the domestic currency. The former is the approach adopted or recommended for most client portfolios.

Work with other stakeholders

We have strong conviction that collaborative engagement and advocacy are important to give the investment industry a stronger voice and improve investment outcomes for all participants. In our view, long-term value creation relies on robust economic and investment markets.

Our work in these areas clearly extends far beyond just the Investments business within Willis Towers Watson given the nature of these risks. Some further information on this is available here:

- [WTW Environmental, Social and Governance webpage](#)
- [WTW Climate and Resilience webpage](#)

Within WTW Investments, we have a long track record of collaborative engagement and proactive participation of key collective initiatives. Please see Principle 10 for further information.

To highlight some of that work, we have outlined three such areas of work below:

Market-wide and systemic risk stewardship

We have been strong advocates of the importance and need for more system stewardship externally. This includes our engagement with the asset management industry as discussed elsewhere in this report, but is also evidenced by further active participation in key industry efforts, for example:

- Stephen Miles, our global head of equities, is a member of the PRI Stewardship Advisory Committee where a key topic is Stewardship 2.0, focused on system stewardship. He has contributed to [PRI papers on this topic](#) and spoke at the [PRI Americas Digital Forum in November](#) in support of system stewardship. Stephen is also the current Chair of the EOS Client Advisory Board (see below)
- Luba Nikulina, our global head of research, is a board member of the Investor Forum. She was also recently appointed as a member of the [Investor Association and PLSA Stewardship Steering Group](#) and was a co-founder of the Investment Consultants Sustainability Working Group
- Roger Urwin, our global head of investment content, currently chairs the [CFA Future of Finance Advisory Council](#) and has been a key advocate of systems thinking and universal ownership, amongst much else

EOS at Federated Hermes

As outlined in response to Principle 2, we have partnered with EOS at Federated Hermes ('EOS') for many years, and have engaged them to undertake public policy engagement and advocacy on our and our clients' behalves. We have recently extended this relationship to include corporate engagement and voting advice on a variety of our pooled fund solutions for clients to strengthen the asset-level stewardship being undertaken.

Both independently and through our collaboration with EOS we have been able to participate in academic research, respond to consultations related to stewardship and responsible investment, and have supported development of stewardship codes around the world (including this one).

On behalf of clients, EOS regularly engage with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. From time to time EOS will also collaborate with other investors in pursuit of improved outcomes.

To help illustrate these activities and outcomes, we would highlight the [EOS 2020 Annual Review](#). Some highlights of this include:

- Engaging with 1,245 companies on 3,965 issues and objectives
- Making voting recommendations on 123,988 resolutions at 11,759 meetings, including 17,669 vote recommendations against
- 52 consultation responses or proactive equivalents (such as a letter)
- 173 discussions held with relevant regulators and stakeholders
- Receiving an 'A+' rating from the Principle for Responsible Investment ('PRI'), 'A+' InfluenceMap Climate Engagement Score, and an 'A' for the Real Impact Tracker, all for the international business of Federated Hermes, recognising EOS activity
- Active participation in many collaborations including:
 - Climate Action 100+, where EOS lead or co-lead 30 engagements and support another 14
 - Principles for Responsible Investment ('PRI'): founding member and chair of the drafting committee that created the PRI in 2006. Lead engagement with Vale on tailings dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax
 - Institutional Investors Group on Climate Change, Asia Investor Group on Climate Change and Ceres
 - International Corporate Governance Network (ICGN), Asian Corporate Governance Association, Canadian Coalition for Good Governance, Focusing Capital on The Long Term, Corporate Governance Forum, Investor Forum, and US Council of Institutional Investors
 - Investors for Opioid & Pharmaceutical Accountability, Investor Alliance for Human Rights, Plastics Solutions Investor Alliance, 30% Club, and Investor Initiative on Mining & Tailings Safety

All this work on market-wide and systemic risks is incorporated into EOS's approach to engagement as per their Engagement Plan, and is reported on in quarterly Publicly Engagement Reports and Annual Reviews, all available on the [EOS website](#).

Thinking Ahead Institute (‘TAI’)

As also described further in this report, market-wide and systemic risks are at the heart of the [TAI research](#) agenda given their mission to mobilise capital for a sustainable future. During 2020 this research centred around two major workstreams that benefitted from over 20 member organisations actively contributing:

- “Duty of Ownership” which explored how to leverage ownership and investor collaboration to drive system-level and real-world impacts
- “1.5°C portfolio” which worked towards the next generation 3-D investing mandate that emphasises the joined-upness of return, risk and impact

In addition, TAI hosted a major mid-year virtual summit – [The Climb to the New View](#) – and a two-day [sustainability summit “Closing the gaps”](#) which explored gaps around skills, data, collaboration and purpose, and a [roadmap for the industry](#).

Further, [TAI’s Coronavirus research hub](#) documents their work focused in this area. This is also supported by ongoing work on [culture, leadership and diversity](#) which is a critical thread running through all of these issues.

Outcomes

Effective identification and response

As evidenced above, we believe (as well as documented elsewhere in this report) that we have robust processes in place for the effective identification of market-wide and systemic risks. Similarly, we believe our response to many of these risks has been effective, although we recognise that there is much further to go in addressing systemic risks, and we recognise our ability and responsibility to contribute positively to this work alongside other organisations.

In respect of key market-wide risks, such as interest rate, inflation and currency risks, as well as the risks presented by covid-19, we believe our responses have been effective, noting that these require ongoing attention and management. It is hard to isolate or attribute exactly how effective our responses have been, but we would point to aspects identified under Principle 1 as key evidence to support our assessment. In particular given the difficulties and disruption of covid-19, we see the results of the annual survey with our UK delegated clients as especially satisfying:

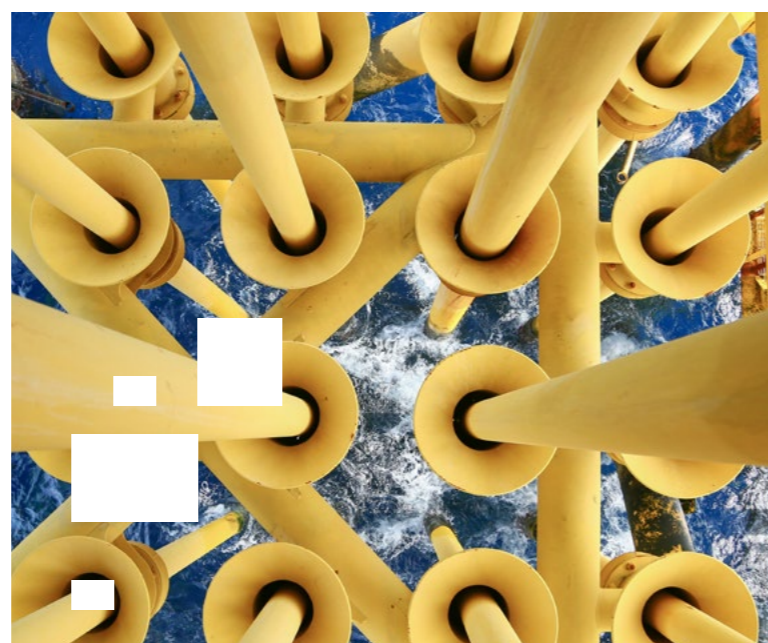
- 63 out of 67 responses described the overall experience of working with Willis Towers Watson delegated investment services over the past 12 months as very good / excellent
- 65 out of 67 responses said portfolio performance met or exceeded expectations
- 65 out of 67 responses described the relationship and the quality of advice and communication from their WTW team as very good / excellent

This is in addition to our ability to protect and enhance our clients’ funding levels, again as described under Principle 1.

Further information on our work as part of collaborative initiatives is detailed under Principle 10. We believe that these initiatives are important and are being increasingly successful in their efficacy and impact.

We recognise that we have a particularly influential voice and role with respect to the asset management industry, and believe our engagement here is leading to positive change. We highlighted earlier our work on stewardship, and see positive signs here within the asset management community of greater resources and efforts being applied. We will continue to push further.

In respect of systemic risks, we recognise that there is much more work to do here, and these continue to represent urgent global challenges. Therefore we will continue to commit significant resource to key collaborative initiatives focused on systemic risk, have specific organisational and individual objectives on this, and continue to engage with the industry and advocate for [systems thinking](#) and systemic risk management.



Principle 5 (AM/AO), Principle 6 (SP) – Review and assurance

Asset owners and asset managers: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Service providers: Signatories review their policies and assure their processes.

Activities

Willis Towers Watson Enterprise Risk Management (‘ERM’) Framework

The purpose of WTW’s ERM Framework is to support delivery of effective risk management across the Company. The ERM Framework applies to all WTW entities and all colleagues working for and on behalf of WTW.

WTW operates a Three Lines of Defence Model, which is intended to align with the expectations of our clients, regulators and shareholders. This model states: the first line of defence is the business and/or functions, which own and manage risk; the second line of defence, including ERM and Compliance, oversees the management of risk; and the third line of defence comprises of functions that provide independent assurance, such as Internal Audit. The Three Lines of Defence help provide assurance that risks are assessed and managed to defined risk appetites and tolerances.

Quality assurance programme

Through our quality assurance programme, ‘Professional Excellence’, exacting standards are set by a committee which is accountable to Towers Watson’s Board of Directors. Quality is then monitored by regional and practice-specific quality audits.

Our quality controls are audited in three ways:

- Trained internal auditors periodically check all procedures to ensure compliance.
- External assessors, from an external accredited body, check our compliance with ISO 9001 procedures on a six-monthly basis. Further, certain parts of WTW Investments, including Towers Watson Investment Management (‘TWIM’), have an ISAE 3402 Type II assurance report from KPMG on the controls in place within our business.
- Internal peer reviews are undertaken by consultants on other consultants’ work with the aim of ensuring that overall quality standards are maintained.

We are committed to conducting our business at all times in compliance with all relevant legislation and regulations, including but not limited to the Data Protection Act and Financial Conduct Authority (‘FCA’) regulatory requirements.

Below are the three steps of our internal peer review:

- Technical Review – requires the reviewer to check the technical aspects of the work, including compliance with applicable standards, laws, and regulations.
- Consulting Review – requires the reviewer to determine whether the client’s needs and relevant issues are identified and addressed and the methods, analyses, assumptions and recommendations are sound, well supported, and appropriately draw upon our intellectual capital. The Consulting Reviewer must have the experience and expertise to thoroughly understand the work and must be a subject matter expert.
- Editorial Review – requires the reviewer to confirm that the advice is clear, and in the correct context. All written advice is reviewed by at least one other senior consultant on the team. Major items of work which are of significant complexity, require a particular specialism or are of significant financial sensitivity will be reviewed by a senior associate outside the client team. Furthermore, we are committed to managing our client projects to the highest standards.

Policies and procedures

WTW Investments is subject to wide range of regulatory requirements. To ensure we consistently meet these requirements, we have developed a suite of policies, procedures and other associated collateral (collectively ‘regulatory collateral’). Ensuring that all of this regulatory collateral is accurate, up-to-date and properly communicated to all relevant stakeholders is a key requirement. Document sponsors are accountable to the relevant governing bodies for ensuring regulatory collateral for which they are responsible meets these requirements.

Section A – Purpose and governance

As an example, the EMEA Investments Executive Committee has approved an EMEA Investments Policy Governance framework, which sets out a number of key design principles that should be followed when developing and maintaining regulatory collateral.

- 1) Each document has a clearly nominated and sufficiently senior document sponsor, who will oversee and coordinate with relevant stakeholders to ensure the document is (remains) fit for purpose
- 2) Regulatory collateral should be approved by a suitable governing body (usually the EMEA Investments Executive Committee and/or the relevant legal entity boards, e.g. TWIM)
- 3) The document sponsor will periodically (usually annually) review and update the document as appropriate and present the document at the relevant governing body for formal re-approval; in the instance of no / only minor changes, a simple attestation will suffice.

Our Compliance team have also set up an internal EMEA Investments Compliance webpage, as a single location to contain all EMEA Investments regulatory collateral and act as a 'one-stop-shop' for business colleagues when seeking guidance on their regulatory obligations. This webpage sets out the relevant document sponsor, to which regulated entities the document applies, and also when the document was last reviewed or updated.

Further examples for Sustainable Investment ('SI') and Stewardship

Within WTW Investments we have established a clear governance structure with accountabilities and responsibilities as outlined in Principle 2. This is a key part of our framework for appropriate oversight, review and internal assurance over our SI policies and processes.

We have several key policy documents and report in respect of SI, including:

- SI policy document, which is reviewed and updated at least annually, and is owned by the Global Chief Investment Officer ('Global CIO')
- Principles for Responsible Investment ('PRI') annual Transparency Report, which is completed annually in line with our PRI signatory obligations, and subject to extensive internal review and sign off including by the Global CIO and Head of SI
- This UK Stewardship Code report, which will be produced annually in line with signatory requirements, and be subject to extensive internal review and sign off including by the Global CIO and Head of SI

Work with clients

We recognise that our clients face significant regulatory requirements, and that effective policies and processes are key to them successfully meeting their investment objectives. As such, we provide significant support and advice to our clients around policies and processes, including in respect of Sustainable Investment and stewardship.

We believe a robust policy is based on beliefs and values specific to the context of each asset owner. An effective policy therefore needs to align with the unique mission of the organisation, taking into consideration its specific circumstances, and be socialised enough to provide a strong sense of ownership and collective buy-in. To this effect we do not provide off-the-shelf or standard policies, but instead work with clients to assist them in developing their own beliefs, priorities and perspectives across the topics of sustainability. We then help formalise these beliefs into a policy that can be used to guide thinking and decision making as relevant to their investment process and strategy. During 2020, we would highlight as an example of this work, our extensive engagement with UK pension funds around regulatory requirements on policies and processes, where we not only looked to help our clients meet these regulatory requirements, but also use it as an opportunity to engage more deeply on SI and stewardship and apply good and best practice principles where appropriate.

EOS at Federated Hermes

In respect of our work with EOS at Federated Hermes ('EOS'), we would highlight the following in respect of review and assurance:

- On an annual basis, EOS's voting process is independently assured (AAF 01/06).
- EOS provide a range of qualitative and quantitative reporting for their clients (including us) on the engagement and voting activities they have undertaken. Case studies (such as those included later in this report in response to Principle 9) are reviewed by the named companies in advance of publication to enable them to correct any aspects of our reporting. There are multiple touchpoints for clients to review EOS's activities, by way of regular reporting (client portal, quarterly and annual reporting) and opportunities to provide feedback, including quarterly meetings, annual presentations to trustee boards / investment committees, and our biannual client conference.
- As described earlier in response to Principle 2, we have a dedicated relationship manager at both WTW and EOS, and regular ongoing and open communication. We receive regular reporting, including via their online 'EOSi' portal, as well as email alerts which are sent to a broad group of stakeholders including our network of SI champions.



- During 2020, a senior member of our team became chair of EOS's Client Advisory Board which reflects our level of engagement with EOS, and this is in addition to attendance at the bi-annual Client Advisory Council events. This has typically been in-person attendance by senior representatives from WTW, but during 2020 the events were online which enabled a larger number of colleagues to attend.
- We have ongoing channels of communication which can pick up specific queries, for example around certain corporate engagements, votes or case studies, as well as more widely on issues such as reporting and enhancements to their client servicing and EOSi platform.
- In particular during 2020, we had input into EOS's engagement plan and prioritisation, and engaged around key voting policy changes, including on climate change. Having developed our proprietary voting analysis tool as described above, we were also able to engage in a detailed discussion around their overall voting patterns and the evolution of key policies.

Outcomes

We have a strong culture of continuous improvement as described and evidence throughout this report. Many of these improvements are marginal or gradual and as such may be hard to isolate and attribute to specific points of review or assurance. Nonetheless, we have highlighted below some examples of our stewardship developments which we believe reflect these processes:

- As part of the review of our SI policy and beliefs, we strengthened our belief on climate change, including the specific call for collective action
- After an extensive project, we updated our WTW Investments purpose to "investing today for a more sustainable tomorrow" with an explicit recognition of wider stakeholders, our role in

helping create a robust and fair investment system, and the importance of our stewardship activities in that

- The development of a new voting pattern analysis tool which enables more detailed manager engagement and challenge, and better client reporting and transparency
- Working with the Investment Consultants Sustainability Working Group ('ICSWG') on a new set of engagement activity questions, as well as helping to produce a guide of climate competencies to help trustees to engage with their consultants in this area
- In 2020, the Asset Management Exchange ('AMX') worked to develop the ability to attach client-specific voting policies to a pooled fund solution – [this was launched in early 2021](#)
- We upgraded and strengthened our stewardship questions of managers, and the standards by which we assessed them as we do every year as part of our annual SI reporting, helping to raise the bar of practice across the industry
- We undertook a programme of knowledge management and training across our different global teams to continue the professional development of our colleagues on stewardship
- Responding to feedback and in recognition of the importance of the subject, the Thinking Ahead Institute dedicated a key workstream to stewardship during 2020 named the 'Duty of Ownership'



Section B – Investment approach

Principle 6 (AM/AO), Principle 5 (SP) – Client and beneficiary needs, and supporting clients’ stewardship

Asset owners and asset managers: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Service providers: Signatories support clients’ integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken

Context and activities

WTW Investments serves a diverse global client base of institutional investors, including pension funds, insurance companies, sovereign wealth funds, government funds, wealth management companies, endowments and foundations.

Key information (using latest available data as at time of publication):

- US\$3.6 trillion in assets under advice (as of 2019)
- US\$166 billion in delegated assets under management (as at 31 December 2020)
- Over 1,200 clients (as of 2020)
- 1,000 colleagues in 17 countries across the globe (as at 30 June 2020)

Advisory services

We recognise our clients have different levels of ambition, beliefs, and objectives around sustainability and operate in different business environments according to different governance structures, contexts and regulatory regimes. Our approach therefore varies according to the individual client context, and the nature of our client engagement. We work to transmit our beliefs and philosophy through education and training, commensurate to the clients’ needs and interests. With some clients we go into considerable detail - for example detailed training on specific topics, identifying thematic investment opportunities, how Sustainable Investment (‘SI’) and stewardship can be integrated with strategic advice and portfolio construction work, as well as talking in depth about SI policies and engagement activity of specific third-party managers, whereas for other clients we keep the discussion and recommendations more high-level focusing on meeting minimum regulatory requirements and basic practice standards.

We represent our position and beliefs around sustainability to our clients and look to explain how they may apply within their specific client context. SI and stewardship recommendations which we subsequently make are tailored to individual clients based on client specific beliefs, objectives and governance constraints. Where our recommendation is not fully aligned, or where there are additional challenges in implementation, we present a range of options to the client usually set out in terms of minimum, good or best practice of some equivalent scale. As such, we tend to frame the journey to integration as a journey of steps or part of a process that need to be achieved over a period of time rather than in one go. Such an approach looks to steer and encourage clients towards better practice, as their views or beliefs may develop over time. Across our business, we regularly produce research on changes in regulation and practice and use these as hot topics with clients in the hope that this will catalyse changes in behaviour. We collect feedback from clients in a number of ways: direct feedback, questions to the client, independent client reviews, and industry surveys. We use this feedback as an input to direct our activities around sustainable investment both internally and for the services we offer.

Our reporting activities depend largely on how we have been engaged by the specific client. We report back to our full retainer clients on a regular basis, usually every quarter to their Board or Investment Committees, on their investment portfolios and managers. We may report more regularly to internal investment teams by email, phone call or update meetings. We monitor all preferred managers and notify clients promptly by email and phone should there be a downgrade in our rating or any other relevant change that requires review.

Around manager monitoring, trustees are increasingly looking to understand and engage with SI ratings and stewardship, which is both educational as well as helping them to fulfil their investment and stewardship responsibilities. We will discuss sustainability reporting with them and discuss potential challenges to managers which can then be raised directly or via us to effect changes and improve practices. We also increasingly spend time educating trustees around different approaches to investing (including ESG tilts, climate strategies, impact, or ethical/exclusionary strategies). This can be combined with interactive beliefs sessions to help trustees settle views and preferences around the various investment approaches, and ultimately help them decide on a preferred strategy. Specifically, around climate where this is considered a priority for trustees, we can research and educate on best in class environmental focused managers or specific climate strategies.

The formats of discussion include:

- Regular training (e.g. on regulatory developments, implementation approaches, monitoring frameworks)
- Regular meeting agenda items
- Interactive beliefs sessions or workshops
- New or refresher trustee training
- Training as part of a broader portfolio / strategic review

We of course recognize training / education is an ongoing process that continues throughout the relationship with each client, as market products, regulation, latest thinking around sustainability continues to evolve.

Specific actions we take include:

- Reviewing clients’ existing beliefs, investment strategy and policy in relation to SI and stewardship
- Aligning the investment policy with the client’s overall SI strategy and beliefs
- Helping clients define SI and stewardship investment objectives and incorporating them into policies
- Considering short-, mid- and long term time horizon of overall SI objectives outlined in the investment policy
- Aligning the policy with the relevant sustainability regulations and public policies
- Determining the client’s SI risk-profile and materiality to inform the investment policy
- Providing education/training and case studies if the client has not publicly committed to a SI strategy or belief set, and seek to incorporate SI and stewardship in the client’s investment policy

Section B – Investment approach

- Researching SI trends, terminology and current debate to help create an up-to-date investment policy
- Comparing SI and stewardship investment policies of peers in the market
- Engaging the client organisations' executives, Board and any other stakeholders in the SI investment policy development
- Outlining the internal governance structure responsible for overseeing and implementing the investment policy
- Assisting clients appoint a third-party specialist stewardship overlay provider
- Working with clients to identify managers with strong stewardship credentials for manager selection
- Providing monitoring and reporting on the stewardship activities of managers, including the development of a proprietary voting analysis tool
- Setting a 'carbon journey plan' which emphasises the benefit and importance of better engagement

Outsourced investment services

Our fiduciary and delegated management services and solutions look to be a complete reflection of our investment expertise - building portfolios comprising our best thinking on return generation and robust risk management. We leverage the breadth of our research and insight to integrate sustainability, including ESG factors, stewardship, long termism, climate and real-world impact across out investment processes, tools and decision making. Our approach to integration is similar to our core consulting business, but given delegation of assets, we have greater opportunity to fully reflect and implement the agreed investment beliefs in client portfolios compared to a typical advisory relationship. Our fiduciary and delegated mandates are therefore our best opportunity to fully embed and leverage our research and idea generation, across manager research, asset research, Thinking Ahead Institute ('TAI') and wider collaboration to build portfolios that reflect our best ideas in return generation and risk management and ultimately deliver better outcomes for our clients.

Our portfolio construction process looks to maximise portfolio quality, as evaluated through a number of 'lenses', including sustainability. This helps us build robust, diversified portfolios to meet our clients' risk and return requirements, as well as help to ensure our portfolios are resilient to a range of sustainability-related issues and/or able to take advantage of sustainability-related opportunities. We recognise that while many sustainability considerations have clear risk and return consequences, embedding this 'lens' into portfolios also requires us to consider issues that are subject to greater uncertainty, less measurement and are heavily context dependent. This can include, for example,

issues with potential reputational risks for us and our clients. Therefore, judgement and qualitative overlays are crucial. An important part of our framework for doing this is to assess sustainability through two dimensions:

1) Portfolio resilience – an assessment of the exposure of the portfolio to sustainability related risks and opportunities

2) Manager integration of sustainability – the extent to which, and success with which, sustainability is incorporated into the decisions made by managers within the portfolio

Given our business priority around climate, this is also a key area of focus of portfolio construction process – in particular understanding our portfolios' climate risk exposures and reducing them through time, as well as identifying and investing effectively in relevant opportunities. This takes place both through top-down identification and analysis of climate-impacted sectors, as well as the bottom-up contribution of each manager. Portfolio actions we take to reflect the above include:

- Scrutinising the SI and stewardship credentials and activities of managers appointed within our portfolio, and all else equal allocating to those who display best practices in these areas
- Appointing EOS at Federated Hermes ('EOS') as a specialist stewardship provider to provide additional engagement and voting advice for some strategies within our delegated portfolios
- Managing portfolio exposure to sustainability-related risks
- Increasing exposure to sustainability-related opportunities
- Using tilted / targeted allocations where sustainability factors (including ESG) are material and/or mispriced
- Capturing systematic mis-pricing, e.g. move to a sustainability aware or targeting benchmarks, or investment in an ESG tilted smart beta index
- Negative screening (e.g. exclusions to mitigate potential loss)
- Assessment of opportunities aligned to the UN Sustainable Development Goals ('SDGs')
- Reverse-stress testing to determine materiality of sustainability themes / trends in terms of impact on performance and portfolio exposure
- Projection and calculation of expected impact of long-term sustainability themes / trends on performance and objectives / mission
- Physical climate risk country / industry heat map analysis
- Climate scenario modelling / analysis
- Portfolio climate reporting

Key areas of our monitoring process are described below as well:

a. Sustainability scorecard

The monitoring undertaken by portfolio managers and researchers forms the basis for our client reporting, noting that reports will often be bespoke to client context. Key sustainability data for the portfolio is captured and summarised on our sustainability scorecard. This draws on underlying tools and data sources to give an overall view of a portfolio's sustainability exposures and positioning, which can then feed into our portfolio construction tool to be considered alongside other portfolio quality lenses.

b. Sustainable investment reports

We undertake detailed assessments of the sustainability practices of many managers, including all highly rated strategies used in our delegated portfolios. These assessments are summarised in our sustainable investment reports, which are tailored to the asset class and strategy in question, covering ESG integration and investor stewardship (engagement and voting (where applicable)). Our research team complete, update and review these reports as appropriate, mindful of both changes to the manager or strategy, as well as evolutions in industry best practices on an annual basis.

Our Portfolio Management Group (PMG) is responsible for reviewing new manager products before they are available for delegated portfolios, and as part of this, PMG review the sustainable investment reports. On an annual basis, PMG consolidate all the manager sustainable investment reports to review them in their entirety and in a portfolio context.

Manager and portfolio scores are tracked over time looking to see improvement. Laggards or managers with worsening scores are frequently investigated so the manager can be improved or, if necessary, a replacement sought. As described above, engagement with the asset management community is a critical part of what we do to raise standards, help shape the industry for the better, and deliver material benefits for our clients. We have also downgraded a number of investment strategies on the grounds of failing to keep up with our expectations of ESG integration following a period of engagement with the manager.

We collect a lot of data from asset managers to support our engagement work with them and assessment of their stewardship activities. Included here are examples of this, using illustrative data for a representative strategy.

Firm background	
Firm assets	\$250,000m
ESG/sustainability lead	Global Head of Sustainability
ESG team size	18
% stocks >5% owned	120
Supported initiatives	PRI (A+); UNGC; TCFD; UK Stewardship Code

Firm voting activity	
# eligible votes	15,250
% votes exercised	98%
% against abstained	6% 2%
% against remuneration	12%
% for shareholder proposal	29%
Top two topics voted against or abstained	Board of Directors; Corporate structure

Firm engagement activity	
# of companies engaged	230
# of engagements	325
Top two engagement topics	Board of Directors; Remuneration
Most significant company engagement	PQR (Social)

Product background	
Product assets	\$14,000m
Product type	Active – Fundamental
Typical # of holdings	40
Turnover	8%
% stocks >5% owned	20
Exclusions applied	None as standard
Exclusions available	If requested by a client

Section B – Investment approach

Product voting activity		Product engagement activity	
# eligible votes	450	# of companies engaged	30
% votes exercised	100%	# of engagements	35
% against abstained	7% 1%	Top two engagement topics	Social; Board of Directors
% against remuneration	7%	Most significant company engagement	PQR (Social)
% for shareholder proposal	19%		
Top two topics voted against or abstained	General governance; Social		

Most significant votes

Company	Weight at vote	Topic	Guidance	Voting action	Rationale
XYZ	Portfolio: 0.2% Firm: 0.4%	Climate Risk	Proxy: FOR Management: AGAINST	FOR	The manager supported a shareholder proposal requesting that the company produce enhanced disclosure on their approach to managing carbon emissions and addressing climate change. By encouraging better disclosure in this area, the manager can better understand any future sustainability risks.
ABC	Portfolio: 1.5% Firm: 1.5%	Remuneration	Proxy: AGAINST Management: FOR	AGAINST	The manager opposed three resolutions regarding remuneration due to concerns regarding the relationship between pay and performance. The manager has been engaging with the company and has seen some progress which led the manager to support a separate resolution on pay.

Most significant engagements

Company	Weight	Topic	Engagement details
PQR	Portfolio: 0.1% Firm: 0.2%	Social	<p>Manager ABC has been a long-term shareholder in PQR. Operational performance has been impressive, underpinned by management's focus on keeping costs low, which has included using their scale and patience to get better rates for large-scale purchases. However, perhaps as a side-effect of such a strong focus on low costs, the company has attracted increasing criticism regarding its interaction with customers, employees and sometimes shareholders. In the Manager's view, stakeholder relations can impact the sustainability of a company's long-term strategy and therefore the investment case. For this reason, Manager ABC has engaged extensively with the company on a range of matters over the past few years. While Manager ABC recognises the company still has more to do, compared with five years ago, Manager ABC believes their engagement has resulted in some improvements to stakeholder relations.</p> <p>Manager ABC believes measures of success here include:</p> <ul style="list-style-type: none"> - Any positive improvements made to corporate governance, shareholder rights, and employment practices - Any future requests for Manager ABC's input to changes in all the aforementioned areas
MNO	Portfolio: 0.1% Firm: 0.1%	Other (regulatory)	<p>Topic: Regulatory pressure and public sentiment</p> <p>Manager ABC engaged with Company MNO in Q1, primarily concerning regulatory pressure and public sentiment. The engagement with the CEO VP of Global Policy gave Manager ABC an overall impression that having attempted to contain issues around content and privacy, Company MNO was taking action.</p> <p>In Q3 Manager ABC had a meeting with the CEO and COO who made clear that the Company's acceptance of past errors has turned into action. Manager ABC were reassured that the Company is taking an increasingly proactive approach to addressing societal concerns.</p> <p>The Manager consider the ultimate measure of the success of their ESG and engagement activities is the long-term performance of their investment strategies.</p>

We have also built a proprietary tool to aid in our assessment of the voting activity for large asset managers (where data is available) which we use in our research meetings and engagements activities. This looks at patterns in management and shareholder resolution voting across regions, sectors and themes. It also looks more closely at voting patterns within particular areas of interest, such as climate shareholder resolutions. We also use this tool to highlight case studies for discussion where a manager's vote on a particular resolution seems inconsistent with their stated policies, other voting the manager has undertaken, or where the manager has taken a different view to most other market participants. This analysis can also be used directly by our clients to help them to better understand the level of alignment between any voting principles they have and the voting activity of their asset managers.

The data we are collecting on voting and engagement are aligned with UK reporting requirements under Pensions and Lifetime Savings Association ('PLSA') guidelines. We were part of the industry group who helped design the voting template, and we have also promoted its usefulness and refinement via the Investment Consultants Sustainability Working Group ('ICSWG'). We have also been part of the ICSWG stewardship stream, where we are co-leading the development on a similar reporting guide for engagement activity data.

Throughout our activities and the development of our services, we have paid close attention to our client needs and preferences. Some of these are highlighted below:

- Clients frequently look to us for assistance with meeting regulatory requirements. In the UK for example we have helped clients with their Implementation Statements, and in using the PLSA voting template to help fulfil this.
- Clients are often keen to know what good and leading practice on stewardship is, and therefore we have done significant benchmarking work in 2020, and comparative analyses of asset manager practices to help inform our advice. We are also closely linked to key collaborative bodies and industry groups which are instructive in this area, including the Principles for Responsible Investment ('PRI') (where we are a member of the Stewardship Advisory committee), and EOS (including via the Client Advisory Board). We are also members of the recently formed Investment Association ('IA') and PLSA Stewardship Steering Group, and a co-founder of the ICSWG. Being part of these groups also allows us to raise particular priorities or concerns which have been communicated to us by our clients.

- Clients also want more visibility on voting practice and want to be able to verify if those practices are aligned to their policies and preferences. Therefore we created a new voting report in 2020 as described above.

- Clients need to have information and analysis presented in a digestible and decision-useful format, and therefore we put significant effort into distilling all our analysis into output that is client-friendly, comparable and informative. For example, our annual manager SI reports distil over 100 questions and many more data points into a single slide summary with traffic light indicators, supporting by key data points and commentary.

EOS at Federated Hermes

As described and illustrated elsewhere in this report, EOS at Federated Hermes ('EOS') provide a range of high quality, formal, qualitative and quantitative reporting for their clients (including us) on a regular basis (monthly, quarterly and annually). This reporting outlines how EOS have implemented their engagement policy and is designed to help clients communicate with their internal and external stakeholders. The reporting includes statistics, engagement information (objectives, progress, meeting notes), case study examples and voting recommendations.

In addition, EOS clients can view EOS's engagement and voting data on a dedicated online client portal, 'EOSI'. EOS gives clients the option to provide their input for consideration alongside other factors, on the development of a forward-looking [Engagement Plan](#) as described earlier.

EOS publicly disclose information that is required by this Principle, including:

- How the EOS engagement policy has been implemented (in annual and quarterly reporting and case studies, largely publicly available on the [EOS website](#))
- EOS voting behaviour – the [Global Voting Guidelines](#) and [Regional Corporate Governance Principles](#) are publicly available. EOS also produce, on a quarterly basis, statistics on voting outcomes for clients and detailed voting disclosure documents outlining how they have voted in the period and rationales for where they have opposed resolutions, which can be used publicly.

Section B – Investment approach

Outcomes

As outlined in our response to Principle 1, there are several ways in which we evaluate our effectiveness, and use our ongoing engagement with clients to incorporate their feedback and improve our services to best meet their needs and preferences.

In addition to the observations made in Principle 1 around client satisfaction, retention, funding level performance and manager ratings performance, we have further mechanisms specifically on client feedback that are a valuable input to what we do.

We regularly review the services provided to our clients. This takes place across multiple channels, and has been described in further detail with respect to UK delegated clients as an illustration below:

Client feedback

Once a year, we undertake Independent Client First reviews where a senior associate from WTW's investment team meets with key client stakeholders to seek feedback on the service being received, what's working and what could work better. This feedback is written up in a formal meeting note and provided to both the client team and the Head of UK Delegated Investment Services with clear actions and next steps as necessary. Progress against these actions is monitored and Client Leads have annual meetings with a member of the senior Delegated Investment Services team to discuss their clients.

From time to time we send out surveys to our fiduciary management clients to get a sense across the whole of our client base. Again, this is used to help identify any actions on specific clients and inform the wider business as a whole.

More generally, we encourage our client leads to seek ongoing feedback from their clients and have open discussions on the quality of the services provided. Each quarter our Clients Leads join a debrief call which provides a forum to share feedback from our clients from recent meetings and identify actions.

Solutions feedback

A panel of senior associates from our fiduciary management business have monthly discussions on our portfolio solutions to ensure they remain fit for purpose and continue to meet our clients' needs. This group acts as a key link between the views of our clients / the wider market and Willis Towers Watson's investment resources.

Portfolio management feedback

Each client's portfolio is adapted to meet their specific requirements using our Portfolio Management Group's model portfolios. This ensures consistent application of our investment research and thinking across our client base. On a quarterly basis, Client Leads meet with the EMEA Head of Portfolio Management to review their clients' portfolios against our model portfolios and in line with the clients' objectives.

We undertook the latest iteration of our annual survey with our UK delegated clients in 2020, and three headline results are:

- 63 out of 67 responses described the overall experience of working with Willis Towers Watson delegated investment services over the past 12 months as very good / excellent
- 65 out of 67 responses said portfolio performance met or exceeded expectations
- 65 out of 67 responses described the relationship and the quality of advice and communication from their WTW team as very good / excellent

In order to assess our performance as fiduciary manager, a mix of quantitative and qualitative factors can be used. Ultimately, the performance of each client's portfolio, the funding level of their Plan and how we manage risk in the portfolio are the most critical measures. Our reporting framework provides clear, objective information designed to drive timely and effective decision making.

There are also some key qualitative factors: service, timely delivery, how we work with clients to set the strategy, and how we educate and explain the different moving parts of the portfolio to clients. As such, we would propose a 'balanced scorecard' approach to measuring us, which considers all these factors. A number of these factors, especially around service, would be picked up by the Independent Client First programme.

We also work with third party evaluators who oversee fiduciary managers and assess both our performance and our approach on behalf of our mutual clients.

In the UK, we have been listening to feedback across client interviews (73 done independently over 2020), surveys, intermediaries and pitch results. Clients have asked us for:

- i. More communication particularly throughout times of market uncertainty. We delivered:
 - a. Extra updates over the year, particularly throughout Q1
 - b. More flexibility with additional meetings and calls with the client team
 - c. Additional calls with the specialist solutions team to talk through how the Fund's performance had been impacted by market events
- ii. Clarity in reporting which can allow the Trustee to focus on where action is required:
 - d. Performance attribution in "FundWatches", showing the key drivers of return
 - e. Comparisons to a reference portfolio of equities and bonds to understand the value added by constructing a robust portfolio
- iv. Meeting the climate challenge:
 - f. Increasing the depth and frequency of our SI reporting as described in this report
 - g. Working with managers to improve the data you have access to, allowing us to begin to measure the carbon footprint of the portfolio and possible impacts of changing global temperatures on return

Continuing to strive to have a positive impact through careful asset allocation where possible with numerous investments across renewable energy, sustainable agriculture, electrification infrastructure, and forestry amongst others

- iv. Taking an integrated approach to risk management
- h. Attendance of the Scheme Actuary at more investment meetings, particularly those covering strategy
- i. Prioritising cashflow management and keeping in touch with administrators, particularly over Q1 required close monitoring
- v. Continuing to bring innovation:
 - j. Taking advantage of virtual meetings to bring in specialists to meetings
 - k. Continuing to improve your portfolio by considering new ideas and how they can be executed most efficiently like the pooled equity protection fund

We would also note the importance of our continuing engagement with the asset management industry which is described throughout this report. We have listened to feedback around clarity of expectations, data and engagement amongst other areas, and several of our activities can be seen as a clear response to this, including:

- The publication of our annual '[Ideas Exchange](#)' document, with a clear emphasis on SI and stewardship
- The number of detailed and ongoing engagements around SI, stewardship, culture, inclusion and diversity
- Outlining our expectations and core sustainability principles (as described in Principle 1)
- Ongoing collaborations in various forums and initiatives (see Principle 10 and others for further details)
- Development and advocacy for standardised good practice reporting templates and data requests, including via the PLSA, ICSWG and PRI
- Development of our reporting suite, including engagement with asset managers to understand the output and our analysis

Principle 7 – Stewardship, investment and ESG integration

Asset owners and asset managers: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context and activities

We believe sustainability factors including ESG, stewardship, long termism, climate and real-world impact can all have a material influence on investment risk and returns. As such we integrate sustainability and ESG across everything we do and throughout our investment processes, beginning with mission and beliefs, through to risk management, portfolio construction, manager selection, implementation and monitoring. In particular our research teams are at the core of how we transmit our thinking and beliefs around ESG and broader sustainability in our advice and recommendations. Below we describe in detail how we systematically integrate stewardship and ESG considerations across our entire business.

Stewardship

We believe that effective stewardship is a critical aspect of sustainable investment and important to a well-functioning investment industry. We recognise our role as an influential industry participant, and seek to exercise our stewardship responsibilities, either directly or via third parties, across a range of activities:

- Asset manager engagement
- Issuer- and asset-level engagement
- Voting
- Public policy, advocacy and collaboration

We also engage extensively with our clients, and with asset owners in general. This is partly to ensure that we provide the best possible services and outcomes now and into the future with a close understanding of their needs. However, this engagement is also important to help them shape and contribute to a sustainable investment industry where they themselves can be influential and advocate for and support positive change.

- a. Asset manager engagement

The main goals of our manager research process are:

- a) finding the best asset managers capable of delivering superior net-of-fees outcomes to our clients over an appropriate time frame; and
- b) working together with these organisations to explore ways to better meet our clients' evolving needs and industry best practice.

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, issuers and assets they own.

Three main priorities that have recently defined and will continue to define our asset manager engagement in the foreseeable future are as follows:

- Sustainable investment
- Culture
- Inclusion and diversity

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 plus activities to achieve them.

We encourage our preferred asset managers to articulate their purpose beyond narrowly defined 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 the coming global climate transition in their investment decisions. While different firms vary 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 interaction with the most senior leaders of the firms with which we partner. We highlight stewardship as an area where the industry needs to improve. Where appropriate, engaging with underlying businesses, issuers and operating assets, not on quarterly results, financial models and valuations but on their longer-term strategies, 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 this space](#).

With closed-end funds, we often have significant representation on investor advisory committees which allows us a clear mechanism for ongoing engagement, oversight and influence. We currently have seats on over 60 investor advisory committees.

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

In addition, our manager research team engages with our 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 170 such new solutions.

b. Issuer- and asset-level engagement

We endeavour to effect positive change in our industry and the market more widely, and therefore promote issuer- and asset-level engagement as a tool to help achieve this. In the vast majority of cases, this engagement is the responsibility of the underlying managers who hold the securities / assets and are best positioned to engage. It is therefore a key part of our research and engagement with managers (as above) to assess the engagement capabilities and practices of managers, share and encourage best practices, and advocate for greater and more effective stewardship at an industry level.

To supplement corporate engagement carried out by individual asset managers, we have partnered with EOS at Federated Hermes ('EOS') – a leading stewardship provider. For several of our funds, EOS provide additional corporate engagement to that of the asset managers, applying their expertise, scale and market standing to effect positive change. We have worked closely with EOS for many years, input into their engagement planning and prioritisation, and are members of their Client Advisory Board.

c. Voting

Voting on equity shares is an important and visible engagement tool. In our portfolios, there are two ways in which we exercise our voting rights and responsibilities:

i. Third party funds

In this ownership model, we delegate stock selection to third party managers. In doing so, we also delegate voting rights and the execution of those rights. Therefore, assessing the voting practices of our agents is an important part of our process. Our manager research team looks at this across both active and passive mandates; it is also specifically assessed and monitored via our Sustainable Investment reports.

ii. Directly held equities

We do own stocks directly in some instances through managed accounts. It is important to note that Willis Towers Watson still make no underlying stock selection decisions, which continue to be outsourced to third party, best-in-class, specialists. However, as the stocks are under our control, we are able to influence voting more easily than for third party funds above. To ensure managers are voting in the best way possible at every opportunity, we use EOS to provide voting advice to the asset managers. We then regularly monitor the voting decisions each manager makes against what they were advised by EOS, engaging or challenging where necessary.

Where our clients hold managed accounts with direct equities, we review (in addition to reviewing the manager's policies and procedures in the manager research team) the voting procedures mandated under the agreement between the manager and the client on a regular, ongoing basis.

d. Public policy, advocacy and collaboration

We have strong conviction that collaborative engagement and advocacy are important to give the investment industry a stronger voice and improve investment outcomes for all participants. Long-term value creation relies on robust economic and investment markets. As a trusted adviser, we recognise the role we play in the investment chain, believing that undertaking activities to promote resilient and well-functioning economic and investment markets is consistent with our fiduciary duty and with our aim of changing investment for the better. We do this in a number of ways, including engaging in a dialogue with regulators and policymakers and participating in the work of industry bodies and collaborative investor initiatives, to promote high industry standards and effective investment markets. We also partner with EOS to undertake public engagement and advocacy on our and our clients' behalfs. EOS work with policy makers and institutions around the world to better ensure policies and standards are aligned with the interests of investors and best meet the needs of end savers. Some examples of our collaborative initiatives and engagements are shown under Principle 10.

Section B – Investment approach

Systematic ESG Integration

We believe that integrating SI into the entire investment process is the best way to realise the full value available from SI. We describe below how we attempt to embed SI from a top-down and bottom-up perspective across both research and portfolio management.

a. Asset research

i. Identifying investment opportunities and risks

Sustainability and ESG are key factors in identifying themes and asset classes we wish to pursue, avoid, overweight or underweight in our clients' portfolios. Determining these views is an exercise of ongoing collaboration across all of our research teams, the Thinking Ahead Institute and portfolio management.

ii. Long-term themes

Our asset research team analyse long-term global trends and have developed detailed long-term themes in conjunction with the Principles for Responsible Investment ('PRI'). These themes are outlined in the appendix along with the UN Sustainable Development Goals ('SDGs'). We consider the exposure of our portfolios to these themes and believe that assets that align well with them not only stand to benefit and profit from the shift in global capital as the trends accelerate and are more widely adopted, but also create positive change for society.

The long-term nature of these moves makes illiquid assets a great way to express these views, although we do target exposure in more liquid assets too.

b. Manager research

We have a formal process for integrating SI into our manager research decisions, which is tailored to be most relevant and appropriate for the asset class and strategy in question. This is built on a consistent set of principles, discussed above.

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 clients' portfolios. Consequently, the overall rating we place on a strategy will reflect our view of the SI credentials and capabilities of the strategy under review.

In order to better assess the quality of sustainable investment approaches, our focus varies by asset class. For example, in listed equities we particularly emphasise voting and engagement activity. In real estate, we often focus more on specific and detailed environmental, social and governance practices that are applied to the assets.

In addition, 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.

Finally, a large part of our manager research process is based on assessing the culture in place at the asset manager. Our Thinking Ahead Institute has written multiple papers on how to assess culture, focusing on leadership, the client value proposition and the employee value proposition. SI plays a significant part in this culture assessment, including inclusion and diversity principles.

c. Portfolio management

Our portfolio construction process focusses on maximising portfolio quality, as evaluated through a number of 'lenses', including sustainability. This helps us build robust, diversified portfolios to meet our clients' risk and return requirements, as well as help to ensure our portfolios are resilient to a range of sustainability-related issues and/or able to take advantage of sustainability-related opportunities.

We recognise that while many SI considerations have clear risk and return consequences, embedding this lens into portfolios also requires us to consider issues that are subject to greater uncertainty, more subjective and are heavily context-dependent. This can include, for example, issues with potential reputational risks for us and our clients. Therefore, the roles of judgement and qualitative overlays are crucial.

SI is incorporated into our portfolio management process through a number of avenues. An important part of our framework for doing this is to assess sustainability through two dimensions:

1) Portfolio resilience – exposure of the portfolio to sustainability-related risks and opportunities

2) Manager SI integration – the extent to which, and success with which, sustainability is incorporated into the decisions made by managers in the portfolio

Given the prioritisation of climate change identified within our investment beliefs, this is a key focus of our portfolio construction process – understanding our risk exposures and reducing them through time, as well as identifying and investing effectively in the opportunities. This occurs both through top-down identification and analysis of climate-impacted sectors for investment, as well as the bottom-up contribution of each manager investment.

The portfolio management team has the job of bringing together all of the research, risk management and idea generation done by different specialist teams in the business in a consistent manner for all our clients and funds. Our clients have many different constraints and types of mandate with us, meaning a 'one size fits all' approach is not possible. 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 (PMG), which is responsible for setting model portfolios for delegated clients globally.

d. Portfolio tools

In order to assist our portfolio construction and management processes, we draw on a number of portfolio tools, the majority of which have been developed and tailored in-house to best align with our approach to building portfolios and our investment beliefs.

We currently use a variety of third-party data sources as input to some of these tools. For example, in our equity, corporate credit, and sovereign bonds exposures (including exposure through hedge funds), we make use of MSCI ESG Research which allows analysis of holdings-level ESG scores, their component E, S and G aspects, key climate change related metrics, and controversy data.

At both a security and portfolio level, this allows us to challenge bottom-up security selection decisions with managers and apply top-down portfolio management, on absolute and relative bases. These tools are combined within our overall portfolio construction tool which assesses all the lenses of portfolio quality that we consider and allows us to build portfolios that weigh these lenses according to our investment beliefs, market conditions and client contexts.

Manager research

Whilst we look to apply consistent principles across our research, processes and portfolios, we believe it is vital to tailor our consideration of SI to the specific context. Below we outline our manager research approach in respect of some different asset classes to demonstrate the use of common principles, but tailored application.

a. Equity research

Sustainability factors including but not limited to ESG and stewardship are formally integrated into our deep due diligence and monitoring of equity managers. The degree to which sustainability risks are relevant or central to a given equity strategy is a function of time horizon, investment style, philosophy and exposure – all factors which are taken into account in our assessment and ranking.

Where sustainability themes could realistically impact asset prices over the expected holding period, we expect managers to reflect this in their investment thesis, financial models and ownership activities.

Active equity strategies with a long time horizon will be more sensitive to sustainability factors than trading style strategies which have a higher portfolio turnover and shorter expected holding periods. Passive strategies with long holding periods such as those held by a majority of young DC pension scheme members can expect to feel the full force of market-wide impacts such as changing demographics and degradation of natural capital over time. Strategies with high exposure to resource intensive sectors, such as mining, cement, oil and gas may be affected by carbon pricing, greater legislation and liabilities from environmental damage. Similarly, portfolios investing in companies with strong consumer brands could be exposed to risks of poor labour standards in supply chains or fast-food companies by efforts to curb the rise of obesity.

We assess the sustainability risk profile of equity portfolios (such as ESG metrics and carbon metrics), by drawing on stock-specific data supplied by a third-party research provider. Through this we identify where the most significant measurable sustainability risks lie within a portfolio from a regional, sector and stock perspective. This analysis provides another lens alongside more traditional risk attribution, through which we assess portfolios. Our assessment also looks at the depth and quality of resourcing made available to integrate ESG and conduct effective stewardship, including people, tools and data. Specifically when looking at people resourcing, we assess calibre and level of industry experience, as well as degree of senior management / leadership buy in around integration.

b. Credit research

Much of our approach is common to that described for equity managers above. In addition, there is strong evidence that poor corporate governance (i.e. a lack of management oversight, lack of board independence or unsound lending practices) negatively impacts the credit worthiness of a firm or securitisation, including ability to access capital markets. Thus, a critical part of the manager assessment is around understanding the manager's ability to assess governance-related risks at their respective issuers.

Historically, for many credit strategies the financial risks associated with the environment and climate change, have been perceived to be beyond their time horizons. It is however evident from recent global events such as the Australian and Californian wild-fires, ever-increasing record temperatures, melting permafrost, droughts and water shortages in South Africa and India, to name just a few

Section B – Investment approach

countries affected, that environmental and climate risks are real and present. We therefore expect managers to assess these risks as part of their investment and risk management processes as per any other financial risk. We also expect managers to evaluate the extent to which different ESG risks and opportunities differ by materiality according to underlying issuer, and that this be disclosed transparently. For example, it is important managers consider growing refinancing risks for companies and sovereign borrowers involved in fossil fuel production.

We expect managers to engage with issuers of all types, including sovereign and securitised issuers, to ensure ESG risks in issuer business models are properly understood and that the manager works actively to mitigate them. We also actively seek out credit strategies that offer positive direct impact, although we find these are more usually available in illiquid credit mandates (we have seeded a number of such strategies to date).

Where managers deteriorate in their approach to ESG integration and stewardship this is monitored and feeds into our overall rating and assessment of their strategy. This may also trigger us to engage with the manager to improve practices and/or may involve us putting pressure on them with regards to specific underlying holdings.

c. Real assets and infrastructure

Given real assets are generally held for the long term and linked to local communities, this asset class presents a strong case for ESG integration (particularly for unlisted assets which are more illiquid and expected to be held for an even longer time period) and effective stewardship. As such we believe the best opportunities for long-term sustainable returns is achieved by fully embracing ESG in all parts of a given real asset manager's investment decision making.

We assess each manager's stated approach and policies, but also consider it even more important to understand the practical applications of their policies in practice by discussing specific assets held in their portfolio. We expect lead fund manager(s) to be fully engaged on sustainability and the strategy around its implementation, and not to outsource responsibility to others (even if measurement is outsourced to third parties).

We are strong advocates on the use of third parties such as GRESB for independent ESG auditing and measurement, as well as advocating for independent members of investment committees where appropriate and relevant. We formally monitor our strategies via regular meetings with managers, as well as through our proprietary WTW sustainable investment rating and report. We have recommended many strong ESG scoring real assets strategies to clients and in several cases helped managers seed new strategies with strong sustainability credentials / themes. Examples include strategies focusing on sustainable indoor

agriculture, renewable energy, social and temporary housing and waste to energy plants.

d. Liquid diversifiers, including hedge funds

Sustainability factors including but not limited to ESG are formally integrated into our deep due diligence and monitoring of liquid diversifying managers (this includes hedge funds, insurance linked strategies and alternative beta strategies). The degree to which these risks are central to any given strategy is a function of time horizon, instrument type, investment style, philosophy and exposures which we consider in our assessment. Where sustainability themes could realistically impact asset prices over the possible holding period, we expect managers to reflect this in their investment thesis, financial models and ownership activities.

From a manager's bottom-up research perspective, there is often the need to assess if poor governance (i.e. lack of management oversight practices, independence on the board or sound market practices) negatively impacts the credit worthiness or valuation multiple of a sovereign entity, firm or a securitisation, including the ability to access the capital markets. From a top down perspective, macro and other futures market strategies may require an assessment of broader ESG thematic risks such as exposure to changes in carbon targets or regulations. For managers investing in weather related insurance-linked securities a formal assessment of the future impact of climate change on the expected loss from these contracts would be required. Additionally, where strategies involve short holding periods, a strong process around market impact and compliance reflecting broader social concerns around market abuse becomes important.

Where managers show deterioration in their approach to ESG integration and stewardship this is monitored and feeds into our overall rating and assessment. This may also trigger us to engage with the manager to improve their policies and practices and/or may involve us putting pressure on them with regards to specific underlying ESG risk. Our assessment also looks at what dedicated resources are made available to integrate ESG and carry out effective stewardship, covering people, tools and data. When looking at the level of people resourcing dedicated to ESG we look to assess their calibre and level of industry experience with more senior buy in of ESG and stewardship associated with greater weight being given to integration.

Outcomes

During the course of 2020, we conducted over 200 engagements with over 70 managers on sustainability and stewardship, and researched over 60 sustainability-focused strategies. We also have seats on over 60 private market advisory committees to help formalise our ongoing stewardship of those funds.

Information gathered during these engagements and the ongoing research of our teams, led to:

- 18 late-stage rejections or downgrades of strategies principally on sustainability grounds
- Significant allocations to a number of sustainability-focused strategies in areas such as renewable energy, forestry, electrification infrastructure and sustainable agriculture

Whilst these demonstrate a very direct and obvious link between information gathering and an investment decision, we believe that the benefit derived from our extensive research team, industry networks, close involvement with many initiatives and external organisations, and wide and sophisticated global client base, will give us valuable insights and information that will inform our advice and solutions for our clients' benefit. Even though the direct links

may not be as immediate or apparent, we believe this is a critical part of the value we can bring to clients. Further details of our wider industry activities are documented throughout this report, including in response to Principle 10.

We believe through this, and our other ongoing activities as detailed elsewhere in this report, we have helped our clients gain access to skilful managers and excellent investment opportunities, whilst also avoiding those strategies where we believe the long-term value proposition is not as compelling. Some case studies are outlined below, in addition to further detail provided for Principle 9, as well as information on the overall performance of our top-rated managers and delegated portfolios outlined in Principle 1.

CASE STUDY 1

Global equity strategy identified – backing strong stewardship and corporate engagement in listed markets

In 2020, we researched and rated a sustainability focused equity strategy with attractive features for Defined Contribution ('DC') clients. The manager in question has allocated significant resources to the strategy, including a meaningful dedicated ESG research team. The portfolio is reasonably concentrated (around 35-45 names), comprised of global leaders in stewardship, and is constructed to have a high active share but with diversified sources of alpha. The fund management team has good diversity, and the strategy also meets several key criteria for DC clients. As a result, we believe this is a compelling sustainability equity strategy with good net Information Ratio potential at modest fees.

CASE STUDY 2

Private equity asset manager – passed on opportunity due to ESG concerns

We were approached by a manager to consider investing in a food focused fund based in the United States. The firm had a strong track record and a well-resourced team with a good mix of investment and operating backgrounds.

One concern that was raised during due diligence was the diversity of the team. Every member of the team was a white male and from discussions with the manager there did not seem to be hiring plans to diversify. Further, the manager did not have an ESG policy. While it said it considered ESG during diligence, there was no formal ESG diligence in Investment Committee memos.

Much of the investment strategy focused on deals in the snacks and frozen dessert subsectors. While we believe these deals had attractive short-term outlooks, we had concerns about the long-term headwinds that these investments faced given health and wellness trends. While we found attractive, differentiating aspects of the team, we found the ESG risks too severe to continue due diligence and passed on the opportunity.

CASE STUDY 3

Private equity – improving US healthcare

The US healthcare system is costly, inefficient and difficult for those in lower income communities to access. This strategy looks to improve affordability, accessibility and quality of healthcare for underserved communities in the New York City area. Through our due diligence we saw the confluence of an attractive investment proposition with the potential to deliver over 3.0x return, and a positive impact for society. Given the centrality of sustainability issues, both micro and macro to the strategy, our SI assessment was critical in gaining conviction that this strategy would deliver on its objectives and ultimately deliver strong outcomes for our clients.

On finalising our due diligence, we rated this strategy as preferred.

Principle 8 – Monitoring managers and service providers

Asset owners and asset managers: Signatories monitor and hold to account managers and/or service providers.

Activities and outcomes

In order to deliver the best possible advice and solutions to our clients, we work with a large number of external parties and service providers. Most notably in respect of Sustainable Investment (SI) and stewardship, these include asset managers, data providers and stewardship specialists. We have outlined below some key details of how we work together, and specific activities and outcomes during 2020 that are illustrative of our ongoing engagements and partnerships.

Asset managers

As detailed throughout this report, we work very closely with the asset management industry to help our clients meet their investment objectives.

Our aim is to unlock the highest conviction investment opportunities. There are tens of thousands of institutional investment products available and although we have one of the

largest global research teams, our research agenda is highly focused:

- Focus on product creation and innovation – we focus on identifying attractive investment opportunities using our extensive network and then determining the most appropriate implementation of these ideas. We have helped create over 170 such products with significant benefits, including lower fees, more appropriate fund structures and better tax transparency (data as at 31 December 2020)
- Focus on high conviction ideas – we focus on products which we believe will outperform net of fees, rather than monitor the whole of the market
- Use of technology – we have developed proprietary tools and a structured assessment methodology that allow us to engage with the asset management market more efficiently. This sits alongside our qualitative research to challenge any unconscious biases that could otherwise exist

Manager selection criteria

Insight	Every manager has to demonstrate a competitive advantage over other investors.
Skill	We need to see evidence of highly skilled investors supported by a well-resourced and insightful team of analysts.
Opportunities	Can the manager prove to us that their process will deliver the right investment opportunities through which they can add value?
Portfolio Management	Great ideas only make a great fund if they are put together in a well-constructed portfolio with appropriate risk management processes. We need to see evidence of this.
Alignment	We need to see commitment to the fund from the team involved and, importantly, from the firm. Ideally, the product will be important to the firm's success.
Environmental, Social and Governance	This is a really important area and is fully integrated into our research process and we have rejected managers on these grounds.

Throughout this report, and in particular in response to Principles 6, 7, 9, 11 and 12, we have described and evidenced the outcomes of our ongoing engagement with the asset management industry, where SI and stewardship have been key pillars.

During 2020, we engaged extensively with the asset manager community on SI, and conducted over 200 such engagements with over 70 managers. Where we have identified material areas of concern, we have set milestones and expectations for improvement. If these are not sufficiently met, then we will look to review our rating of the strategy which may result in the strategy being rejected for further research (if during the initial due diligence phase) or downgraded. During 2020, we made 18 such late-stage rejections or downgrades primarily on sustainability grounds.

It is difficult to precisely assess the outcome of all these activities, but there are some measures which we look to that give us confidence that we have done so successfully over 2020, and over the longer term. As described in Principle 1, these include measures of client satisfaction and retention, funding level performance, and in particular with respect to our manager research, the outperformance of our preferred rated strategies over the long term.

Data providers

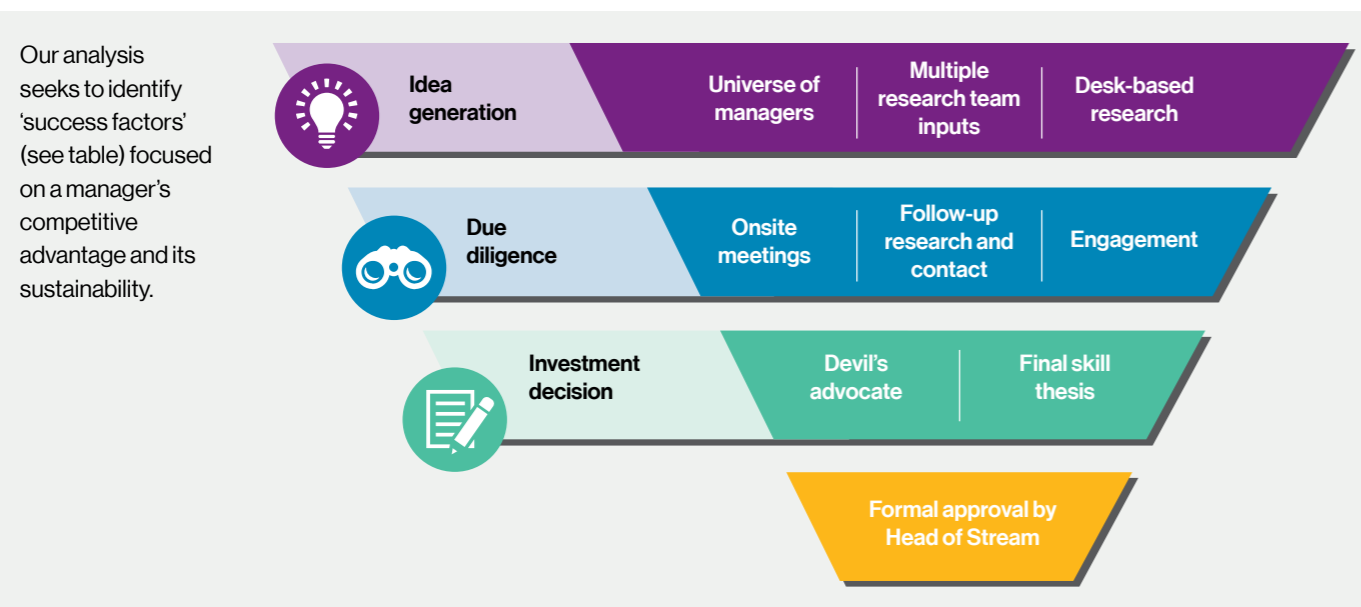
We recognise the importance of data in all aspects of investment, including SI and stewardship. Given that, we have made significant investments in obtaining high quality data to enable us to provide the best possible advice and solutions to our clients, and to allow them to appropriately monitor and report on their investment arrangement, including as required by application regulation.

Our principal external data provider for SI is MSCI ESG Research. We have partnered with MSCI for several years and maintain a strong ongoing relationship, with a dedicated relationship manager at both WTW and MSCI, and regular ongoing and open communication. We have been regular members of the EMEA Client Advisory Panel sessions and have had numerous additional meetings where we offer feedback on different strategies and process developments.

During 2020, in addition to our ongoing monitoring and engagement, we undertook a significant SI data provider review to ensure that we had access to the best quality SI data as matched to our and our clients' needs.

This was an extensive process overseen by the Head of Sustainable Investment, which involved due diligence on 10 external SI data providers. As part of the multi-month review process, we trialled data within our tools and analytics platforms, held multiple due diligence calls, and undertook significant research and comparative assessment. Our final decision was to retain MSCI as our main SI data provider, but as a reflection of our conviction and commitment to this important area, we expanded our relationship with MSCI to include further modules focused on forward-looking climate assessment and sustainable impact metrics.

We continue to integrate MSCI data within our processes, portfolio management and client reporting, and have a dedicated workstream focused on developing our analytics and tools to provide ever better and more decision-useful information to our portfolio management teams and our clients.



Section B – Investment approach

Looking ahead, we are investigating expanding our SI data with a focus on real assets, as well as looking to combine our increasing proprietary data and analytics capabilities with those of our external providers. This includes the integration of Acclimatise and the Climate Policy Initiative's Energy Finance team as highlighted earlier in this report.

Stewardship specialists

As highlighted earlier in this report, we have partnered with EOS at Federated Hermes ('EOS') for several years, recognising them as a leading stewardship specialist who can provide valuable services to us and our clients in this critical area.

We have a dedicated relationship manager at both WTW and EOS, and regular ongoing and open communication. We receive regular reporting, including via their online 'EOSi' portal, as well as email alerts which are sent to a broad group of stakeholders including our network of SI champions.

We attend EOS's Client Advisory Board, the bi-annual Client Advisory Council, and also numerous ad hoc additional meetings

We have ongoing channels of communication which can pick up specific queries, for example around certain corporate engagements, votes or case studies, as well as more widely on issues such as reporting and enhancements to their client servicing and EOSi platform.

In particular during 2020, we had input into EOS's engagement plan and prioritisation, and engaged around key voting policy changes, including on climate change. Having developed our proprietary voting analysis tool as described above, we were also able to engage in a detailed discussion around their overall voting patterns and the evolution of key policies.

We continue to view EOS very positively, and have continued to expand our partnership with them to include corporate engagement and voting advice on a wider range of pooled fund solutions. We continue to explore further opportunities, including those on fixed income engagement.

We believe that EOS have delivered an excellent service, and this is evidenced through our close collaboration and engagement as mentioned above, but also in terms of their engagement activities with corporates and on public policy. To help illustrate these activities and outcomes, we would highlight the [EOS 2020 Annual Review](#). Some highlights of this include:

- Engaging with 1,245 companies on 3,965 issues and objectives
- Making voting recommendations on 123,988 resolutions at 11,759 meetings, including 17,669 vote recommendations against
- 52 consultation responses or proactive equivalents (such as a letter)
- 173 discussions held with relevant regulators and stakeholders
- Receiving an 'A+' rating from the Principle for Responsible Investment ('PRI'), 'A+' InfluenceMap Climate Engagement Score, and an 'A' for the Real Impact Tracker, all for the international business of Federated Hermes, recognising EOS activity
- Active participation in many collaborations including:
 - Climate Action 100+, where EOS lead or co-lead 30 engagements and support another 14
 - Principles for Responsible Investment ('PRI'): founding member and chair of the drafting committee that created the PRI in 2006. Lead engagement with Vale on tailings dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax
 - Institutional Investors Group on Climate Change, Asia Investor Group on Climate Change and Ceres
 - International Corporate Governance Network (ICGN), Asian Corporate Governance Association, Canadian Coalition for Good Governance, Focusing Capital on The Long Term, Corporate Governance Forum, Investor Forum, and US Council of Institutional Investors
 - Investors for Opioid & Pharmaceutical Accountability, Investor Alliance for Human Rights, Plastics Solutions Investor Alliance, 30% Club, and Investor Initiative on Mining & Tailings Safety

Further information on EOS is also included in response to Principles 2, 4 and 9-12



Section C – Engagement

Principle 9 – Engagement

Asset owners and asset managers: Signatories engage with issuers to maintain or enhance the value of assets.

Activities

We recognise our role as an influential industry participant, and seek to exercise our stewardship responsibilities, either directly or via third parties, across a range of activities. This includes issuer- and asset-level engagement, asset manager engagement, and public policy, advocacy and collaboration.

We also engage extensively with our clients, and with asset owners in general. This is partly to ensure that we provide the best possible services and outcomes now and into the future with a close understanding of their needs. However, this engagement is also important to help them shape and contribute to a sustainable investment industry where they themselves can be influential and advocate for and support positive change.

These engagement activities are addressed in more detail, particularly in response to Principles 7 and 8. Our public policy, advocacy and collaboration is particularly addressed in Principle 10. Below we have reiterated some key highlights and examples of our work in respect of issuer- and asset-level engagement and asset manager engagement.

Issuer- and asset-level engagement

We endeavour to effect positive change in our industry and the market more widely, and therefore promote engagement as a tool to help achieve this. In the vast majority of cases, asset-specific engagement is the responsibility of the underlying managers who hold the securities and are best-positioned to engage. It is therefore a key part of our research and engagement with managers (as above) to assess the engagement capabilities and practices of managers, share and encourage best practices, and advocate for greater and more effective stewardship at an industry level.

To supplement asset engagement carried out by individual managers, we have partnered with EOS at Federated Hermes ('EOS') – a leading stewardship provider. For several of our funds, EOS provide additional corporate engagement to that of the asset managers, applying their expertise, scale and market standing to effect positive change. We have worked closely with EOS for many years (as described in Principle 8 above), and input into their engagement planning and prioritisation.

Section C – Engagement

During 2020, we inputted to EOS what we saw as the key engagement priorities, with climate being top of list. Our views on priorities were heavily informed by talking to our clients. We closely monitor engagement activity levels in this versus other areas, the quality of engagement being carried out, progress made and case studies, including for example their involvement with the Climate Action 100+ initiative. We recognise in particular on this last point that, as far as we are aware, EOS are the lead or co-lead for more companies in this initiative than any other contributing member. We also look to monitor the extent to which EOS is undertaking work beyond that of most asset managers, i.e. providing additionality to the engagement and stewardship system.

As described above, we engage on specific issues, and have monitored and engaged around voting patterns, both in absolute terms and relative to key asset managers. We also engage, alongside their other clients, regarding the development of EOS's proposition, the assets under advice it has, the team size, seniority and diversity, and its plans for the future.

We recognise the importance of engagement beyond listed markets, and view effective stewardship as a critical component of successful private markets investing. In respect of specific funds and co-investments, we often look to formalise our ongoing engagement via membership of investor advisory committees or similar. Currently we have seats on over 60 such investor advisory committees.

The funds that we typically invest into in this space are often direct owners of the assets that they hold, and in a significant majority of cases are either sole owners, majority owners or meaningful minority owners (with corresponding governance rights) of these assets. Given this, in most cases, where appropriate, our preferred managers will take up board positions (or similar governance roles), and an important element of our selection and monitoring of the managers is their ability to demonstrate their effectiveness in this area.

An important engagement tool for us is the annual Sustainable Investment questionnaire that we require all our preferred managers to complete, that comprehensively addresses managers performance in this area. This tool is extremely helpful in not only giving us a baseline of where our managers rank in the various elements of sustainability, but also provide us data to a) see particular managers that we can actively engage with to improve their performance and b) track improvement across the portfolio over time.

Manager engagement

The main goals of our manager research process are:

- finding the best asset managers capable of delivering superior net-of-fees outcomes to our clients over an appropriate time frame; and
- working together with these organisations to explore ways to better meet our clients' evolving needs and industry best practice.

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, issuers and assets they own.

Three main priorities that have recently defined and will continue to define our asset manager engagement in the foreseeable future are as follows:

- Sustainable investment
- Culture
- Inclusion and diversity

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 plus activities to achieve them. This is described in further detail elsewhere in this report.

As part of our monitoring and engagement process, we produce Sustainable Investment reports on the capabilities of all highly rated asset managers. These are described elsewhere in this document.

Our researchers with specialist knowledge of the asset class are well placed to understand the areas of relevance for each asset class. Our views are supported by information collected directly from asset managers, including data on voting and engagement activity on an annual basis, where applicable.

We expect asset managers to undertake the activities above to the extent that it is practical in the context of their size and investment approach. Where we feel that managers can and should make some improvements, we will engage in a two-way dialogue with them to further align them with our views of best practice.

Our overall view of a manager's ability to sustain a competitive advantage takes into account the manager's sustainable investment capabilities and the overall rating we place on a manager will reflect our view of their consideration of ESG factors as an integrated part of their process and how they behave as stewards of client capital.

But our aim to change investment for the better continues and, as industry practice has evolved, we have raised the bar for what we consider to be good practice. New criteria will be incorporated in our Sustainable Investment (SI) reports over time, as the questions we ask are reviewed annually. As part of our ongoing monthly or quarterly monitoring meetings, we will discuss the most significant holdings and portfolio themes and assess to what extent full consideration was given to all relevant ESG risks as part of the manager's investment case.

Outcomes

Several outcomes of our partnership with EOS and their work, as well as our other involvements in collaborative initiatives are detailed elsewhere in this report (including in response to Principles 2, 4 and 8). However, below we have included specific information on the corporate-level engagement carried out by EOS in respect of our flagship Global Equity Focus Fund ('GEFF')

In addition, we have also focused on some of the outcomes of our asset manager engagement, which we believe is more widely reflected in the overall delivery of our advice and solutions to clients as described in Principle 1.

Issuer- and asset-level engagement

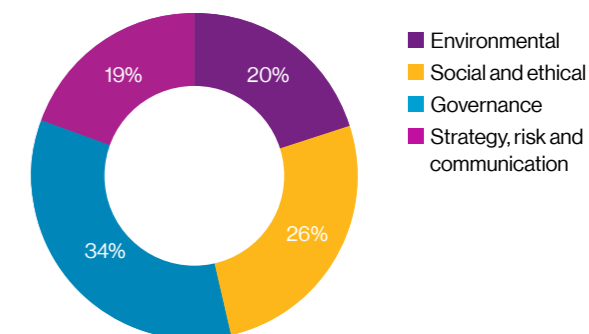
Given the scope of our advice and solutions to clients and the vast range of our clients' portfolio and underlying holdings, it is not practical to detail all the issuer- or asset-level engagement conducted. Therefore, we have decided to detail the engagement conducted by EOS in respect of our Irish-domiciled Global Equity Focus Fund ('GEFF') to illustrate the activities undertaken and outcomes in this area.

GEFF is a multi-manager, unconstrained global equity strategy that provides investors with access to typically 8 to 12 of our top-rated managers. Each of these managers runs a highly concentrated and high conviction portfolio of 10 to 20 stocks only, resulting in a total portfolio of between 150 and 200 stocks. These stocks are the ones managers believe are most likely to maximise long-term returns. Our managers' evaluation of the stock investment opportunities incorporates ESG risk factor considerations. Furthermore, managers exercise active stewardship in respect of the stocks they own to enhance or protect the value of those securities, and this is supplemented by engagement carried out by EOS.

EOS measures and monitors progress on all engagement, setting clear objectives and specific milestones for the most intensive engagements. In selecting companies for engagement, EOS takes account of their ESG risks, their ability to create long-term shareholder value and the prospects for engagement success. Intensity of engagement with companies is escalated over time, depending on the nature of the challenges the companies face and the attitude of the board towards dialogue. Engagements vary in length, some involving one or two meetings, while others entail multiple meetings over several years.

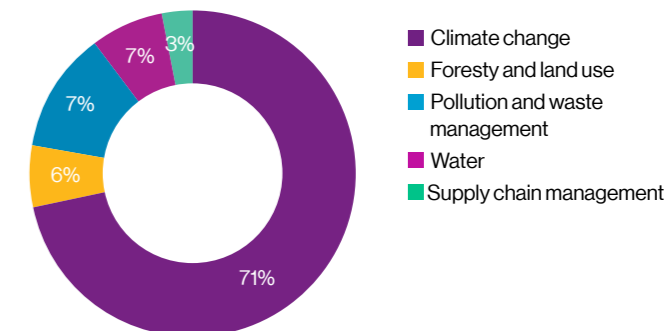
In 2020, EOS engaged with companies held in the GEFF portfolio on a range of 688 ESG, strategy, risk, and communication issues and objectives.

Fig 1: EOS at Federated Hermes had 688 engagements with the companies in GEFF's portfolio over 2020



Source: EOS, December 2020

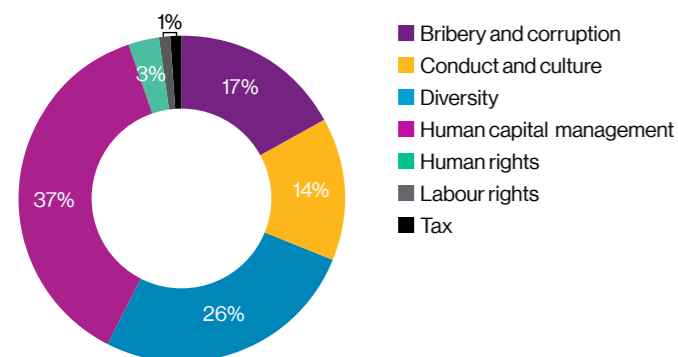
Fig 2: Environmental topics featured in 20% of engagements in 2020



Source: EOS, December 2020

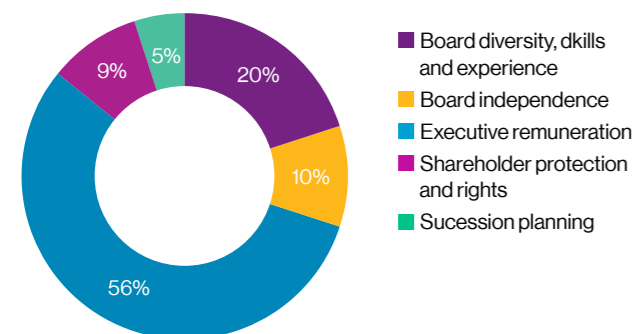
Section C – Engagement

Fig 3: Social and ethical topics featured in 26% of engagement in 2020



Source: EOS, December 2020

Fig 4: Governance topics featured in 34% of engagement in 2020



Source: EOS, December 2020

Fig 5: Strategy, risk and communication topics featured in 19% of engagement in 2020



Source: EOS, December 2020

CORPORATE ENGAGEMENT CASE STUDY 1
First female board member in Nintendo's 130-year history

Background

Since Nintendo was founded in 1889, it had never had a woman or a non-Japanese national on its board in its 130-year history. Beginning as a toy manufacturer in Kyoto, Japan, it is now an international leader in the interactive entertainment industry. The company develops, produces and markets software and hardware. GEFF had an allocation of 0.6% to Nintendo as at 31 December 2020.

Engagement

EOS began engaging with Nintendo on gender diversity on its board in 2016 and on board independence in 2017 with the head of legal and company secretary, meeting eight times between 2016 and 2020. The board was composed only of men of Japanese nationality. Although it has progressed board independence from a 100% insider board in 2013 to 33% since 2016, there remains room for improvement. EOS' concern was accentuated by the fact that the company did not have a nomination committee, adding opacity to the nomination process. They encouraged the company to carry out an independent board evaluation and strengthen the search for female candidates.

Outcome

Following EOS' engagement, Nintendo carried out its first self-evaluation of the board in 2016 and promised to consider an external board evaluation. The company stated it was working towards strengthening its talent management programme to establish a pipeline of senior female executives, which it expected to take 10 years from 2017. Following EOS' vote against the president in the 2019 AGM and further engagement later in the year to accelerate change in board composition, the company announced, in January 2020, that it would establishing a nomination advisory committee— three out of the five directors would be outside directors.

In May 2020, the company also announced that it will appoint a woman to the board for the first time. EOS are pleased with the appointment and encouraged the company to improve disclosure of the nomination process and to publish the Terms of Reference of the nomination advisory committee so that investors can better understand the company's working objectives and accountability towards selecting board members, given that it has traditionally relied on the president to nominate candidates.

Next steps

EOS continues to engage, in particular seeking further clarity on the company's talent management and its plans to promote more female executive directors internally as our expectations for diversity of a board go beyond appointment of one female director.

CORPORATE ENGAGEMENT CASE STUDY 2
Daimler's strategy to support its transition to the low-carbon economy

Background

Daimler is one of the world's largest manufacturers of premium passenger cars and commercial vehicles, comprising the businesses Mercedes-Benz Cars & Vans, Daimler Trucks & Buses and Daimler Mobility. Daimler Mobility offers financing, leasing, fleet management and mobility services. The transition to low-carbon vehicles is a major disruptor to the automotive industry and Daimler is adapting to this global shift. GEFF had an allocation of 1.2% to Daimler as at 31 December 2020.

Engagement

EOS has a long history of engaging with Daimler that extends back to 2007 covering a wide range of ESG issues. EOS has met regularly with the supervisory board chair to discuss the long-term strategic direction of the company, management board nominations and succession planning. Since 2010, EOS has been engaging on climate change, with the focus to achieve a roadmap for alternative technologies and sustainable vehicle models aligned to international climate goals. Following the emission scandal at Volkswagen in 2015, EOS met with senior executives at Daimler's headquarters in Stuttgart to gain assurances that the company had not used any defect software or devices in its cars. In 2018, EOS took on the lead role of engaging with Daimler as part of the collaborative investor Climate Action 100+ initiative, intensifying engagement through a series of meetings with the supervisory board chair and company executives.

EOS challenged the company to articulate its mobility strategy more clearly and requested more ambitious emissions reduction targets aligned to the Paris goals. In that year, EOS also raised concerns with the chair about the apparent misalignment between the company's position to support the Paris Agreement and the positions of its third-party member industry associations, which openly lobbied against more ambitious 2030 vehicle emissions reduction targets in Europe. EOS shared the Institutional Investors Group on Climate Change investor expectations on corporate lobbying and followed up with multiple intensive discussions with the head of external affairs and the chair of the supervisory board on how to align its lobbying to investor expectations. In EOS speech at the 2019 shareholder meeting, EOS stated the need for this alignment, urging the executive board to report on how Daimler has positively influenced the position of industry associations on the subject of climate change.

In parallel to the focused climate engagement EOS have also addressed the need for a more systematic approach to succession planning, given the long tenure of the incumbent CEO, and consulted on a new remuneration system more aligned to our remuneration principles.

Outcome

In May 2019, only a week before its annual shareholder meeting, the company announced its "Ambition2039" strategy, outlining its new ambitions for the transition to a low carbon business model. The strategy sets targets for carbon neutral production, and all Mercedes-Benz passenger vehicles sold to be carbon-neutral in both manufacturing and use by 2039, aligned with EOS' request.

In EOS' speech at the 2019 shareholder meeting, EOS welcomed the progress the company had made and indicated our support for the newly appointed CEO and CFO. In particular, EOS commended the supervisory board for having accelerated the succession planning of the long-tenured CEO, in light of the challenges facing the automotive industry. EOS also stressed the need for the company to take action to ensure alignment between its own support for ambitious climate policies and the positions of its membership industry associations.

In October 2019, Daimler Trucks & Buses also followed with the strategic goal to offer only new vehicles that are CO2- neutral in driving operation ("tank to wheel") in its major markets by 2039. At the same time, Mercedes-Benz Cars & Vans set a Scope 3 emissions reduction target of more than 40% for 2030, verified by the Science Based Targets initiative.

In line with EOS' remuneration principles, EOS were pleased to see part of executive compensation now explicitly linked to sustainability goals, including the company's carbon footprint, highlighting its recognition of the need to incorporate long-term sustainability as a key component of its corporate strategy. In statements from both the supervisory board chair and CEO, the company acknowledged the importance of aligning corporate lobbying with the Paris Agreement.

Next steps

EOS will seek further meetings with the chair, CEO and sustainability executives, to ensure the supervisory and management boards maintain robust oversight of the execution of the company's mobility strategy. In addition, EOS' engagement will include the succession of the longstanding chair whose mandate will expire at the end of the 2021 shareholder meeting.

Achieving the goals of the Paris Agreement requires ambitious climate targets for all countries and all sectors. According to the new European Green Deal, to achieve climate neutrality, a 90% reduction in transport emissions is needed by 2050. The implementation of this strategy should be undertaken with a socially responsible approach to preserve jobs, in line with the principles of a just transition to a low-carbon economy.

EOS continues to closely watch the company's progress in reviewing the alignment of the lobbying position of third-party industry associations of which it is a member with the Paris Agreement, to publish these findings and then take appropriate action if any misalignment is identified.

Asset manager engagement

During the course of 2020, we conducted over 200 engagements with over 70 managers on sustainability and stewardship, and researched over 60 sustainability-focused strategies. We also have seats on over 60 private market advisory committees to help formalise our ongoing stewardship of those funds.

Information gathered during these engagements and the ongoing research of our teams, led to:

- 18 late-stage rejections or downgrades of strategies principally on sustainability grounds

- Significant allocations to a number of sustainability-focused strategies in areas such as renewable energy, forestry, electrification infrastructure and sustainable agriculture

In general, we would hope to see a relatively small number of downgrades of our preferred managers on sustainability grounds as we look to engage with them to improve their capabilities where they fall short of our rising expectations. Below are two specific case studies to exemplify some of this work.

CASE STUDY 1
Global equity manager – engaging to improve practices

We rate this manager highly and believe their background has informed a differentiated investment approach to the analysis of company fundamentals and valuation. Following an initial engagement on ESG integration 2017, we identified ESG risk analysis as an issue during stock case study discussions in a quarterly monitoring meeting; a number of issues we raised did not appear to have been considered in detail or captured as part of the research documentation process. The manager was concerned that further integration of and engagement on ESG issues may conflict with their fiduciary duty and did not have formal processes to assess and record ESG risks systematically.

During a series of further engagements throughout 2018 and 2019 we set out our expectations for formal ESG integration and voting activities, and discussed industry standards and best practices in these areas. These engagements highlighted issues such as resources available to the team, the time burden and the complexity for smaller boutique managers in meeting best-in-class standards consistently across the portfolio. We also discussed the managers use of corporate engagements to improve shareholder value, an area where we believe the manager is highly capable. Given time constraints, the team were engaging with companies selectively where they believed ESG risks to be material and meaningful.

Over 2020 we evidenced material improvements in the consideration, measurement and documentation of ESG risks. The manager has added explicit ESG risk analysis to the checklist employed during initial research. The manager also now directly translates ESG risk analysis into their quality scoring criteria which is a critical element of their investment process, feeding into estimates of intrinsic value, position sizing and portfolio management. In stock discussions, the manager demonstrated granular consideration of ESG risks. Voting practices have also been materially improved and we now view these as strong. Engagement is a continued area of dialogue with the manager but we believe their approach is appropriate.

In addition, the manager created a Responsible Investment Engagement Policy covering their approach to company engagement, became a PRI signatory in 2020, and has started providing increased transparency with clients on their voting and engagement activities, all of which we actively encouraged.

We have maintained our rating and conviction in this manager and continue to engage in these areas.



CASE STUDY 2
Latin America corporate debt specialist – engaging to improve ESG practices

Latin America is not generally viewed as an ESG leader. The credit market has a high percentage in the Energy sector, and sovereigns in the region are likely to score relatively poorly in an ESG context versus broader emerging markets. This is a key reason why ESG must be properly and thoughtfully integrated for mandate focussed in the region.

A specialist manager in this area, that we rate highly, has worked with us to constantly improve ESG integration, with significant leaps seen in the last two years. The manager’s portfolio scores highly compared to the wider universe which helps demonstrate the careful management of material ESG risks.

Prior to WTW’s investment, the manager did not have dedicated ESG resource and the ESG analysis was not formally recorded. Despite the team having significant leverage in the region, engagement was not monitored.

WTW has engaged with the manager regularly on ESG expectations and best practices seen across emerging markets debt. In recent years the firm has adopted a number of steps to significantly improve its ESG integration, including:

- Becoming a PRI signatory and publishing an ESG policy
- Dedicated ESG hire
- Formal integration of ESG analysis into each credit report and engagement monitoring
- Annual and quarterly ESG reports
- ESG scenario analysis

Most recently, the manager added TCFD reporting in 2020. We continue to engage with the manager and maintain our conviction in their skill.

Principle 10 – Collaboration

Asset owners and asset managers: Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activities and outcomes

We have strong conviction that collaborative engagement and advocacy are important to give the investment industry a stronger voice and improve investment outcomes for all participants – this is one of our core investment beliefs as highlighted in Principle 1.

Long-term value creation relies on robust economic and investment markets. As a trusted adviser, we recognise the role we play in the investment chain, believing that undertaking activities to promote resilient and well-functioning economic and investment markets is consistent with our fiduciary duty and with our aim of changing investment for the better. We do this in a number of ways, including engaging in a dialogue with regulators and policymakers and participating in the work of industry bodies and collaborative investor initiatives, to promote high industry standards and effective investment markets. We also partner with EOS at Federated Hermes (‘EOS’) to undertake public policy engagement and advocacy on our and our clients’ behalves. EOS work with policy makers and institutions around the world to better ensure policies and standards are aligned with the interests of investors and best meet the needs of end savers. Further details of EOS’s activities and outcomes in this area are detailed in response to Principles 4 and 8.

As part of our manager research and industry engagement, we encourage investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term value and help address systemic risks. As part of our research, assessment and monitoring of managers, we consider whether the manager’s policy specifies their stance on collaborative engagement activities and the extent to which the investment manager contributes to and can evidence these efforts. During 2020, we have particularly emphasised key sustainability and stewardship collaborations, including Climate Action 100+. We have had some success engaging with key asset managers to join this and similar initiatives, and will continue to work further in this area.

We have outlined below some of the main collaborative initiatives and engagement that we have directly contributed to during 2020, our role in that initiative, and the key outcomes.

Thinking Ahead Institute ('TAI')

The [Thinking Ahead Institute](#) is a global not-for-profit group whose vision is to mobilise capital for a sustainable future. Its members comprise asset owners, asset managers and other groups motivated to influence the industry for the good of savers worldwide. It has 48 members with combined responsibility for over US\$12 trillion. The Thinking Ahead Group, comprised of some of the most senior members of WTW Investments, is the executive to TAI, leading the research agenda, workstreams and events.

During 2020, research centred around two major workstreams that benefitted from over 20 member organisations actively contributing:

- "Duty of Ownership" which explored how to leverage ownership and investor collaboration to drive system-level and real-world impacts
- "1.5°C portfolio" which worked towards the next generation 3-D investing mandate that emphasises the joined-upness of return, risk and impact

In addition, TAI hosted a major mid-year virtual summit – [The Climb to the New View](#) – and a two-day [sustainability summit "Closing the gaps" which explored gaps](#) around skills, data, collaboration and purpose, and a [roadmap for the industry](#).

Further, TAI's [Coronavirus research hub](#) documents their work focused in this area. This is also supported by ongoing work on [culture, leadership and diversity](#) which is a critical thread running through all of these issues.

TAI produces an annual Integrated Report which is available [online](#), and contains further information about their activities and achievements during 2020. In addition to those highlighted above, these includes:

- Content
 - 15 published papers
 - 21 forum posts
 - 11 podcast episodes
 - 8 organised events
- Engagement
 - 46 members
 - 21 working group calls
 - 391 event attendees
 - 2,424 social followers

- Reach
 - 169,677 website visits
 - 185,024 social impressions
 - 444 receiving Memo
 - 111 media releases

Willis Research Network ('WRN')

[Willis Research Network](#) was founded by WTW 15 years ago, and is a collaboration between academia and our insurance and reinsurance experts, currently working on programs and projects with over 60 science partners worldwide. WRN seeks to integrate public science with the risk management community to enhance our collective ability to understand, evaluate and manage climate risk (including extreme natural catastrophes, climate variability and emerging risks) and to provide credible scientific expertise to improve decision-making across the industry.

The 2020 activities and outcomes from WRN are documented in their [annual review](#). Highlights include the extension of its partnerships beyond the university sector to include Cloud to Street, Mitiga Solutions, RUSI, Temblor and Metabiota. Over the last few years, WRN's scope has continued to expand to encompass risks such as pandemic, cyber and political risk. Detailed in the annual review are ongoing results and research from a selection of over 30 partnerships and sponsorships, covering weather and climate, flood, technology and geopolitical risks amongst others.

Principles for Responsible Investment ('PRI')

We are a signatory to the PRI, and further information as well as our annual Transparency Report can be found at www.unpri.org.

We continued our engagement with PRI throughout 2020, including being selected as a member of their Stewardship Advisory Committee. We also presented to the Executive Committee and Board on the industry landscape, trends and future developments, as part of engagement around the PRI's medium-term strategic plan.

Institutional Investors Group on Climate Change ('IIGCC')

We are members of this investor collaboration with a mission to mobilise capital for the low carbon transition, and have also joined the sister initiatives in Asia ('AIGCC') and Australasia ('IGCC').

We have contributed to the Paris Aligned Investment Initiative, including as part of the Strategic Asset Allocation working group. We continue to engage with the Net Zero Investment Framework, in terms of future working groups, ongoing consultations, and promoting the framework within the industry and with our clients

Coalition for Climate-Resilient Investment ('CCRI')

WTW launched the [Coalition for Climate Resilient Investment \(CCRI\)](#) at the UN Climate Action Summit in 2019 in partnership with the World Economic Forum and the governments of the UK and Jamaica. During 2020, it has grown rapidly in membership and its collaborative relationships to include over 75 supporting institutions, including the Coalition for Disaster Resilient Infrastructure, and recently the Australian government. CCRI aims to create a more resilient global financial industry in which key incentive structures foster an accurate pricing of physical climate risks in investment decision-making, resulting in more resilient economies and communities across the world.

Investment Consultants Sustainability Working Group ('ICSWG')

In 2020, WTW co-founded the ICSWG, and are currently members of two key workstreams. Membership of this initiative has grown during the year to nearly 20 organisations, and it has established strong links with regulatory and oversight bodies, as well as the asset management and asset owner communities.

An example of the work produced by ICSWG is the recently published trustee guide to consultant climate competencies, and we were a key contributor to that document. We have also been a key driver of the creation of a stewardship activity reporting guide, and engaging with the asset management community on key subjects including stewardship, voting and climate.

EOS at Federated Hermes

As described earlier in this report, including in response to Principles 2 and 4, we have partnered with EOS at Federated Hermes ('EOS') for many years, and have engaged them to undertake public policy engagement and advocacy on our and our clients' behalves. We have recently extended this relationship to include corporate engagement and voting advice on a variety of our pooled fund solutions for clients to strengthen the asset-level stewardship being undertaken.

We view EOS's approach to collaboration and active participation in many collaborative initiatives to be a particular strength of their work. To help illustrate these activities and outcomes, we would highlight the [EOS 2020 Annual Review](#). Some highlights of this include:

- Significant public policy advocacy and collaboration, including 52 consultation responses or proactive equivalents (such as a letter), and 173 discussions held with relevant regulators and stakeholders
- Receiving an 'A+' rating from the Principle for Responsible Investment ('PRI'), 'A+' InfluenceMap Climate Engagement Score, and an 'A' for the Real Impact Tracker, all for the international business of Federated Hermes, recognising EOS

activity

- Active participation in many collaborations including:
 - Climate Action 100+, where EOS lead or co-lead 30 engagements and support another 14
 - Principles for Responsible Investment ('PRI'): founding member and chair of the drafting committee that created the PRI in 2006. Lead engagement with Vale on tailings dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax
 - Institutional Investors Group on Climate Change, Asia Investor Group on Climate Change and Ceres
 - International Corporate Governance Network (ICGN), Asian Corporate Governance Association, Canadian Coalition for Good Governance, Focusing Capital on The Long Term, Corporate Governance Forum, Investor Forum, and US Council of Institutional Investors
 - Investors for Opioid & Pharmaceutical Accountability, Investor Alliance for Human Rights, Plastics Solutions Investor Alliance, 30% Club, and Investor Initiative on Mining & Tailings Safety
 - A wider list of initiatives that Federated Hermes is part of is available [here](#)

EOS measures the progress of these collaborative engagements and initiatives in the same way that they would measure progress of company engagements – using a milestone measurement system. In addition, published case studies often include outcomes of collaborative engagements where EOS have played a leading or otherwise significant role. All these case studies can be found on the [EOS Insights page](#), and we would highlight EOS's case study on [Facilitating collaborative engagement on climate change](#) as a noteworthy example.

Listed below are select other initiatives that we support and contribute to in various ways:

- Transition Pathway Initiative
- CFA Future of Finance, chair of Advisory Board
- Member of INREV ESG Committee and INREV Inclusion and Diversity sub-committee
- Member of the RICS Taskforce on sustainability in real estate in Europe
- Member of the Wellington Management Sustainability Client Advisory Council
- Board member of the Investor Forum

Principle 11 – Escalation

Asset owners and asset managers: Signatories, where necessary, escalate stewardship activities to influence issuers.

Activities

As part of our manager research, assessment and monitoring, we expect investment managers to escalate stewardship activities and intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed. Our monitoring and assessment of this is captured within our Sustainable Investment reports for each strategy, and ultimately our overall rating and conviction in that strategy.

Some of the data we gather to help inform this assessment includes:

- whether the investment manager's policy specifies when and how they will escalate engagement activities
- overall engagement statistics (volume and areas of focus)
- examples of the most intensive engagement activities, including milestones over which to measure and monitor engagement

Given WTW's role, escalation of our engagement activity occurs at the investment manager level, not the company level. The ultimate sanction is a rejection or downgrade of a strategy (which may then flow into disinvestment from our delegated solutions or advice to our clients to disinvest). Over 2020, we made 18 such late-stage rejection or downgrades principally on sustainability grounds.

EOS at Federated Hermes

As detailed elsewhere in this report, we also work closely with EOS at Federated Hermes ('EOS'). For several of our funds, to supplement corporate engagement carried out by individual managers, EOS provide additional corporate engagement to that of the asset managers, applying their expertise, scale and market standing to effect positive change. We have worked closely with EOS for many years (as described in Principle 8 above), and input into their engagement planning and prioritisation.

EOS regularly escalates engagements where the company is not receptive to engagement, no progress is being made or progress is too slow. Escalations include attempting engagement at a more

senior level, site visits, letters and presentations to the board of directors, collaborating with investors or other stakeholders, speaking publicly to media, open letters, questions or statements at annual meetings, recommending votes against annual meeting items, and supporting and/or filing/co-filing shareholder resolutions. In EOS's regular reporting to clients, they provide such examples of escalation. We would also highlight EOS's [Q3 2019 Public Engagement Report](#) which covers this topic, starting on page 13.

EOS's key policy documents and approach to stewardship and escalation are available online [here](#).

Outcomes

Given the context described above, we have focused on our escalation with asset managers. Further information on issuer- and asset-level engagement and voting in detailed in response to Principles 9 and 12.

During the course of 2020, we conducted over 200 engagements with over 70 managers on sustainability and stewardship, and researched over 60 sustainability-focused strategies. We also have seats on over 60 private market advisory committees to help formalise our ongoing stewardship of those funds.

Information gathered during these engagements and the ongoing research of our teams, led to:

- 18 late-stage rejections or downgrades of strategies principally on sustainability grounds
- Significant allocations to a number of sustainability-focused strategies in areas such as renewable energy, forestry, electrification infrastructure and sustainable agriculture

In general, we would hope to see a relatively small number of downgrades of our preferred managers on sustainability grounds as we look to engage with them to improve their capabilities where they fall short of our rising expectations. Below are three specific case studies to exemplify some of this work.

CASE STUDY 1

Global Equity – escalation through engagement to improve practices

This strategy is run by a value-oriented manager utilizing a quantitative stock screening approach, where investment ideas are further subject to qualitative verification from the team.

The team has a sustainable investment specialist and sound practices in place with regards to voting and stewardship. The firm is a signatory to PRI and has received an A rating. We were reasonably comfortable with the manager's broad awareness over sustainability issues.

However, in reviewing in depth the manager's approach to ESG integration in company analysis, we noted some evidence of inconsistent and superficial analysis, in turn with limited impact on decision making. This was largely a by-product of the large number of holdings the team invests on across strategies (600+), due to the quantitative aspect for these strategies which made ESG analysis somewhat a 'box-ticking' exercise.

Over the summer of 2020 we engaged directly with the manager to feed back our concerns over process insufficiency in the consideration of ESG. Positively, the manager appeared receptive of our feedback and acknowledged that more thoughtful ESG integration should lead to improved decision making – for example by reducing the risk of 'value traps'.

The manager has since introduced a new framework to integrate sustainability in their qualitative assessment of companies. In successive follow ups over the second half of 2020, we reviewed the manager's efforts in the area and were comforted to see real, genuine progress in this area.

While we expect it will take some time for the manager to smoothen their new process, we believe there has been a step improvement and hence raised our ESG Integration rating to Neutral, and we will monitor for potential further developments over time.

CASE STUDY 2

Global Equity – escalation through engagement, resulting in downgrade

This relates to a manager we rated highly for the investment insights of the founding partner and lead portfolio manager. However, alongside wider issues we identified the manager's sustainable investment practices to be an area of concern, particularly in relation to the assessment of environmental and social issues.

Our concerns came to light following a review of our annual sustainability questionnaire highlighting diverging views among portfolio managers within the firm on ESG issues, and their inconsistency in assessing ESG risks within portfolio holdings.

In 2019, we held a formal research meeting with the manager where we aired our concerns and subsequently wrote a formal engagement letter to the founder and senior investor highlighting our concerns on these sustainability matters and several other issues. Over the next 18 months, we held various conference

calls and meetings with various members of the investment team, in search of evidence of improvement across a variety of our concerns, including meeting with the founder focused specifically on ESG and stock case studies to inform our view.

The manager acknowledged our concerns. And they made some steps to address them, such as trialling some climate risk tools, and working on a stewardship activity report. Still, we concluded that the manager's overall ESG integration remained behind best practice and inconsistently applied.

In September 2020 we made the decision to downgrade the manager, as we found the progress towards addressing our concerns, including SI concerns, to be slow, and lost conviction in the manager's ability to deliver consistently strong results for clients.

CASE STUDY 3

Private equity – escalation via rejection

We were approached by a manager to invest in its main buyout fund. The manager had generated solid returns throughout its history which dated back to the early 1980s and is considered one of the pioneers in the asset class. The manager has a strong following amongst investors and its funds are often oversubscribed.

Its managing partner had recently retired and there were worries about a change in the culture. Whilst having a strong reputation for delivering good returns, it had at the time recently invested in businesses and people who have had checkered pasts. It also had developed a reputation for being aggressive in acquiring deals and being aggressive with its own employees. In one instance, the sole female partner at the time (out of a partner group of over 30) filed a sexual harassment lawsuit and

was fired afterwards. The lawsuit did not go to the court but led to the departure of a senior partner, compensation being paid to the former female partner and a requirement that she provide consulting services to the manager on its diversity and inclusion initiatives. There was another instance where one of its employees was supposedly assaulted by a senior partner though no charges were filed.

We felt given the issues noted above, which mostly occurred after the manager partner left, we decided not to continue our due diligence. We will not engage with this manager until we see evidence it has installed a new culture that focuses on investing in businesses that are sustainable and the firm itself is sustainably operated.



Section D – Exercising rights and responsibilities

Principle 12 – Exercising rights and responsibilities and supporting clients’ stewardship

Asset owners and asset managers: Signatories actively exercise their rights and responsibilities.

Context

As documented earlier in this report, we believe that effective stewardship is a critical component of effective long-term investment, and this includes actively exercising ownership rights and responsibilities.

We believe that investors across all asset classes have a range of rights and responsibilities. Given the activities described elsewhere in this report which cover a wide range of stewardship activities across a wide range of asset classes, we have chosen to provide further detail principally in respect of voting for equity investors in response to this principle.

Voting on equity shares is an important and visible engagement tool. In our portfolios, there are two ways in which we exercise our voting rights and responsibilities:

i. Third party funds

In this ownership model, we delegate stock selection to third party managers. In doing so, we also delegate voting rights and the execution of those rights. Therefore, assessing the voting practices of our agents is an important part of our process. Our manager research team looks at this across both active and passive mandates; it is also specifically assessed and monitored via our Sustainable Investment reports. This report tracks and summarises various voting processes, resources and metrics, ultimately assigning a positive, neutral, or negative score on a manager’s voting practices. We have also developed a proprietary voting analysis tool during 2020, as described earlier in this report, which aids our monitoring and engagement in this area.

ii. Directly held equities

We do own stocks directly in some instances through managed accounts. It is important to note that Willis Towers Watson still make no underlying stock selection decisions, which continue to be outsourced to third party, best-in-class, specialists. However, as the stocks are under our control, we are able to influence voting more easily than for third party funds above. To ensure managers are voting in the best way possible at every opportunity, we use EOS at Federated Hermes (‘EOS’) to provide voting advice to the asset managers. We then regularly monitor the voting decisions each manager makes against what they were advised by EOS, engaging or challenging where necessary.

EOS’s key policy documents and approach to stewardship and escalation are available online [here](#). Our conviction, monitoring and ongoing engagement with EOS is described earlier in this report, including in response to Principle 8.

Manager research

As part of our manager research, assessment and monitoring we expect investment managers to vote whenever it is practical to do so. Investment managers are expected to have a documented voting policy in line with relevant industry best practice and to disclose this publicly. Our monitoring and assessment for managers where voting is applicable includes consideration of:

- whether the manager has a voting policy and, if so, what areas are covered
- whether client-directed voting policies can be applied
- the level and frequency of voting activity which is disclosed to clients and the level and frequency of voting activity which is disclosed publicly
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not)
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio
- whether a third party proxy voting service provider is used and, if so, how
- how investment managers exercise votes in relation to various sustainability and operational topics, and how this is broken down globally

Within the provision of outsourced investment services for specific instances where WTW may hold investments directly, stock lending is prohibited at both the underlying manager and custodian level. Accordingly there is no situation where the lending of stock and failure to recall before voting dates can interfere with the exercise of voting rights by the investment managers.

Activities and outcomes

Given the scope of our advice and solutions to clients and the vast range of our clients’ portfolio and underlying holdings, it is not practical to detail all the exercise of ownership rights, including voting, conducted. Therefore, we have decided to detail the voting conducted in respect of our Irish-domiciled Global Equity Focus Fund (‘GEFF’) to illustrate the activities undertaken and outcomes in this area.

It is worth noting that in respect of fixed income stewardship, this is an area of significant ongoing engagement for us with the asset management industry, currently recognising that this is a common area of weakness. We integrate our assessments into our fixed income research and ratings as described earlier in this report, and it is also a significant point of engagement as also detailed earlier. As part of our escalation of this issue, [we have written publicly on this topic](#) to encourage further attention and positive change.

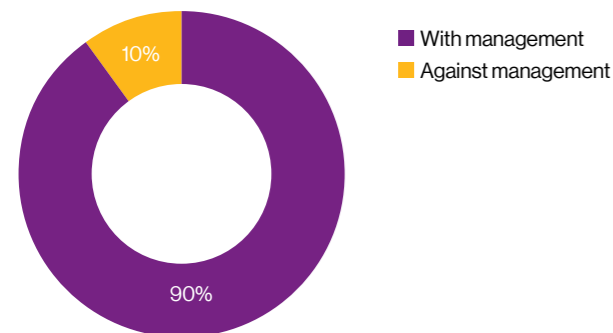
GEFF is a multi-manager, unconstrained global equity strategy that provides investors with access to typically 8 to 12 of our top-rated managers. Each of these managers runs a highly concentrated and high conviction portfolio of 10 to 20 stocks only, resulting in a total portfolio of between 150 and 200 stocks. These stocks are the ones managers believe are most likely to maximise long-term returns. Our managers’ evaluation of the stock investment opportunities incorporates ESG risk factor considerations. Furthermore, managers exercise active stewardship in respect of the stocks they own to enhance or protect the value of those securities, and this is supplemented by engagement carried out by EOS.

GEFF’s underlying managers are responsible for voting all proxies for shares they hold. Additionally, EOS provides voting recommendations that are informed by their extensive research and experience in the area of stewardship as well as their long-term engagement activities with companies.

Of the total 2,679 votable proposals during 2020, our managers voted against company management 10% of the time, predominantly around board structure and shareholder resolution related votes.

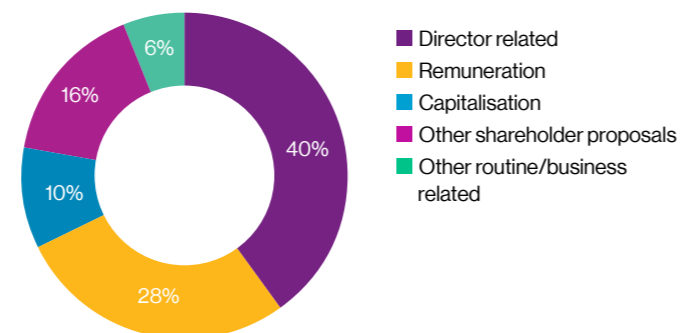
Section D – Exercising rights and responsibilities

Fig 6: Votable proposals during 2020



Source: EOS, December 2020

Fig 7: Votes against management by topic during 2020



Source: EOS, December 2020

Voting statistics - 12 months to 31 December 2020		
# of meetings with eligible votes	161	
# of votable resolutions	2679	
# of votes exercised	2656	99%
# of votes with management	2386	90%
# of votes against management	265	10%
# of votes abstained	5	0%
# of meetings with at least one vote against management	94	58%
# of votes contrary to proxy recommendation	281	11%

As shown above, there were 23 votes that were not exercised, which all related to ballots for two companies. One of those companies had a significant rights issue around the time of the ballot cut-off, and due to this corporate action, the shares were temporarily unavailable meaning that the ballot deleted in that short period across the deadline. When the new ballot was subsequently generated and voted, it was too late to be resubmitted. The second set of ballots related to a delay in setting up the voting process for a manager newly added to the Fund, thereby missing the ballot cut-off for one company's AGM. We have confirmed that no other ballots were affected by this issue, and another manager in the Fund who holds the same company cast their votes successfully for that AGM. We will continue to closely monitor this area to minimise the risk of votes not being exercised.

As an example of the process and rationale behind some of these votes, we have included below information on select "significant votes cast".

Company	Weight at vote	Topic	Guidance	Voting action	Rationale
Facebook Inc.	1.9%	Governance – routine / business	Proxy: FOR Management: AGAINST	FOR	The manager supported a resolution requiring an independent Board chair. The manager believed that the company would benefit from independent oversight to help manage potential conflicts between management and shareholders. The resolution ultimately failed but the manager continues to engage with the company to encourage it to adopt policies that are in the long-term interest of shareholders.
Alphabet Inc.	1.0%	Governance – director related	Proxy: FOR Management: AGAINST	FOR	The manager supported a proposal to establish a Human Rights Risk Oversight Committee. The manager questioned if the current level of oversight, provided by the existing Board structure, is adequate due to continued controversies. The proposal was rejected and there have been no significant engagement efforts with the company on this topic since.
Amazon	2.5%	Governance – other	Proxy: FOR Management: AGAINST	FOR	The manager supported a proposal for a report on lobbying payments and policy as it would promote transparency. The proposal ultimately failed but the manager will continue to consider any proposal which enhances overall transparency.



Appendix

Disclosures and disclaimers

Funding level performance data

This document contains marketing material about our fiduciary management service. This document does not represent impartial advice on this service. In certain cases, you are required to conduct a competitive tender process prior to appointing a fiduciary manager. Guidance on running a tender process is available from the Pensions Regulator.

Disclaimer – Delegated Client Base Performance

Please note that investment returns can fall as well as rise, and that past performance is not a guide to future investment returns.

Purpose

The WTW client composite performance is intended to provide an indication of how investment using a more diversified and risk managed approach, as implemented for our UK delegated client portfolios, compares to the estimated funding level progress of the average UK pension scheme based on information from the PPF 7800 Index released by the Pension Protection Fund (‘PPF’).

WTW Client Index composition

The performance data is an equally weighted composite of total scheme performance of Willis Towers Watson’s UK full scheme Delegated Investment Services (‘DIS’) clients. The composite includes nine clients at the outset and forty nine at the end, with a total of fifty six clients featuring over the period. The composite includes only UK DIS clients where we manage the entirety of their assets, and some where there are constraints on our investment decision making, such as the level of liability hedging. It excludes client portfolios where our mandate covers only a portion of a scheme’s assets e.g. a single asset class mandate, or return seeking assets only mandates.

Limitations

Our clients have differing objectives, investment beliefs, valuation methodologies and constraints which they place upon us. All of these can influence the exact portfolio we construct, and therefore the performance that is achieved. Additional governance and operational benefits of investing through our DIS service are not captured in this composite. The funding level progression is shown on a gilts flat funding basis - where this is not available we have used the closest similar basis. The funding level shown for WTW clients includes contributions.

Average pension scheme

Based on the PPF7800 Index released monthly by the PPF. We have converted the reported average funding level on a PPF basis to a gilts flat basis, by adjusting for differences in the underlying assumptions and benefit levels. The average scheme funding

level shown is a weighted average on a gilts flat basis and includes contributions. The contributions received by the average UK scheme may be different to that received by WTW clients.

Time period

The starting point of March 2009 was chosen due to WTW having a suitable number of clients at that point to form a composite.

Key risk warnings

This section contains important regulatory disclosures and risk warnings that are relevant to the content of this document, including that relating to the particular fund(s) (each the “Fund”) featured herein. You should read this section carefully, as it is intended to inform and protect you.

- Willis Towers Watson Limited has approved this marketing material for issue to recipients categorised as Professional Clients only.
- This investment is intended for investors with long-term investment time horizons
- The value of all investments and the income from them can go down as well as up. This means you could get back less than you invested.
- Changes in exchange rates may cause the value of investments to decrease or increase.
- Past performance is not a reliable indicator of future returns.
- The document contains figures that refer to simulated past performance, which is not a reliable indicator of future returns.
- Expected performance is not a reliable indicator of future returns.
- Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future.
- The securities and derivatives investment activities which the Fund engages in may be speculative and involve a substantial risk of loss.
- The Fund may be exposed to credit and/or default risk of issuers of debt securities that may be held within the Fund.
- The issuers of any bonds within the Fund may default or not be able to pay the bond income as expected.
- If the Fund is denominated in a currency other than your home currency, movements in exchange rates may, if not hedged, have a significant impact on the value of (and income from) your investment.
- Shares/units in the Fund may become illiquid and investors may redeem their investments only as stated in the Fund’s prospectus.

Manager research ratings study - methodology

Relative returns for ratings

- Analyzed ‘preferred products’ for active long only Equities, Bonds and liquid Diversifiers from 1 January 2000 to 31 December 2019. ‘Preferred products’ includes Positive, 1 and Preferred rated products
- The ratings history was taken from the Dream database (a proprietary application that, among other things, stores historical ratings of investment managers and products that have been rated by Willis Towers Watson and its predecessor firms). It should be noted that product renaming/mergers/splits will impact the ratings history which has not been independently verified. The ratings reflect all managers rated during such a time period. Ratings are forward-looking.
- Ratings were mapped to the performance of the product match we believe to be the most appropriate within the eVestment database. Where a suitable performance stream was not available on eVestment, reasonable efforts were made to use returns from other available sources but ratings without performance were excluded from the analysis
- Relative returns are calculated relative to the appropriate benchmark (see below)
- Performance in product base currency compared with benchmark return in the same currency; for Hedge Funds, we use return in base currency compared with HFRI fund weighted index in USD as Hedge Funds are normally assumed to be perfectly hedged to a currency
- Fee information for Diversifiers is sourced from eVestment. In the minority of cases where no fee information is available in

eVestment, we use “Expected fee %” from internal research to supplement the missing info. If no fee information can be found from either source, assumed mandate default fee % is used

- Performance is assessed from the quarter following the rating creation up until the quarter end date following the rating having been downgraded or changed to unrated. This removes the benefit of hindsight as the rating is set in advance of performance being known
- Asset class returns are calculated by annualizing the average relative quarterly return data within the specified period for the named asset class, for example the three year Equities number includes all available quarterly relative returns for positive,1 and preferred rated products in the period 1 January 2017 to 31 December 2019

Benchmark considerations

The benchmarks that have been utilized in the study include a combination of manager preferred benchmarks, default benchmarks and benchmark overrides. The default benchmark tends to be used when a manager has not provided a benchmark or returns cannot be sourced for the benchmark specified by a manager. The override benchmark is primarily used in Diversifiers in which Willis Towers Watson selects the benchmark rather than a nil benchmark provided by a manager or one that is not a reasonable comparator in the estimation of Willis Towers Watson. The chart below provides details regarding the frequency of use of manager provided benchmarks, default benchmarks and benchmark overrides across major asset classes. More information regarding the benchmarks will be provided upon request. Broad-based indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly into a benchmark.

Proportion	Benchmark source		
	Override Benchmark	Manager preferred benchmark	Default Benchmark
Equities	6%	87%	7%
Bonds	8%	75%	17%
Diversifier	94%	6%	0%

Disclosures

Equities, Bonds and Diversifiers model performance

The aggregated manager model performance shown is for the stated time period only; due to differences in the managers selected by or for client accounts, the timing of such selection, and market volatility, each account's performance will be different. Manager returns are shown either gross or net of manager fees, but before trading costs, custody charges, and other direct or indirect charges. The returns shown assume the reinvestment of dividends and other income. Aggregated manager model performance does not reflect the deduction of any fees related to Willis Towers Watson's services.

The aggregated manager model performance presented reflects model performance an investor may have obtained had it invested in all products within a category and does not represent performance that any investor client of Willis Towers Watson or any other actually attained. The aggregated product model performance presented is based upon the following assumptions: investors equally allocated capital across all applicable products at the start of each quarter; each product was open to new investments during the applicable period. See Ratings study - methodology regarding the approach utilized in performing this study.

Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Hypothetical aggregated returns have many inherent limitations and may not reflect the impact that material economic and market factors may have had on the decision-making process if client funds were actually managed in the manner shown. Actual performance may differ substantially from the performance presented. Changes in the assumptions may have a material impact on the returns presented. Other periods selected may have different results, including losses. There can be no assurance that Willis Towers Watson or any rated product will achieve profits or avoid incurring substantial losses.

The Positive/1 and preferred rated Equity universe represents managers following active equity-focused investment strategies that Willis Towers Watson has reviewed and rated most likely to add significant value on a risk-adjusted basis net of all costs, but not necessarily recommended for investment by clients. The return distribution reflects all managers rated during such time period and possibly, but not necessarily, recommended by Willis Towers Watson. Return distributions are not, and are not intended to represent, actual performance of any Willis Towers Watson client.

The Positive/1 and preferred rated Bonds universe represents managers following active fixed income-focused investment strategies that Willis Towers Watson has reviewed and rated most likely to add significant value on a risk-adjusted basis net of all costs, but not necessarily recommended for investment by clients. The Positive/1 and preferred rated Diversifiers universe represent managers following a variety of liquid alternative asset classes strategies, including but not limited to Direct Hedge Funds, Real Estate, Infrastructure, Multi Asset and commodity Smart Beta & insurance-linked investment strategies that Willis Towers Watson has reviewed and rated most likely to add significant value on a risk-adjusted basis net of all costs, but not necessarily recommended for investment by clients.

Willis Towers Watson seeks to identify skilled managers, however there is no guarantee that Willis Towers Watson will be successful.

Private markets performance

The performance presented reflects a simulated performance only; using the comparison of our model portfolio vs the Public Market Equivalent ('PME') and does not represent performance that any investor actually attained. The private markets model portfolio was constructed as follows: beginning in 2006, Willis Towers Watson began to focus its private markets efforts more formally on researching and recommending direct private markets funds in addition to fund of funds. The private markets team researches a host of managers across the globe as part of a process to assess managers' skill and, where the team arrives at a strong conviction in the investment opportunity and manager skill, it may proactively recommend those investments to appropriate institutional investors in its global client base. The global client base considered for this purpose consists of a sub-set of the total Willis Towers Watson client base and includes clients that work with Willis Towers Watson on a delegated basis where either (1) Willis Towers Watson has full discretion on private markets investments or (2) Willis Towers Watson gives the client a "recommendation of one" but the ultimate decision is made by the client. The model portfolio consists of high-conviction funds that have been proactively recommended to this sub-set of Willis Towers Watson's client base.

Certain assumptions have been made for modeling purposes and may not have been realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Model returns have many inherent limitations and may not reflect the impact that material economic and market factors may have had on the decision-making process if client funds were actually managed in the manner shown. Actual performance may differ substantially from the model performance presented.

Changes in the assumptions may have a material impact on the model returns presented. Other periods selected may have different results, including losses. There can be no assurance that Willis Towers Watson will achieve profits or avoid incurring substantial losses.

The simulated performance is adjusted to reflect the anticipated fees and expenses of the model portfolio. The returns shown assume the reinvestment of dividends and other income. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size; Willis Towers Watson's fees are available upon request. Past performance is no guarantee of future results.

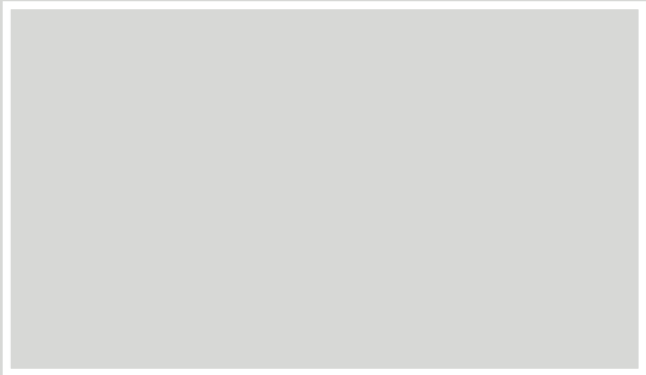
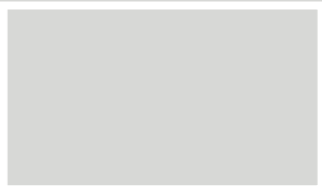
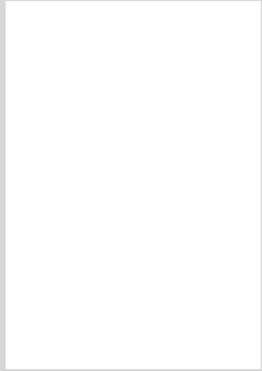
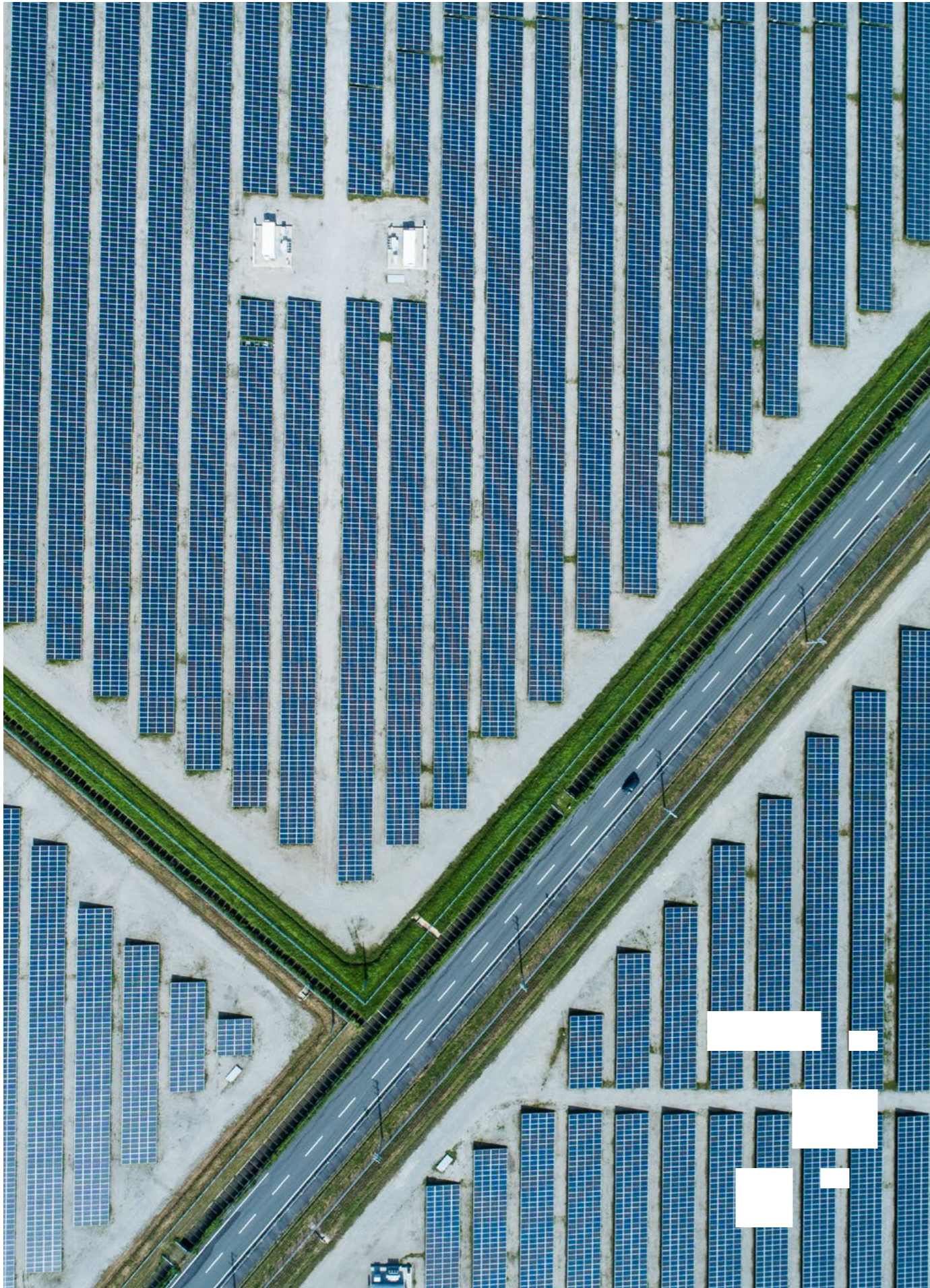
Model portfolio simulated performance is compared to the MSCI World Index or in its form ADV Part 2A, utilising the Public Market Equivalent ('PME') calculation methodology. As described in the MSCI website, the MSCI All Country World Index "is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries and 24 emerging markets countries. It covers approximately 85% of the free float-adjusted market capitalisation in each country." The PME analysis assumes that the private markets cash flows are invested into a public market index and compounds it until the end of the measurement period to arrive at a synthetic ending portfolio value. An IRR calculation is then made based on the actual cash flows experienced and the synthetic ending portfolio value. The MSCI index and PME analysis presented are not benchmarks and are presented only as a comparison among asset classes. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts. Investments cannot be made directly in those indices to replicate the exact cash flow profile of the private markets model portfolio.

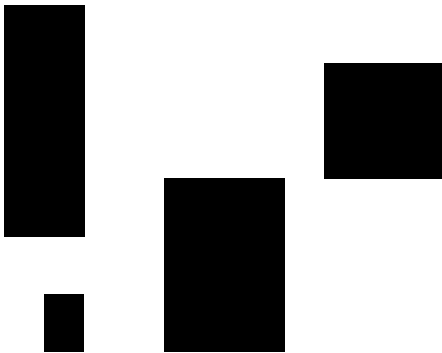
While we have endeavoured to choose a benchmark that over the long term is a good reflection of whether the manager in question has produced alpha, it is not possible to remove all 'betas' from the relative return comparison, particularly in the diversifiers universe and particularly over shorter time periods (e.g. 1 and 3 years). Therefore we would recommend focusing on longer time periods, not just because this is more statistically significant, but also because it is a better reflection of true alpha rather than a combination of alpha and beta.

Important information and risk warnings

This section contains important regulatory disclosures and risk warnings that are relevant to the material in this document. You should read this section carefully, as it is intended to inform and protect you.

- Towers Watson Limited has approved this marketing material for issue to Professional Clients only
- The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. This means you could get back less than you invested
- Securities and derivatives trading in which the portfolio funds engage are speculative and involve a substantial risk of loss
- This material refers to simulated past performance and past performance is not a reliable indicator of future returns
- Exchange rate changes may cause the value of overseas investments within the portfolio funds to go down as well as up
- Investors should regard an investment in private markets as a long-term investment which carries a higher risk than many other forms of investment and, given their unquoted nature, they may be difficult to realise through a sale
- Private markets underlying investments will normally be in unlisted companies and assets whose securities are not publicly traded and are therefore likely to be illiquid. They carry substantially higher risk than investments in the equity of larger, listed companies, their public debt securities, or in listed real assets
- There is usually less transparency in place around the management of private markets investments given the lower disclosure requirements. In general, there is limited information available on the investments and performance of their portfolio companies and assets, other than annual or semi-annual financial statements, or sometimes, quarterly reports
- The value of private market investments, and the level of income derived from them, may fall as well as rise and investors may not get back the money originally invested





About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 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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WTW569610/03/21

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