

MiX Manager Ideas Exchange

Annual update to the asset manager community

2021



Welcome to MiX 2021

At the time of our MiX 2020 publication, the magnitude of the Covid-19 pandemic was only starting to become apparent. The severity and longevity of the crisis has been extraordinary, challenging us all in ways we previously had not imagined. Most importantly, **we hope that you have managed, and are managing, to stay physically and mentally safe and healthy**; and similarly for your loved ones and colleagues.

It is against this extraordinary backdrop that the Francis of Assisi quote resonates. **Previously impossible, or at the very least unthinkable, problems and tasks have been overcome through endeavour and innovation, driven by necessity.** Sir Patrick Vallance, the UK’s government’s Chief Scientific Adviser, outlined how before Covid-19 it took an average of 10 years to develop a completely new vaccine, with the process NEVER achieved in less than five years. Faced with a necessity, what was previously considered impossible has been achieved; numerous vaccines have been developed and approved within just one year. We are proud of playing our part through the investment made by our clients in Vaccitech, the immunotherapy and vaccine company responsible for developing the University of Oxford/AstraZeneca Covid-19 vaccine.

“

Start by doing what’s necessary; then do what’s possible; and suddenly you are doing the impossible.”

St. Francis of Assisi



Contents

2020 in numbers.....	3
Manager selections.....	4
Sustainability update.....	6
Invest Connect update.....	7
20 years of evolution in manager research.....	8
Investment opportunities and areas of focus for 2020.....	10
A selection of our latest thought leadership.....	12

While all other tasks feel of somewhat lesser importance than developing vaccines for the entire global population, in both personal and professional environments we have all achieved incredible things over the last year. We would have previously believed it inconceivable to conduct full investment and operational due diligence without an (physical) on-site meeting (we often conduct 10 on-site research meetings), or for our clients to allocate new capital without having met the portfolio manager. However, driven by the needs of clients and the opportunities presented by market volatility we evolved our research processes to adapt without compromising on depth. That ability to adapt has been an important contributor to the exceptional performance outcomes our clients saw through this period. Our clients still managed to conduct almost **US\$35 billion in manager selection volumes** in 2020 and participate in the innovation that characterises our research approach.

Achieving our goals of identifying and creating interesting and innovative investment opportunities was challenging in a world of virtual interactions. In this environment we have benefitted from the strong will, and commitment, by asset managers to collaborate and adapt to the engagement model. Thank you, **we really appreciate the partnership and ongoing ideas exchange.**



While 2020 will be forever defined by the Covid-19 global pandemic, it is our belief, and hope, that the progress made this year in re-framing the purpose of the investment industry could have a significant and telling long-term impact.

Momentum is moving toward a three-dimensional framework, supplementing risk and return with impact. Impact can be broadly defined in terms of the influence of investments on all stakeholders (clients, shareholders, colleagues, society and planet), with asset owners looking for greater measurement and attribution of that impact. This shift aligns with the process enhancements and **focus of our manager research team over recent times in sustainability and inclusion and diversity**, and is increasingly reflected in manager selection activity.

- **Sustainability** – We had previously described how 2019 was a key transition from “talking-the-talk to walking-the-walk” in sustainability/ESG. **2020 saw a significant acceleration in all things sustainability**, triggered by regulation, clients’ interest and increasingly widespread acknowledgement of the need to address the climate emergency we face. Assessing the effective integration of ESG factors is a critical requirement of our manager research process and has been for a number of years. Many thanks for all your efforts in helping us deal with the explosion in data requests around sustainability and ongoing collaboration to help streamline and standardise this going forward. Consistent with the transition to “walking-the-walk”, **we saw a significant increase in manager selection in impact solutions in 2020**, and have a strong focus on identifying new, primary investments with a climate impact orientation going forward. We expect this will increase into 2021, not least as Willis Towers Watson recently **committed to targeting net zero greenhouse gas emissions by 2050 at the latest** in our fully discretionary delegated investment portfolios.

As is typical, this 2021 Manager Ideas Exchange covers the following:

- A snapshot of key numbers relevant to our business in 2020.
- Some developments in our research process.
- Key research priorities for 2021.
- A selection of thought leadership pieces that we thought you might find useful.

- **Inclusion and diversity** – It remains a sobering fact that the investment industry has historically failed on inclusion and diversity. We do not reflect the savers we invest on behalf of, something which threatens our long-term legitimacy. To date, commonly accepted beliefs around diverse teams being better and delivering better long-term outcomes have had limited impact. However, catalysed by various shocking events in 2020 and movements such as “Black Lives Matter”, in addition to a growing body of evidential support such as that highlighted in our November 2020 paper *Diversity in the asset management industry*, we have observed a step-change in focus levels. We have greatly enjoyed engaging asset managers on the topic, with a clear need to collectively address some of the systemic issues that reinforce bias and curb the attraction and retention of diverse talent to our industry. There are signs we are reaching a tipping point here.

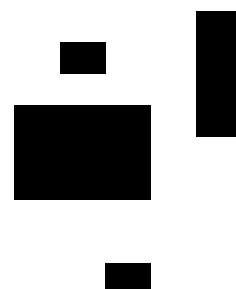
In a year of such significant change, where mental and process adaptability have been a requirement, we have found ourselves reviewing our manager research process and reflecting on its long-term evolution. Consequently, in addition to the usual topics, we have supplemented with a piece summarising our journey in manager research over the last 20 years.

Lastly, subject to regulatory approvals, Aon will combine with Willis Towers Watson as soon as possible during the third quarter of 2021. Many of you continue to pose questions to our manager researchers about what this might mean. Before close, there remain tight restrictions around communications. Please continue to bear with us; we will be able to share more shortly.

Stay safe,



Chris Redmond
Head of Manager Research



2020 in numbers

A snapshot of some key numbers relevant to our business in 2020

US\$166.3
billion AuM globally¹
(as of December 2020)

US\$3.6
trillion AuA globally¹
(as of December 2020)

1400+
investment
clients globally¹
(as of December 2020)












111
Fully delegated
clients globally
(as of December 2020)

AuM US\$84 billion

273
Partial delegated
clients globally
(as of December 2020)

AuM US\$82.3 billion

Global research team²

		
U.K. London Reigate		59
U.S. Chicago New York Stamford		23
Australia Melbourne Sydney		11
Philippines Manila		8
China Hong Kong		4
Japan Tokyo		1
South Africa Cape Town		1
Germany Frankfurt		1



Willis Towers Watson influenced
200+ new product
launches since 2005



Invest Connect

1,300 products
from **414** firms (as of December 2020)



48

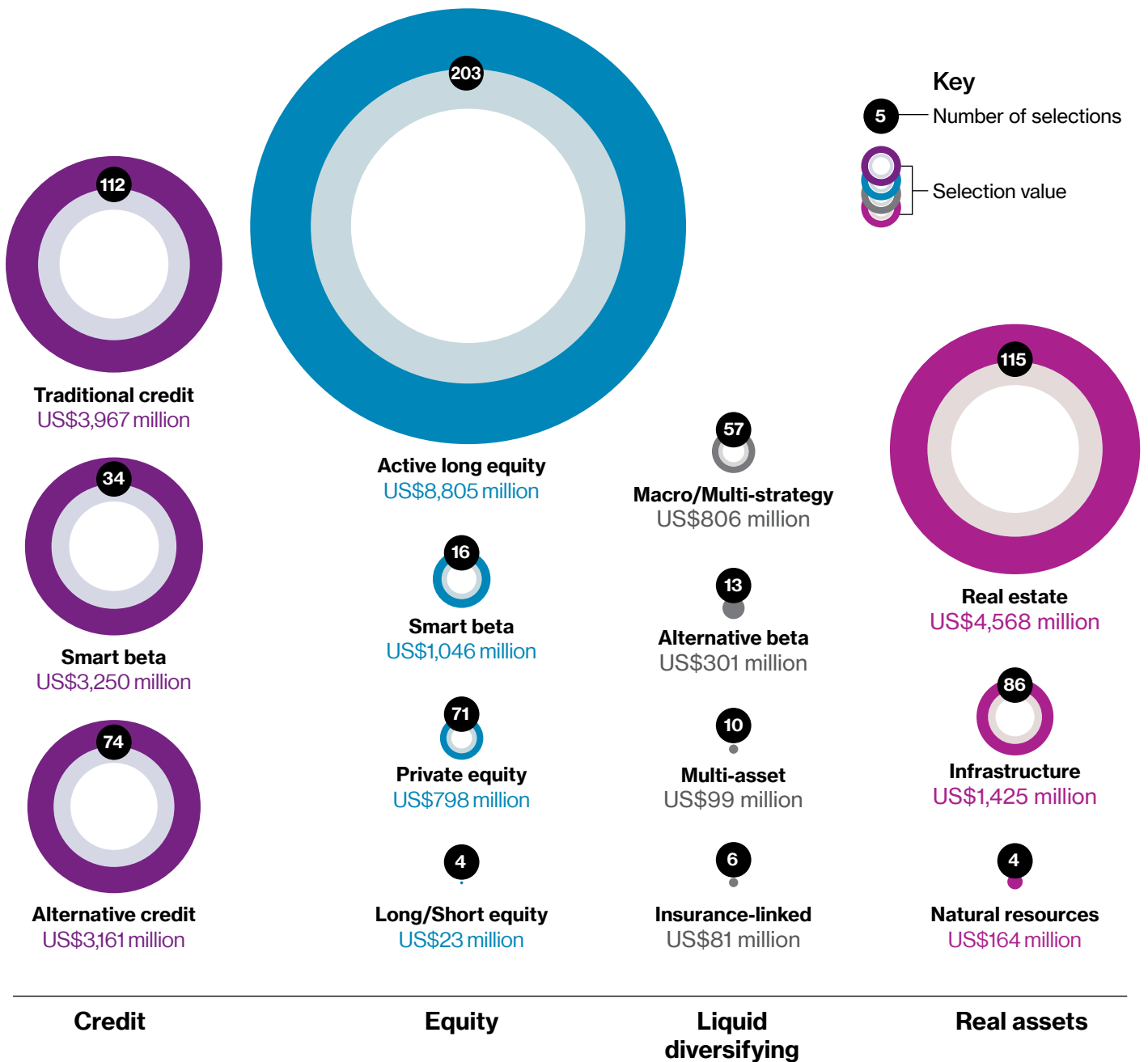
Thinking Ahead Institute members
with a collective responsibility for
US\$12 trillion
(as of December 2020)

¹Source: Willis Towers Watson. Assets under Advice as at December 2020. Assets under Management and client counts as at December 2020. All figures are subject to change.
²Source: Researchers (excluding support staff) from Asset Research, Manager Research, Operational Due Diligence and Thinking Ahead Group as at December 2020.

Manager selections

US\$34.4 billion
of new selections in 2020

- A higher number of manager selections versus recent years, but a fall in overall volumes
- Particularly strong and growing demand for real assets and other private markets offering attractive return, income and diversification characteristics





Having begun 2020 with a generally defensive risk posture, a pivot to exploit the dislocations and opportunities presented by the global pandemic was a significant driver of manager selection.

While the aggregate numbers for the year reveal a generally positive environment for risk assets, this disguises the exceptional uncertainty and market volatility that characterised 2020. Our manager selection focus and activity level can be split into a quietish pre-Covid-19 period and heavy volumes linked to re-positioning activity afterwards.

- In the immediate aftermath of the market volatility of the first quarter, we were able to harvest gains from highly diversified portfolios comprising implicit and explicit downside protection strategies. In the proceeding nine months, manager selection was heavily influenced by activity seeking to exploit the opportunities created by the market turmoil, initially in liquid markets and latterly in private markets. We saw elevated activities levels across real assets and private debt – notably in the attractive opportunities that exist beyond the more closely followed sectors – exploiting elevated illiquidity premiums and reliable income generation.
- In a reversal of a decade-long trend towards greater passive management and lower cost solutions, 2020 saw a movement back towards greater manager selection of active managers. With growing single name and sector concentration and a potentially disorderly transition to a low carbon economy, the tailwinds for greater active management are building.

Credit

- Alternative credit remained a strong area of focus in 2020. As liquid corporate credit markets sold off in March 2020, allocations to high yield rose to capture value. Strategies across structured credit and credit hedge funds also saw increased selection activity, capitalising on market volatility as well as more opportunistic re-risking.
- Private debt experienced a notable increase in allocations, driven by the attractive illiquidity premia, diversity of returns and demand for income.
- After a significant shift to buy-and-maintain mandates in 2019, smart beta activity reduced; however we saw increases in select areas of high yield, such as fallen angels, capturing price moves in an efficient manner.

Equity

- We saw more equity selections by number in 2020, but smaller average mandate sizes.
- Traditional active long only selections continued to be the largest group by mandate. Within this category, global equity mandates represented the majority, followed by World ex-US and emerging market mandates. Selection emphasis varied by region, but key themes were ESG integration, equitable fees and vehicle availability.
- Within private equity, the Covid-19 pandemic had a slowing impact on the capital raising cycle and resulted in slightly less manager selection versus 2019. Similar to prior years, our focus remained on niche areas where we perceive alpha potential to greatest, in addition to new ideas benefitting from high social impact.

Liquid diversifying

- Triggered by the market volatility and the strong performance of our hedge fund portfolios, we saw greater interest in 2020. In particular, we saw strong demand for discretionary macro, volatility-focussed and shorter-frequency macro systematic strategies offering strongly diversifying characteristics.
- Interest in the alternative beta space softened over 2020, following a period of challenging performance for certain factor-based strategies.
- Activity remained low for selections in the multi-asset space. We observe greater appreciation for absolute return-oriented strategies which navigated the challenge of the first quarter of 2020 well.

Real assets

- An active year in terms of real assets manager selection, increasing by 75% (versus 2019 levels) largely driven by activity in real estate.
- Strong demand for real estate solutions in single family homes, light industrial and life sciences, strategies we have worked to develop with a number of US managers in recent years. In the listed real estate space, we proactively increased our interest in active real estate securities shortly after the market falls in March.
- Infrastructure selections were led by secure income strategies (low risk, long term contractual strategies) and listed mandates, both active and smart beta.
- Within the value-add space, we had a strong bias to investments with attractive sustainability characteristics, such as UK forestry development, electric vehicle charging, sustainable agriculture and social housing. For many of these strategies our clients were seed investors, accompanied with a growing number of co-investments.



Sustainability update

Willis Towers Watson’s Investments business believes in “investing today for a more sustainable tomorrow”. This is now more important than ever as the whole economy transitions to a net zero and climate-resilient future.

Climate is a financial risk; it is far-reaching, systemic and foreseeable. As investors, we have a really important role to shape the system going forward – to steward this whole economy transition.



We recently pledged to target net zero greenhouse gas emissions by 2050 at the latest, with at least a 50% reduction by 2030, in our fully discretionary delegated investment portfolios. We believe this is a bold commitment.

This is a stretching goal, pushing us to progress and evolve to meet the challenge. Our manager research team will play a key role in delivering against this target, working with asset managers to identify and develop the new solutions to facilitate this evolution.






Our goal is to identify best-in-class asset managers and work with them to build portfolios that deliver strong risk-adjusted returns over the long term. An assessment of how well climate-related issues, as well as wider sustainability issues, are factored into an asset manager’s investment process is a significant part of our manager research and selection process.

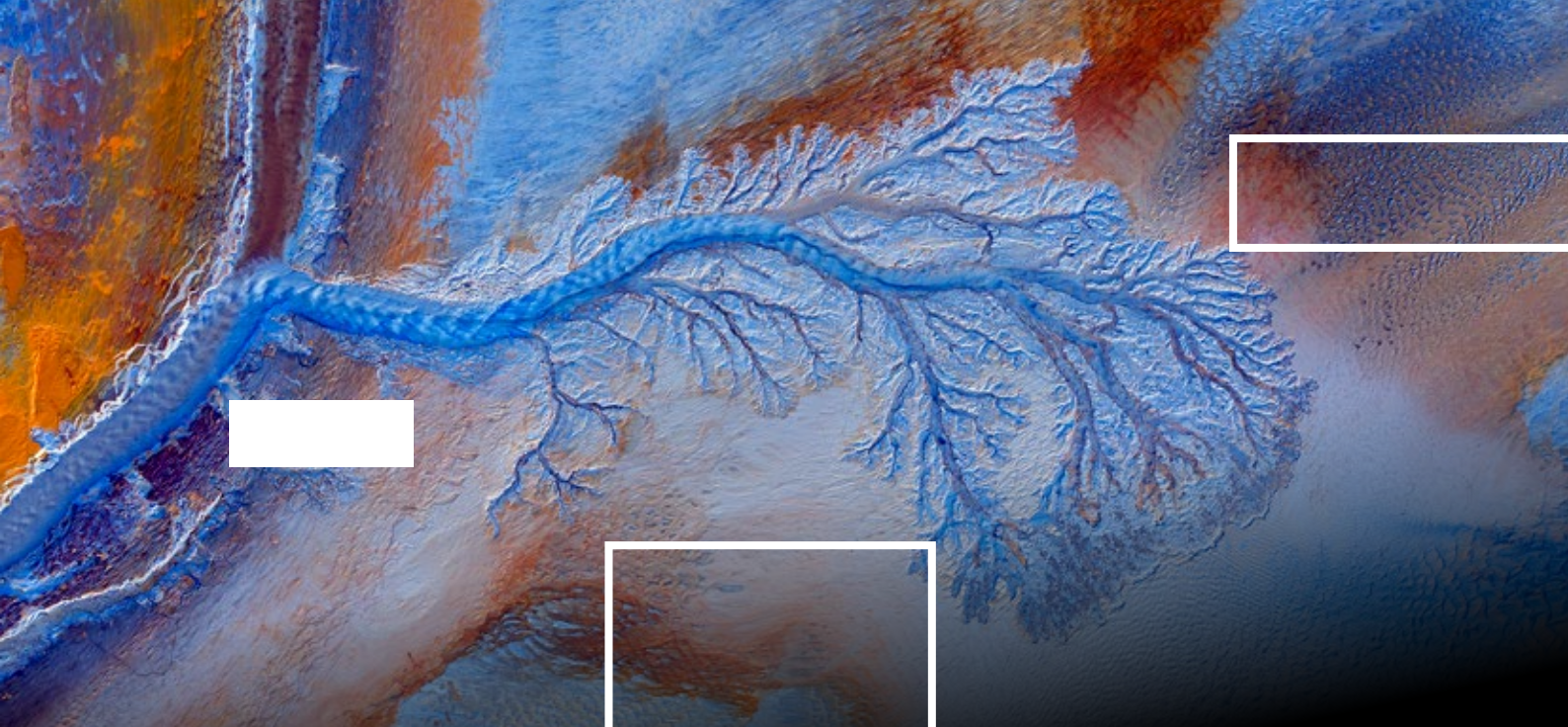
But we aim to go beyond this and to work with these managers to identify specific assets with compelling long-term prospects. Many of these fall in areas that are a part of the solution to a net-zero economy. We have built a healthy pipeline of climate-resilient opportunities across sustainable agriculture, forestry, electrification infrastructure, and renewable energy amongst others. We look forward to continuing on this journey and engaging with the asset management community to help meet this net-zero emission goal through a mix of evolving sustainable investment practices and creating unique and insightful investment solutions.

We have been thoroughly encouraged by the level of interaction with market participants to progress the sustainability agenda. You have been generous with your time and for that, we are thankful. This is a fast-moving space where best practice and stakeholder expectations will continually evolve.

We have developed a set of guiding principles to identify good practice within the asset management community. Our principles cover five key areas of sustainable investment leadership and setting expectations for the sort of behaviour we hope to see.

Figure 1. Willis Towers Watson manager research SI principles

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



Invest Connect update

We continue to develop our manager research process to maintain an edge and deliver against our clients' requirements. Technology developments and tools that support manager research are an essential part of this effort.

Invest Connect is Willis Towers Watson's asset manager information sharing website, launched in 2019. As a reminder, we use Invest Connect to request, store and organise information on key products used by our clients in common and monitor on their behalf. We are steadily adding and scaling coverage, including ad hoc projects and broadening our new ideas pipeline.

We recognise the global pandemic and current capital market environment creates additional pressures on your reporting teams. We greatly appreciate the time spent completing our data requests and communicating deadlines. We look forward to continuing our working partnership in 2021.

We delivered a number of enhancements to Invest Connect in 2020, with a number more planned. An important ongoing project is to streamline our data requests via Invest Connect to reduce overlap and alleviate some of the reporting burden.

- **Sustainability sections:** Sustainability is central to our purpose, as such there are new dedicated Sustainability sections in both the firm and product foundational questionnaires. At this time this is only reflected in mainstream asset classes.
- **Inclusion and diversity:** We added a number of inclusion and diversity questions into the firm level questionnaire as this is a critical area for our industry. Please see below for more information.
- **Operational questions:** Expanded the operational due diligence preliminary screening questions for both the firm and product foundational questionnaires.
- **Improved user experienced:** We added a "download" button to Invest Connect. This functionality allows users to export a copy of our questionnaires, including responses, into excel. We also added the functionality to see a questionnaire's fill rate in real-time. We have received positive feedback from these developments.

A key area of research focus has been to engage to better understand your perspective, actions and goals with inclusion and diversity. We understand data requests require a significant amount of time and diversity data may not be readily available. We are rolling out, in stages, an inclusion and diversity spreadsheet-based questionnaire in lieu of expanding the Invest Connect questionnaires in 2021 to help manage timelines. We hope this opens internal dialogues and conversations around the importance of the information to your organisation, our clients and the broader industry. We appreciate any feedback.

20 years of evolution in manager research

Triggered by lock-down isolation and a requirement to review and adapt processes in a Covid-19-world, we have found ourselves reflecting on our approach to manager research and its evolution.

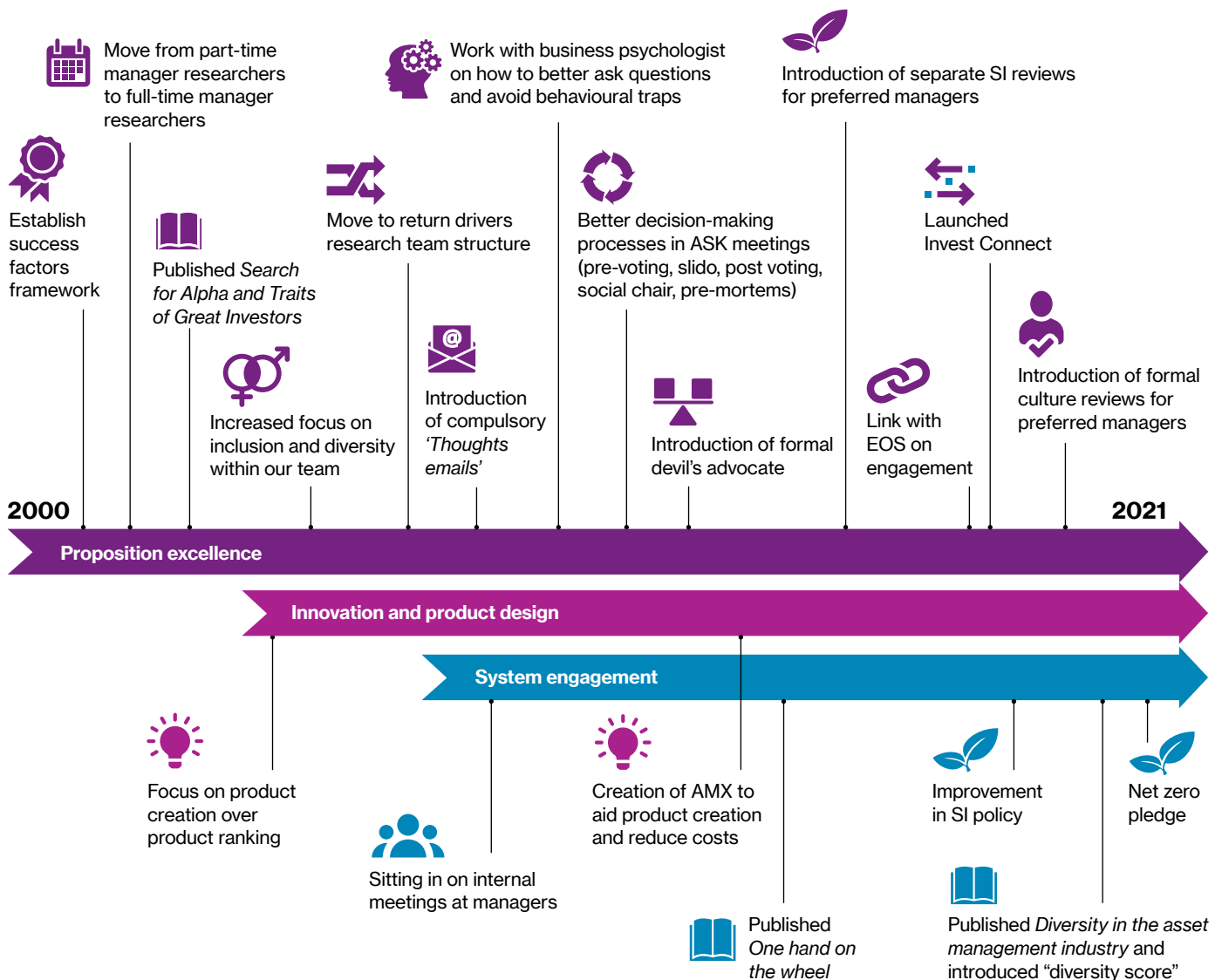
Our publication, 20 years of evolution in manager research, provides a detailed overview of our long-term evolution, including some recent developments around investment purpose and system engagement. A brief overview is provided below.

The three components of manager research

Our manager research approach and its development can be thought of as three components that have been introduced, developed and refined over time:

- **Proposition excellence** – Building the team, framework and process to deliver research due diligence excellence through identifying sustainable competitive advantages
- **Innovation and product design** – Influencing asset managers to ensure the right building blocks are being created
- **System engagement and purpose** – Behaving as allocators of capital and stewards that influence the system and have impact on multiple stakeholders

Figure 2. The evolution of our approach to manager research



System engagement and investment purpose are areas of significant development in recent years, with evolution in our manager research process to reflect an ongoing re-framing of the investment industry purpose.

In the areas of sustainability (and stewardship) and inclusion and diversity we recognise that our responsibility extends beyond just our engagement with a sub-set of assets managers. We can and should play a meaningful part in helping to support systemic change, acknowledging this will ultimately deliver better investment returns to the end saver. We have taken steps to elevate engagement activities in our manager research process, including participation in influential industry groups across asset manager, asset owners and advisors.

The re-framing of investment purpose in a three-dimensional framework provides us with great hope for the future, but in recent years has presented new challenges to our

manager research process. Introducing new steps to the process, such as the “culture review”, has allowed us to reliably assess and measure softer factors that influence the perseverance of competitive advantages and how asset managers think about impact across different stakeholders.

Our manager research process has evolved significantly over the last 20 years. We have benefitted enormously from a culture of challenge and a willingness to adapt. The exchange of ideas and critique from external sources has helped to shape this evolution. We look forward to continuing this over the next 20 years.

It is also useful to reflect on 20 years of performance outcomes. *Figure 3* details our model performance track record, displaying the outcome an investor would have obtained had they invested equally across preferred (highest rated) products in these asset classes. Outperformance has been generated over the long term.

Figure 3. Annualised model outperformance over 20 years to 31 December 2019

	Periods to end 2019:		
	20 years (Jan 2000-Dec 2019)	10 years (Jan 2010-Dec 2019)	7 years (Jan 2013-Dec 2019)
Equities (gross)	1.41	1.34	1.41
Bonds (gross)	0.94	1.13	0.84
Diversifiers (net of manager fees)	1.18	0.73	0.22

Sources: eVestment and investment managers

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. If manager fees and/or Willis Towers Watson's fees were reflected, the performance shown would have been lower. 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. All returns are compared in their base currency against benchmarks in their base currency. Please see “Methodology” and “Disclosures” on page 16 for additional information.

Recipients of this material are deemed to be investment professionals. The material may not be redistributed. The material does not constitute an offer or solicitation of any Willis Towers Watson investment related services.



Investment opportunities and areas of focus for 2021

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

Credit

New investment opportunities sought:

- **Sustainable credit:** Managers robustly integrating ESG into their investment process and thinking ahead to new facets of sustainability. We also continue to examine the role engagement can play in certain mandates
- **Private credit:** We are looking across private credit markets to identify elevated illiquidity premia, including innovative specialists operating in less competitive segments and more mainstream corporate and real asset direct lending, particularly in Europe. Sustainability is a prevalent theme in private credit, and we aim to identify new specialists, particularly in renewable/climate oriented lending strategies
- **Consumer lending:** We are actively engaging with managers to identify stronger consumer lending strategies, and those aimed to meet diverse and underserved borrower needs whether that be via securitised or private credit
- **Credit hedge funds:** We are looking for 1-2 additional lower beta strategies that can outperform in these volatile market environments, while still providing an attractive return in more benign periods
- **Smart beta:** We continue to find more efficient ways to capitalise on market themes or trends, and would welcome engagement with managers on ideas and joint work on identifying new opportunities



Equity

New investment opportunities sought:

- For all new ideas we are seeking robust fundamental research, genuine sustainability integration and strong culture, including I&D emphasis
- **Private equity:** New primary investments with an emphasis on niche opportunities, including climate/environment solutions, plus a selection of co-investments from managers we rate highly
- **Public/private equity:** Innovative solutions to access the whole spectrum of equity that are more cost effective and liquid than the traditional GP/LP model of investing in private equity
- **Long/short equity:** Prioritising managers with strong alpha generation at reasonable fees
- **Concentrated global equity:** High conviction, high active share mandates, including climate/environment solutions
- **US equity and World ex US equity:** Diversified products with vehicle availability and unconstrained higher alpha strategies, including within US small cap
- **Emerging markets:** Core and concentrated solutions
- **China equity:** Interest in high alpha products, both China A and All China specialists

Liquid diversifying

New investment opportunities sought:

- **High alpha strategies across the alternatives spectrum as well as innovative alternative beta solutions, all with positive sustainable investing, team diversity, value for money** and expense structure traits that are market-leading
- **Defensive strategies** that exhibit convexity and protect well in stress scenarios, but also not bleeding returns in normal market environments
- **Niche strategies**, including new diversifying markets
- **Macro-thematic** ideas which are liquid and efficient expressions of macro views
- **New alternative beta solutions**, extracting well-understood strategies in specialist mandates, to expand the growing, innovative universe
- **China-focussed** strategies that can benefit from the market dynamics and growth

Real assets

New investment opportunities sought:

- **UK and Euro secure income strategies** – long term, inflation-linked, contractual income strategies ideally in less institutionally-owned areas
- **ESG-linked strategies in less institutionally owned areas** – we would consider strategies across the risk-reward spectrum (eg forestry development, carbon capture strategies etc)
- **Distressed or mis-priced/mis-understood sectors** – low leverage strategies eg focused on mis-priced sectors, re-development strategies
- **Asia Pacific core strategies** – ideally open-end fund structures without performance fees
- **Income focused natural resource strategies** – eg royalties or leased agriculture
- **Co-investments and secondary transactions** – particularly for US opportunities (core and core plus) and UK/Euro secure income strategies

Operational Due Diligence:

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

- Compliance resourcing
- Specific compliance policies, including gifts and entertainment, personal account dealing and valuation policies
- Fund governance, including the constitution and voting rights of the board of directors of pooled funds
- Documentation of business continuity and cybersecurity practices

Key areas of focus include:

- Integrating the evaluation of ESG risks and considerations into the operational due diligence research process
- Assessing the impact of staffing changes, office adjustments and other firm infrastructure changes as Covid-19 restrictions relax and employees begin to return to the office
- Increasing focus on manager due diligence processes for their service providers, including administrators, directors and IT providers
- Evaluating the effectiveness of managers' cybersecurity framework, especially with regard to privacy and security, given the increased risk of cyber attacks we saw throughout the pandemic



A selection of our latest thought leadership



Diversity in the Asset Management Industry

There is a systemic issue of poor diversity in the investment industry; not just asset management but also other segments. We are committed to help address this, noting this should ultimately help to deliver the best outcomes for savers, in addition to helping to address societal legitimacy issues.

Our manager research process incorporates an explicit assessment of diversity, with a goal of identifying those asset managers with optimal diversity. In recent years we have developed a more data-driven approach to measuring diversity, starting with various measures of gender and ethnic diversity, while supplementing this with the deeper and more nuanced aspects gleaned through our manager research process. Pleasingly, our initial findings suggest a positive link between Willis Towers Watson's assessment of diversity and performance outcomes, which aligns with our beliefs.



We believe we must move beyond historic diversity measures used by many in the industry in order to tackle this issue in the long-term.

This involves developing metrics and a common language for measuring diversity that allows engagement of the whole asset management industry, including those that are weak in diversity today.

For more information, please contact:

Angela Brown

angela.brown@willistowerswatson.com



ESG in Real Assets

We believe that fully integrating ESG into the investment process leads to better and more resilient performance, and that sustainable investment is central to successful long-term investment outcomes. It is therefore a key part of our beliefs and investment approach.

Once a sustainable investment strategy has been established, a challenge that often arises is measuring the actual impact on investments which has generally been difficult.

We demonstrate in the below paper how we integrate sustainability and ESG into our real assets research, aiming to provide higher and more resilient returns.

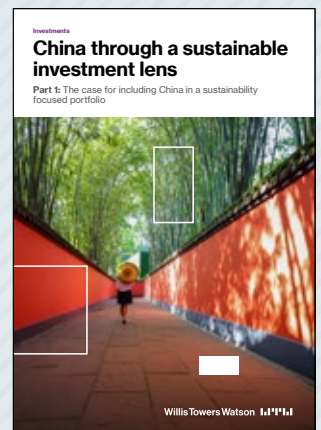
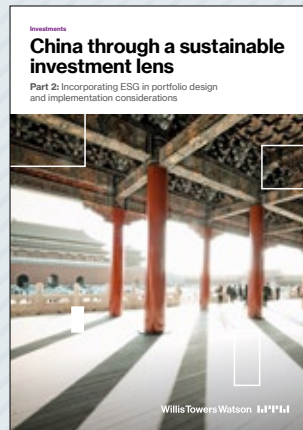
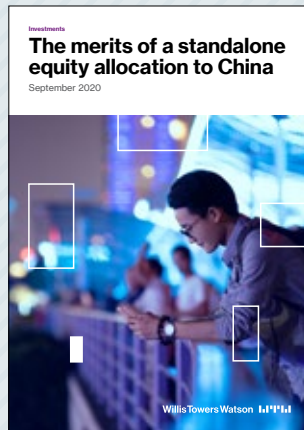
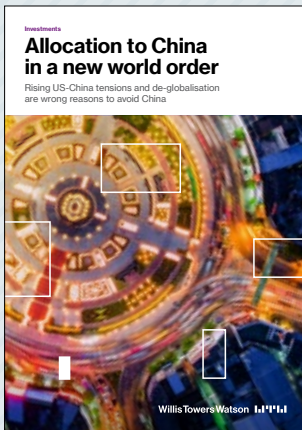


We show that real assets can not only provide investments that fit within a well-established ESG strategy but also how it can facilitate ongoing measurements of real-world impacts given their physical nature.

For more information, please contact:

Nick Kelly, CFA

nick.kelly@willistowerswatson.com



Investing in China

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

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



The investment case for China remains strong despite increasing concerns about setbacks in globalisation and rising geopolitical tensions between the US and China. Indeed, we postulate that rather than representing setbacks, US-China tensions and de-globalisation are signs of a new world order, while many investment portfolios are still predicated on the assumption that the US-led unipolarity is here to stay.

Using a scenario-learning framework, we suggest that over the next ten years global investors should consider substantially increasing their investment allocation to China, from the current level of around 5% to 20%. Building exposure to China is best viewed as a journey that balances the pace of market improvements with the imperative to achieve structural geographical diversity in a global portfolio.

While Chinese capital markets provide diversification benefits and attractive alpha opportunities for global investors, substantial challenges on the sustainable investment front have made investors cautious at the same time. We believe that using a total portfolio approach and active management of Chinese assets, investors can gain the long-term diversification and expected return benefits, without a negative impact on their overall sustainability profile.

Evidence shows that over the last few years China's sustainability focus has gathered significant positive momentum, which can be a financially significant indicator of strong future returns. We also expect China to be a major source of climate change driven investment opportunities in the years to come.

In recent times many institutions have looked to access China via global or emerging market strategies. However, we believe there is a strong case for standalone allocations to China.

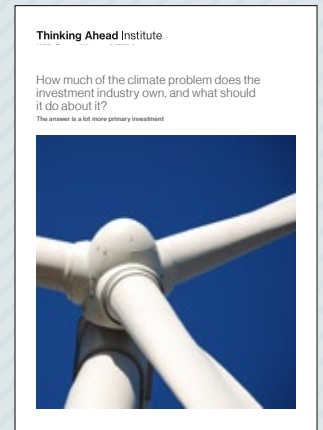
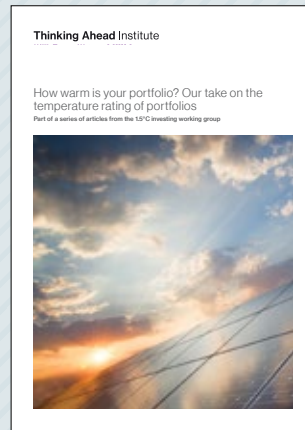
For more information, please contact:

Liang Yin

liang.yin@willistowerswatson.com

Leslie Mao, CFA

leslie.mao@willistowerswatson.com



Net-zero Investing

In 2020, the **Thinking Ahead Institute** led two working groups, *1.5°C portfolio* and *Duty of Ownership*, with participants from both asset owner and asset manager members. The key objective of these working groups was to produce research outputs that can usefully guide investors' behaviours to ultimately become a driving force in transforming global economy to be compatible with the 1.5°C climate target AND fulfilling their fiduciary duties. Six papers were produced following the research and discussion conducted by these two groups.

Climate change constitutes a major challenge, causing both threats and opportunities that will significantly affect the global economy.

With a clear understanding of the scale of the climate problem and its impact on the industry, we believe investment organisations should treat climate change as a financial risk and act to minimise this risk in their portfolios.

The industry can play a key role in directing and facilitating more primary investment into scaling up the mature technologies of renewable electricity generation, or investments in more speculative technologies such as negative emissions technologies.

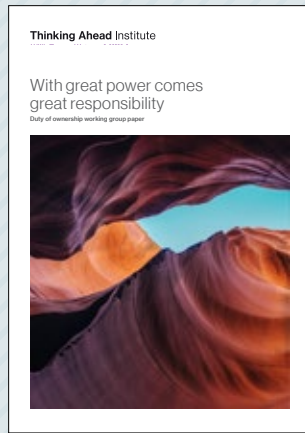
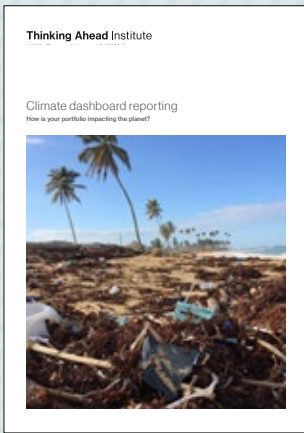


It is expected that investors are facing immense levels of uncertainty, compounded by a long time horizon, in addressing the climate change challenge.

A set of strong investment beliefs can act as a long-term compass to guide investment decisions in such an environment. The climate beliefs should incorporate system thinking and cover three main areas: beliefs about science; beliefs about risks and opportunities and beliefs about the system.

The concept of temperature rating portfolios has enormous appeal as a communications device, but a dashboard comprising multiple measures should be used for an overall view of a portfolio's climate impact. The impact dashboard, we believe, is a valuable building block of a three-dimensional (3D) investment framework.

Both working groups worked on building towards this 3D framework which integrates goals and outcomes across risk, return and impact. The 3D investing framework sees success as achieving a balance of these objectives: the maximisation of risk-adjusted financial return and creating positive impact. A net-zero economy represents the most significant transition in history and we think incorporating the 3D framework is essential in achieving net-zero commitments.

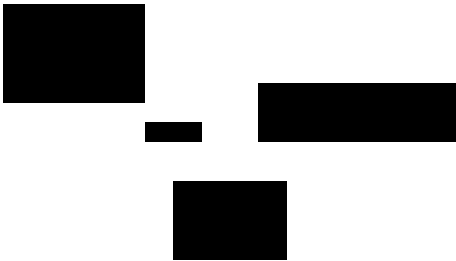


The power of asset owners and asset managers is clear from the size of the assets they manage, but the issues in the duty of ownership are multi-faceted and tangled. We set out 20 high-level principles and beliefs, aimed at providing guidance to assist organisations.

For more information, please contact:

Tim Hodgson

tim.hodgson@willistowerswatson.com



Join the Thinking Ahead Institute

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

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

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




For more information

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

Paul Deane-Williams

+44 (0)1737 274397

paul.deane-williams@willistowerswatson.com

Thinking Ahead Institute
Willis Towers Watson 

Methodology and disclosures

Methodology

Equities, bonds and diversifiers model performance

Analysed '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 annualising 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.

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 utilised in performing this study.

Certain of the assumptions have been made for modelling purposes and are unlikely to be realised. 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 and 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.

Disclaimer

The information included in this document is intended for general educational purposes only and should not be relied upon without further review with your Willis Towers Watson consultant. The information included in this document is not based on the particular investment situation or requirements of any specific trust, plan, fiduciary, plan participant or beneficiary, endowment, or any other fund; any examples or illustrations used in this document are hypothetical.

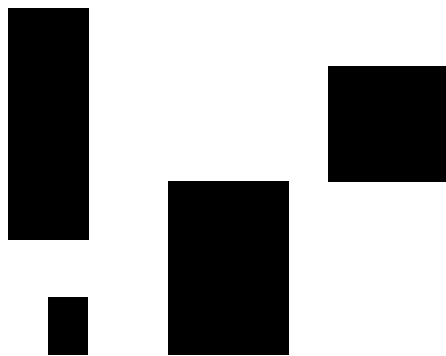
Willis Towers Watson is not a law, accounting or tax firm and this document should not be construed as the provision of legal, accounting or tax services or advice. Some of the information included in this document might involve the application of law; accordingly, we strongly recommend that audience members consult with their legal counsel and other professional advisors as appropriate to ensure that they are properly advised concerning such matters. Additionally, material developments may occur subsequent to this document rendering it incomplete and inaccurate. Willis Towers Watson assumes no obligation to advise you of any such developments or to update the document to reflect such developments.

In preparing this material we have relied upon data supplied to us by third parties. While reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in the data made by any third party.

This document may not be reproduced or distributed to any other party, whether in whole or in part, without Willis Towers Watson's prior written permission, except as may be required by law. In the absence of its express written permission to the contrary, Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on the contents of this document including any opinions expressed herein.

In Australia, this communication is issued by Towers Watson Australia Pty Ltd ABN 45 002 415 349 AFSL 229921. It is of a general advice nature. Your individual objectives, financial situation and needs have not been taken into account in preparation of this material. You should consider its appropriateness in light of your circumstances and consider seeking professional advice relevant to your individual needs before making a decision based on this information.

In New Zealand this communication is distributed by Towers Watson Australia Pty Ltd ABN 45 002 415 349 AFSL 229921 and is intended for wholesale clients/prospects only. Towers Watson Australia Pty Ltd is not required to be registered on the New Zealand Financial Service Providers Register and is exempt from the requirement of discretionary investment management service providers to hold a market services licence in New Zealand under s389(2) of the Financial Markets Conduct Act 2013.



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.



willistowerswatson.com/social-media

Copyright © 2021 Willis Towers Watson. All rights reserved.
wtw-HP-2021-0493c

willistowerswatson.com

Willis Towers Watson