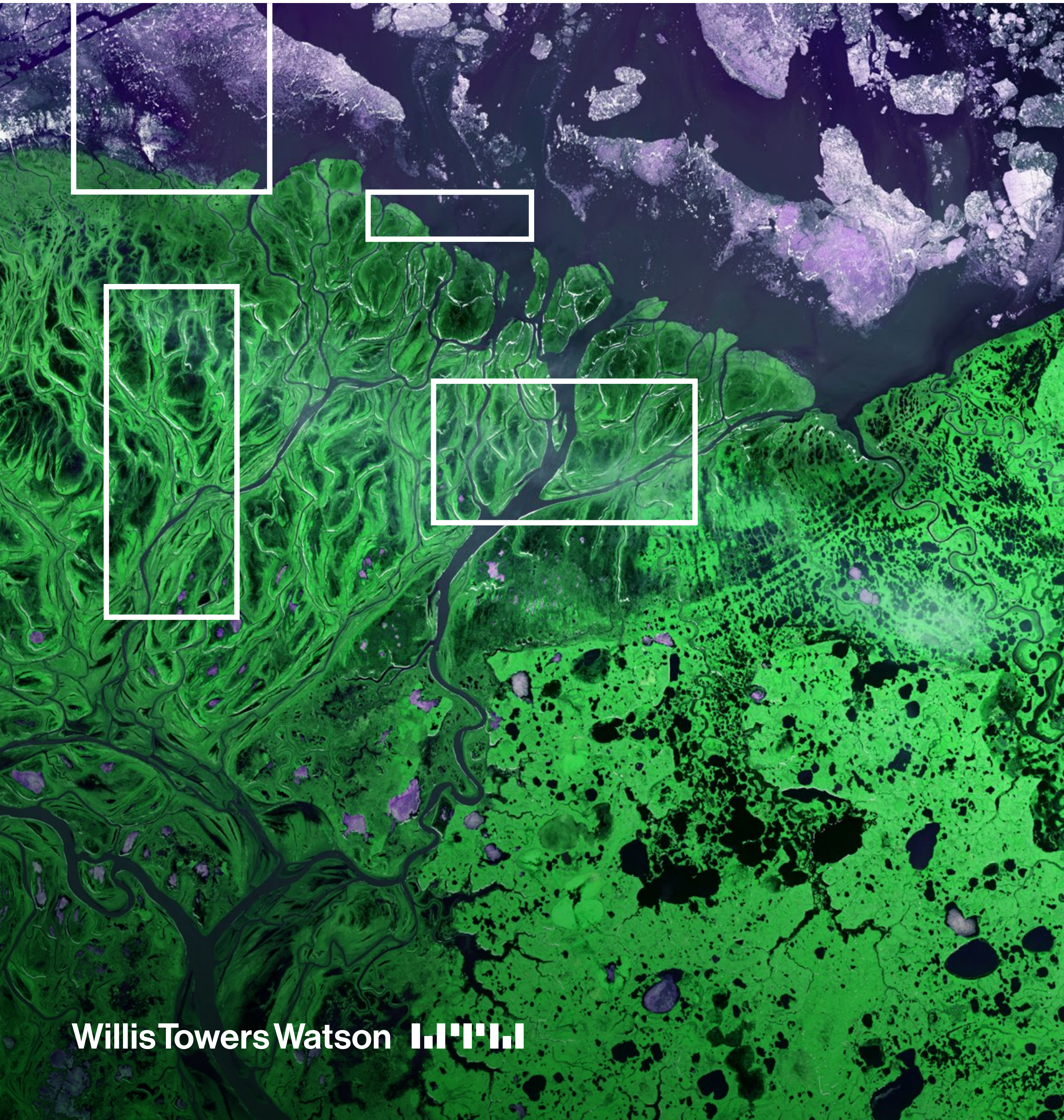
Willis Towers Watson's Funds

Sustainable Investment Report 2021



WillisTowersWatson

"We've committed to doubling our exposure to climate solutions by 2030"

"We're targeting net zero greenhouse gas emissions by 2050"

"The acquisition of Acclimatise and Climate Policy Initiative's Energy Finance team will help strengthen our climate modelling and data capabilities"

At least
50%
reduction in GHG emissions
between 2015 and 2030

"We believe diversity in decision making groups can ultimately lead to better investment outcomes"

"We believe culture directly impacts a manager's ability to maintain a sustainable competitive advantage"

"We face systemic risks that need to be addressed together, through collaboration, we can change investment for the better"

We have done over
200
engagements
with over **70 managers** on **sustainability issues** in 2020

Sustainable Investment Report 2021

Our 2021 report builds on last year's report and includes three core sections reflecting what we believe our clients expect to see us report:

- How sustainable investment is integrated into our philosophy, process and portfolios, with a focus on climate-related risks as well as culture and inclusion and diversity
- How we carry out effective stewardship over the investments we make on our clients' behalf
- Our future plans in the sustainable investment space

We present a core report covering three main areas of sustainable investment, supported by active links within the text and a wealth of further material in the appendices.

Sustainability reporting is an evolving area, with expectations varying across the globe. With improving data, greater transparency and changing regulatory requirements, we expect our reports to evolve over time.

Table of contents

A word from our CIO

Over the course of 2020, the impact of the coronavirus pandemic on our lives was momentous and reverberated in all corners of the world: loved ones were lost, families separated, livelihoods destroyed. Few were spared heartache and grief; many were left feeling stressed, helpless and vulnerable, impacting general wellbeing and mental health.

In the early part of the year, there was the prospect of sustainability being sidelined, with everyone's attention on coping with the pandemic. Instead many issues were brought to the fore, such as inequality within our society, declining biodiversity, the impact of globalisation and the fragile interconnectivity of our world. Movements such as Black Lives Matter took centre stage over the year, bringing to light the injustices faced by so many and highlighting police brutality and racially motivated violence. As we look to the future, the importance of inclusion and diversity (I&D), corporate culture, purpose, values and beliefs resonate more than ever.

Within Willis Towers Watson, we have done a lot of thinking about our purpose, values and obligation to all our stakeholders. Our purpose is investing today for a more sustainable tomorrow. We take our role in changing investments for the better very seriously. And our values of client focus, emphasis on teamwork, integrity, respect and excellence, are more than words. They frame our approaches and ways of working, define our organisational culture and influence how we behave, act and seek to lead at all levels.

Another key topic for us this year has been climate change. We believe climate, and a just transition to net zero, is a systemic and urgent global challenge that demands action from governments, corporates and investors. For our part, we have spent the year evolving our thinking, analysis and tools and looking at how we can assist our many clients in their journey towards more climate-resilient investments. This includes, in November 2020, our acquisition of Acclimatise, a market leader in climate change adaptation, advisory and analytics services, specialising in physical climate risk analytics. In December 2020 we also announced the integration of the Climate Policy Initiative's Energy Finance team. The team will bring their leading modelling and data solutions to deliver low carbon transition analytics. These acquisitions bolster our existing skillsets, analytics and capabilities in climate scenario stress tests, sustainability and climate risk portfolio lenses and carbon journey planning, allowing us to further strengthen our efforts in addressing climate risks and resilience within our portfolio construction approach.

Our commitment to addressing climate risks within our investment strategies is further illustrated by our announcement in April this year that we are targeting net zero greenhouse gas emissions by 2050 at the latest, with at least a 50% reduction by 2030[1], in our fully discretionary delegated investment portfolios, including our TWIM Funds. Being strategically ahead of a net zero transition will, in our opinion, significantly improve risk-adjusted returns for our clients. This will come from two sources – 'better beta' due to more effective stewardship and 'alpha' as the mispricing of climate issues is resolved. We think that understanding this transition will be one of the biggest sources of alpha across all asset classes and that this alpha opportunity is likely to be greatest in the next few years. You can read more about our pledge on our website.

Sustainability and in particular climate risk, is also at the heart of the research agenda of our think tank, the Thinking Ahead Institute (TAI), as well as the Coalition for Climate Resilient Investment (CCRI) which we launched with the World Economic Forum in late 2019. I'm delighted to see these initiatives continue to grow in membership, influence, and impact, and would highlight TAI's December Sustainability Summit in particular, which set out a compelling roadmap for the industry to follow.

This year's report builds on last year's sustainable investment (SI) report in which we provided some more detailed explanations on how we look at sustainability and environmental, social and governance (ESG) risks, and opportunities within our processes and strategies. This year we discuss the evolution since last year and provide a deeper dive into two themes that are pivotal to our approach – climate risk and I&D. We hope you will find this an interesting read. And whilst we look to the rest of 2021 with more hope and optimism, we trust that you and your loved ones are keeping safe.

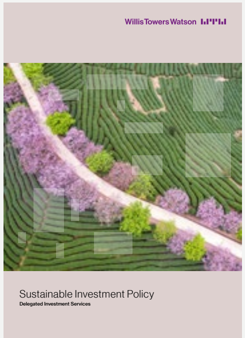
Craig Baker
Chief Investment Officer

[1] This represents a halving of emissions compared to a 2015 baseline, consistent with the goals of the Paris Agreement. If we started managing the portfolio on a fully discretionary basis after that date or there was a significant change in the nature of the mandate subsequent to 2015, then an appropriate allowance for the shortened timeframe would be made.

Integration

We believe sustainable investment (SI) is central to successful long-term investment outcomes and that SI considerations can materially improve risk and / or return for our portfolios. As such, sustainability and a focus on ESG risks and opportunities are fully integrated across all aspects of what we do, including:

- Capital markets research: Our asset research team forms capital market and economic views, including on sustainability risks and opportunities, long-term themes and trends, and current market pricing dynamics. Sustainability and climate risk scenario analysis is integrated within asset allocation frameworks and capital market forecasts.
- Manager research: Our manager research team explicitly and formally includes an assessment of a manager's approach to SI, and that assessment is reflected within our overall rating. The team engages with asset managers not only to evaluate their current capabilities, but also their plans and desired outcomes in the future and ways of achieving them.
- Portfolio construction and management: Towers Watson Investment Management's (TWIM) portfolio construction process focuses on maximising portfolio quality and managing risks, as evaluated through a number of 'lenses', including sustainability.



Find out more about our SI policy here

Our portfolio managers at TWIM use research from our capital markets and manager research teams to build diversified exposures for our clients, and to manage these dynamically over time. They engage with these teams to understand and incorporate their research of sustainability, to help our portfolios integrate SI effectively and enable opportunities to be identified in a timely manner. This helps us to build robust, diversified portfolios that aim to meet our clients' risk and return requirements and looks to ensure our portfolios are resilient to a range of sustainability-related issues and / or able to take advantage of sustainability-related opportunities.

Although all aspects of ESG are looked at within our Total Portfolio Approach, in this year's report we focus on climate risk and I&D as they form key pillars of our approach.

We believe sustainable investment (SI) is central to successful long-term investment outcomes and that SI considerations can materially improve risk and / or return for our portfolios.

Table of contents
A word from our CIO
Integration
Stewardship
Future plans
Disclaimers

Climate risk

We have identified climate change as a critical and systemic priority, given the risks it presents to our clients' investments, the ongoing resilience of the savings universe, and the planet as a whole.

Our approach combines deep research, proprietary portfolio management tools and analysis, effective stewardship and industry collaboration. Improving investment outcomes is the mainstay of every decision we make and incorporating sustainability and evaluating climate related-risks are fully embedded in our fund solutions.

Each fund solution incorporates the climate risk lens in different ways. In some cases, it is about capturing the opportunities and having an impact through, for instance, direct investments in real assets. In other cases, it is about managing the risk and seeking to ensure the portfolios are resilient to various climate scenarios. We invite you to listen to our podcast, The weird and wonderful to provide an illustration of how climate risk considerations have been incorporated into some of our multi-asset solutions.

Our Podfolio series

A podcast series on the latest developments across global markets, and hot topics that matter to institutional investors and their portfolios. Below are links to some of the podcasts specific to sustainability and culture-related issues:

- The role of culture in asset management
- The weird and wonderful (part 1 – climate change)
- The weird and wonderful (part 2 – technology and social impact)
- Inclusion and diversity – a frank discussion
- Sustainability (part 1 – lessons from Covid)
- Sustainability (part 2 – carbon journey plan)

[redacted]

A changing regulatory landscape

Regulation is increasingly a driver of SI. The European Union's Sustainable Finance Disclosure Regulation (SFDR[1]), the UK's Stewardship Code, Canada's Ontario ESG disclosure in investment policies and Australia's Modern Slavery Act are just a few examples of the plethora of new regulatory changes we have seen in recent years, and we expect more to come in the future. The push by regulators to ensure the industry provides more transparency and measurable targets should, over the longer term, lead to a convergence of metrics and targets and allow for more informed decision making. We are dedicated to ensuring that we enhance the disclosure available to our client base, and we committed our support to the Task Force on Climate Related Financial Disclosure (TCFD) in 2017. In terms of the SFDR, the majority of our funds are being classified as Article 8 Products – products that promote an environmental or social characteristic by taking ESG criteria into account in the investment process – which helps illustrate our commitment to the integration of ESG risks and opportunities, and our desire to provide transparency around what we do and how we do it.

The push by regulators to ensure the industry provides more transparency and measurable targets should, over the longer term, lead to a convergence of metrics and targets and allow for more informed decision making.

[1] The European Union's Sustainable Finance Disclosure Regulation (SFDR) imposes new transparency obligations and periodic reporting requirements on investment management firms at both a product and manager level. The disclosure regime applies to all products marketed into Europe, including those managed by non-EU firms. SFDR applies specific types of disclosures for different types of product categories:

- Article 9 - Products that have sustainable investment as their objective (known as "Dark Green" funds)
- Article 8 - Products that promote an environmental or social characteristic, by taking ESG criteria into account in the investment process, despite it not explicitly forming part of their objective (known as "Light Green" funds)
- Article 6 - Products that do not promote any kind of ESG objective (note disclosure requirements in Art 6 also applies to Art 8 & 9 products)

All products, including products that do not purport to promote any ESG factors, must be accompanied with a pre-contractual disclosure that sets out the manner in which sustainability risks are integrated into investment decisions and the likely impacts of sustainability risks, such as environmental events, on the returns of the product. Products that come under the scope of Article 8 and Article 9 are subjected to additional pre-contractual disclosure and periodic reporting requirements.

The majority of the disclosure requirements are effective 10 March 2021.

Table of contents
A word from our CIO
Integration
Stewardship
Future plans
Disclaimers

Partnering with fund managers

In our work with fund managers, we encourage and expect them to have a demonstrable process in place that identifies and assesses material ESG factors, such as climate risk and the impact on their investment strategy and end portfolio. We also expect them to be good stewards of capital. Where appropriate, we steer the fund managers towards better practices. Our manager research explicitly and formally includes an assessment of a manager's approach to SI, with a detailed SI report produced for our highest rated managers' strategies. We have, during the course of 2020, enhanced the disclosures expected from our fund managers. This enables us to drill down into more detail when engaging with the managers and evaluating their strategies, and provide improved disclosures to our clients.

Our aim is to identify investment opportunities with an attractive risk adjusted return, and partner with some of our highly rated asset managers to develop innovative products that suit our clients' needs.

Case study: Voya Renewable Energy Infrastructure Debt (REID) Fund – Pioneering deals with positive impact

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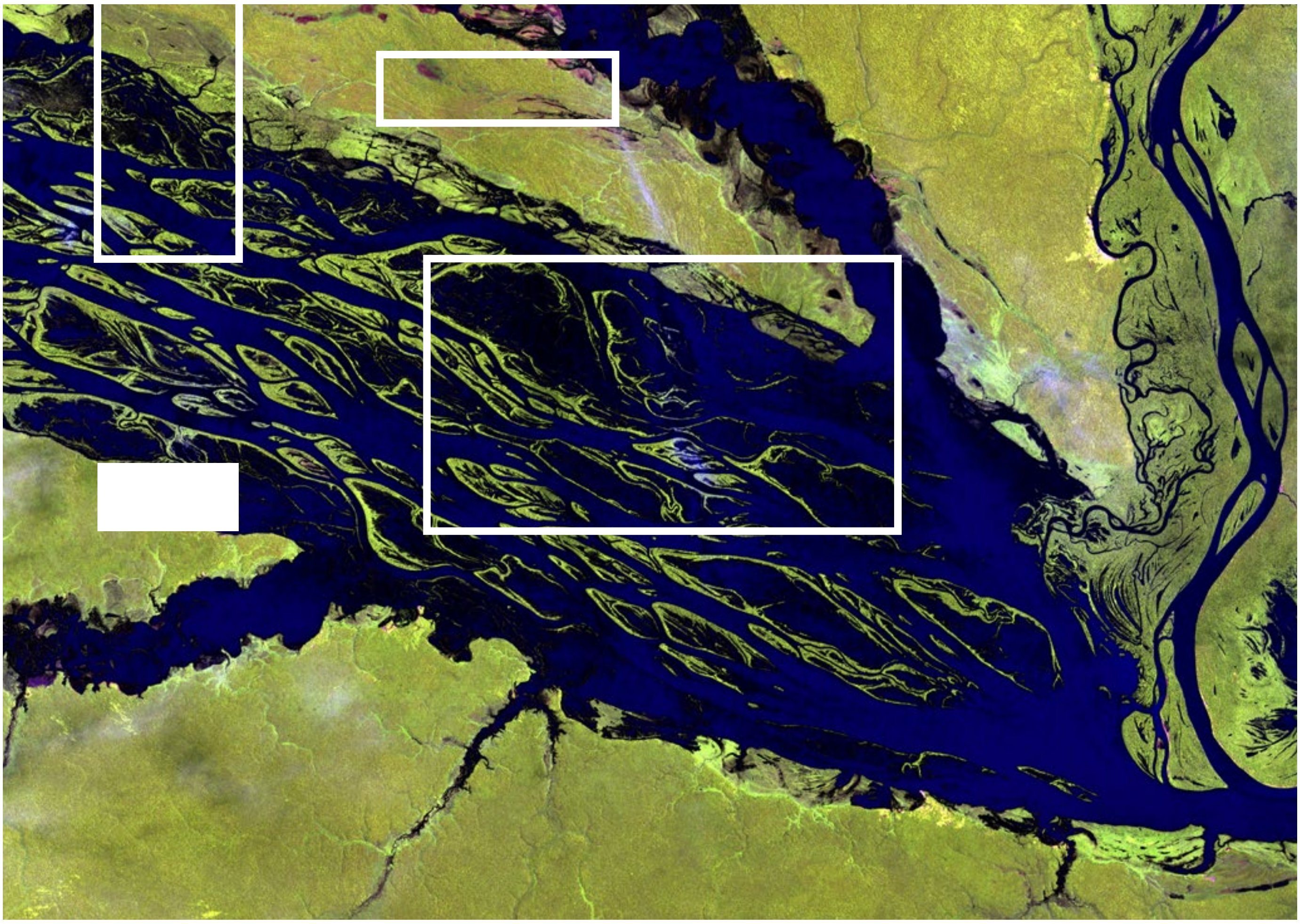
Our manager research explicitly and formally includes an assessment of a manager's approach to SI.



Portfolio analytics

On a portfolio level, we have continued to develop our sustainability risk and resiliency tools, including our sustainability lens. We use data from a variety of sources to identify the sustainability issues that are most material and map the exposure of securities and asset classes in the portfolio to these risks. We also analyse whether individual assets and the total portfolio are positively or negatively exposed to these issues. A fund or portfolio achieving a high resilience score should be less impacted by disruptive sustainability trends, such as climate risk, over the long term, where resilience can be evaluated in absolute terms or relative to a benchmark or peer group.

In addition to the materiality and resiliency analysis, we carry out top down climate scenario analysis that helps us evaluate the impact on our portfolios of potential physical and transition risks, including the risks to business models and asset valuations of changing regulation, technology, carbon pricing, etc. To support better understanding and management of climate risks and opportunities, we have developed a set of four climate scenarios that can be used to stress-test portfolios, identify concentrations of risk and areas for opportunity, and help us build robust and resilient portfolios for our clients. These scenarios are underpinned by four models – a climate model using Representative Concentration Pathways (RCPs); a socioeconomic model that uses Shared Socioeconomic Pathways (SSPs); a model of global climate change policy; and an asset model to translate the impact of the other models into a portfolio context. These scenarios span from a climate emergency response to one of business-as-usual, combining macro and micro insights that together provide a valuable input to asset allocation and portfolio construction.

We use data from a variety of sources to identify the sustainability issues that are most material and map the exposure of securities and asset classes in the portfolio to these risks.

Figure 1: **Sustainability lens**

Materiality + Magnitude = portfolio resilience to sustainability-related risks

Prior belief: the neutral starting point for portfolio strategy is to hold a portfolio that is resilient (i.e. return invariant as possible) to the range of outcomes from the different potential sustainability scenarios that might occur in the future.

Magnitude

- Determine portfolio exposures to key industries
- Map ESG ratings data to key sustainability issues
- Derive portfolio exposure to material sustainability issues from ESG ratings data
- Physical climate risk analysis for real assets

Materiality

- Determine what sustainability issues are financially material for different industries
- Triangulate multiple data sources to avoid over-reliance on a particular approach / view.

Other aspects

- Incorporation of sustainability in chosen implementation routes
- Exposure to sustainability-related opportunities

Culture, and inclusion & diversity

Various research indicates the importance of culture and leadership in all enterprises, but particularly in people businesses such as our own. We define culture as the collective influence from shared values and beliefs on the way an organisation thinks and behaves. We believe that a good corporate culture, one where you can see alignment and consistency of employee behaviours; the alignment of culture with strategy; and the leadership actions embedding culture; is critical in helping investment teams deliver better performance and create more value. In the competitive world of generating alpha, we believe culture is a unique ingredient and the bedrock on which a competitive advantage is sustained over the long term.

Our global not-for-profit research and innovation hub, the Thinking Ahead Institute, has done extensive research into effective culture in investment organisations, undertaking a global peer study on investment culture, leadership and diversity. You can find their conclusions as well as interesting articles, podcasts and videos on their website.

Within culture, we strongly believe that diversity in decision-making groups can ultimately lead to better investment outcomes. Our own investment processes ensure that everyone has an ability to express their opinion and be heard, having input into decision making. Whilst TWIM has named portfolio managers for our funds, we operate to ensure that decisions and knowledge are shared by the wider team. Within our Investment Committees across each fund, we specifically ensure diversity of experience and thought is taken into account in every major decision. Furthermore, within our manager research process, a devil's advocate meeting is also typically conducted as a final phase in order to welcome further challenge from all team members and provide a constructive debate on the research that has been done. With active attempts to ensure diversity across this group (seniority, gender, geographical location, education, work function, etc.), we believe this process benefits all colleagues and ensures that we maintain a culture of robust and fair challenge.

On a corporate level, Willis Towers Watson has many initiatives to enhance our culture, sense of purpose and to improve diversity and inclusion within our teams. An inclusive culture – one that embraces diverse backgrounds, ideas, perspectives and voice – is critical to our ongoing, collective success.

We maintain a positive and innovative workplace where colleagues respect each other's unique cultures, backgrounds and beliefs. Developing and retaining our talent is critical to our business strategy. Our employee resource groups (inclusion networks) and Inclusion & Diversity Councils work in each region to engage and inspire employees in each office, every day. We have inclusion networks established across the globe that include Gender Equity, LGBT+, Multicultural, Workability and Young Professionals. Our inclusion networks are sponsored by a member of our Operating Committee or senior leader within the geography in which they operate to ensure representation, engagement and participation and to engage in reverse mentoring to better understand the experiences of our diverse employees. Click here for more information.

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Stewardship

We believe exercising stewardship rights and responsibilities is a powerful way to protect and enhance the value of assets for beneficiaries, the economy and society, and is central to the success of any long-term investment programme. Find out more in our recent 2020 UK Stewardship Code report and via some of our research on this topic as well.

We apply stewardship through a number of mechanisms, including as part of our manager research and ongoing engagement, via a specialist stewardship overlay with EOS at Federated Hermes (EOS), and via collaborative initiatives and advocacy. Within private markets, the underlying fund managers typically own a majority share in the assets they hold with few formal votes taken. Where there are formal votes, typically these are via Investor Advisory Committees (IACs) which are generally made up of larger investors and represent the interests of all investors in the fund. Accordingly, we ensure that, where possible, we have representation on IACs for the funds in which we invest, and we play an active role in these committees, advocating for best practice in all matters relating to ESG, including climate risk and diversity and inclusion. We currently hold over 60 seats on IACs and are also on the INREV ESG Committee, the INREV I&D sub-committee, and the RICS Taskforce on sustainability in real estate in Europe.

Table of contents
A word from our CIO
Integration
Stewardship
Future plans
Disclaimers

Manager research

The goals of our manager research process are:

- To find the best asset managers capable of delivering superior outcomes to our clients
- To work with them to explore ways to better meet our clients' evolving needs

Each of our asset manager appointments is seen as a long-term partnership with an institution we highly rate. 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 they own.

The three main areas that dominate our asset manager engagement are SI, with a focus on climate risks, organisational culture, and I&D. 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 and ways of achieving them.

As part of our ongoing research and contact with managers, we identify areas of concern and will highlight these to the manager, alongside the rationale for our concerns and suggestions of actions they can take to alleviate our concerns. We encourage the manager to resolve these issues within a reasonable window, typically around 12 months. Should there be little or no change, we will engage with them further to understand the rationale for the lack of progress and may take steps to review our rating for the strategy in question which may, in turn, impact our client investment portfolios.

Over the course of 2020 we undertook over

200 engagements

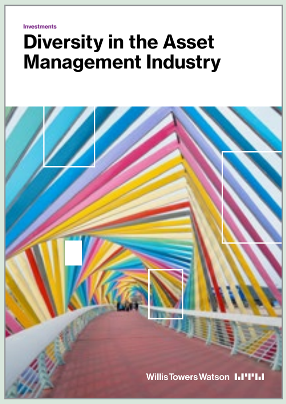
with over **70 managers** on **sustainability issues**

Moreover, as described in the previous section, we believe culture directly impacts a manager's ability to maintain a sustainable competitive advantage. Corporate culture is a key element in an asset manager's long-term success, and cognitive diversity, through the inclusion of people with different ways of thinking, viewpoints and skillsets within a team, enhances that success. To help elevate our research efforts in this area we ask our preferred asset managers to reveal (or formulate) their plans to improve diversity within their teams.

We acknowledge that the industry has a long way to go to improve in this space and we actively engage on the topic with our managers and the industry at large, to encourage them to take action. We believe this will help bring about positive change for end savers and, thus, is in all our interests to devote the requisite time and effort as shown by our strong support of the Diversity Project.

To find out more about our research into diversity and inclusion within the asset management industry, please refer to our research paper 'Diversity in the Asset Management Industry' where we cover:

- Our beliefs around the importance of diversity as a key ingredient of success for asset managers
- The importance of looking beyond asset management ownership to understand diversity and what really drives performance



- Our approach to measuring diversity and asset management culture and how we are engaging with the asset management industry
- The initial findings of our assessment of diversity and the positive link to performance outcomes
- The tools we have developed to assess and assist asset managers and asset owners to help bring about change in the area of diversity

In addition you can listen to our podcast on the topic here.

Federated Hermes
EOS

[EOS at Federated Hermes](#) (EOS) is a highly regarded specialist stewardship provider that engages with and provides voting advice on companies held in our public equity portfolios. EOS also carries out public policy engagement and advocacy on behalf of all of our clients. Its influence and scale, representing $1.3tr of assets under advice[1], provides significant leverage during engagement activities.

We have been working closely with EOS for many years, and currently chair its Client Advisory Board. We engage with EOS to help shape and influence the key engagement planning and prioritisation, and input into its voting policies. This means we have been able to have some influence in the formulation of its recent 2021-2023 plan for example, which can be explored further here.

Within TWIM's public equity funds, we delegate voting rights and the execution of those rights to our managers for the securities they hold. Many of our managers also actively engage with the companies in which they invest. To add additional insights and rigour to the stewardship activities, we have appointed EOS to provide voting advice to the asset managers and to engage with the companies in the portfolios, in addition to the activities undertaken by the managers themselves.

We believe credit engagement is also very important but currently under-done by the industry. Stewardship in fixed income calls for investors to reflect and use the significant influence that borrowers can have. Strengthening our activities here, we are expanding the remit of our relationship with EOS to include coverage of our credit strategies.

An example of the important engagement work EOS undertakes is their work with the pharmaceutical industry on fair access to medicine, which is especially topical in light of the coronavirus pandemic and concerns around fair access to vaccines.

EOS case study:
The coronavirus and the race for a vaccine

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It is worth mentioning that one of our preferred asset managers set up a subsidiary venture capital fund called Oxford Sciences Innovation (OSI). OSI invested in Vaccitech, who, in collaboration with AstraZeneca, was able to develop an easily distributed and effective vaccine, offering the global potential to save lives in the fight against COVID-19 and having a clear positive impact for society.

For further details on EOS, its corporate engagements, voting advice and public policy work, please visit its website.

[1] As at 31 December 2020

Collaboration

Collaborative initiatives and activities are very important to give the investment industry a more powerful and effective voice. We encourage managers to participate in these initiatives.

One example is Climate Action 100+, an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It targets 167 companies globally. EOS is among over 575 investors, totalling $54tn under management, who have signed up to the initiative. EOS is leading or co-leading the engagement on 27 companies and collaborating with other investors on another 14 companies as part of this initiative.

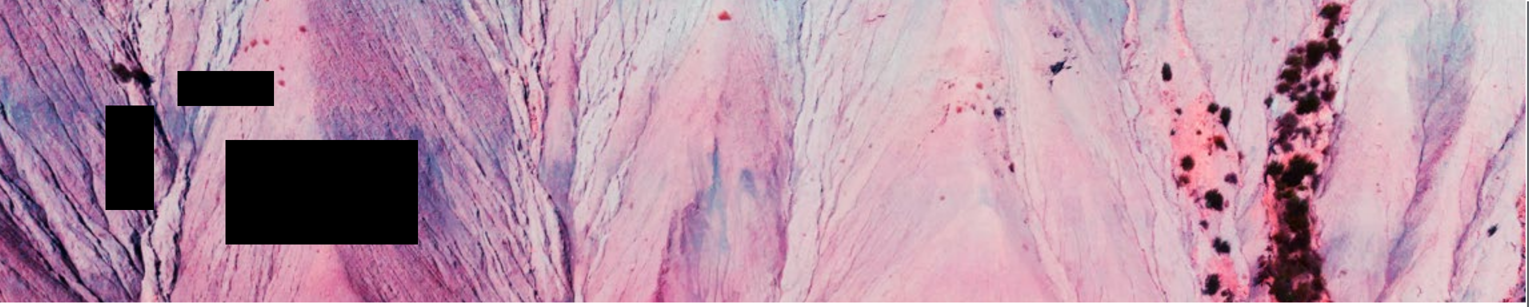
EOS case study: Engagement Climate Action 100+[1]

CA100+ oil and gas call on benchmarking methodology

In Q3 2020, EOS had a multi-stakeholder call with all the major European oil and gas companies along with the leads for the Climate Action 100+ engagements. They ran through the proposed benchmarking methodology. Concerns were raised around the boundary for Scope 3 emissions, and regarding the limitations around actions that oil and gas companies could take in mitigating value chain emissions. EOS noted the need for an enhanced focus on positive lobbying, so that oil and gas companies can play a role in the low carbon transition. It raised concerns around leakage of emissions from the sector through divestment of assets and the need for clear disclosure around organic versus inorganic capital expenditure and divestiture. It encouraged greater clarification around the capital expenditure methodology. Concerns were raised around the carbon budget boundary used to measure the alignment of capital expenditure. Subsequently, EOS had a call with investors to discuss feedback around the benchmarking methodology. It emphasised the need for alignment of capital expenditure with the goals of the Paris Agreement to take a dominant role within the methodology, as it could apply to multiple different strategies. It expects this to be core to the methodology, with supplementary assessment criteria for those companies looking to transition. EOS encouraged greater clarification around Scope 3 boundaries and a need for more specificity on the expectations for a just transition.

[1] This is not a recommendation to buy or sell specific securities, there is no assurance that the securities discussed will remain in the portfolio, the securities discussed do not represent the entire portfolio and may only represent a small portion of the portfolio, and it should not be assumed that the securities discussed were or will be profitable or that recommendations made in the future will be profitable.

This is a sample representation of our work with an investment manager. Reduced fees may be attributed to other factors besides our buying power, including asset allocations to lower fee asset classes or passive management. Outcomes will vary and there is no guarantee that we can achieve savings with any particular manager in any particular asset class.



Willis Towers Watson collaborations

We believe that promoting resilient and well-functioning economic and investment markets is consistent with our fiduciary duty and with our aim of changing investment for the better. As covered in our 2020 report, we do this in a number of ways by engaging in a dialogue with regulators and policymakers, and participating in the work of industry bodies and collaborative investor initiatives.

Below are a few examples of some of the many internal and external initiatives and partnerships in which Willis Towers Watson is engaged to achieve long-term SI:

- The Thinking Ahead Institute (TAI) – a global not-for-profit innovation hub, which aims to mobilise capital for a sustainable future. Its membership includes over 45 institutional asset owners and service providers committed to changing and improving the investment industry for the benefit of the end saver.
- The Willis Research Network (WRN) – a collaboration between academia and our insurance and reinsurance experts that currently involves 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.
- Principles for Responsible Investment (PRI) – we are a signatory to the PRI, and have been selected as a member of the PRI Stewardship Advisory Committee. Further information and our annual Transparency Report can be found at www.unpri.org.
- UK Stewardship Code – we currently remain a Tier 1 signatory of the 2012 version of the Code, and have recently published our first 2020 UK Stewardship Code annual report with the aim of being included in the first wave of signatories to the 2020 Code. Our report can be accessed here. We encourage and help our clients to adhere to its principles and guidelines; further information can be found at www.frc.org.uk.
- The Diversity Project – we are founder members of this investment industry initiative which aims to attract and retain diverse talent in the industry.
- Transition Pathway Initiative (TPI) – we are official supporters of this global investor initiative that assesses companies' preparedness for transition to a low carbon economy. Led by asset owners and academic research from the Grantham Research Institute and London School of Economics, TPI is supported by more than 100 investors globally with combined assets over $25 trillion (as at April 2021).
- 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. It has more than 300 members, across 22 countries, with over €37 trillion in assets under management (as at April 2021).
- Coalition for Climate Resilient Investment (CCRI) – we founded a public / private coalition, together with the World Economic Forum and launched it at the UN Climate Summit in September 2019. CCRI aims to create a more climate 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. Its membership and collaborative relationships have grown to over 75 supporting institutions since its launch. Find out more here.

Over the course of 2020, we continued to work with, and in many cases spearhead, a number of initiatives, and also expanded the number we work with to include:

- Investment Consultants Sustainability Working Group, a collaboration that we co-founded between 17 UK consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry.
- Joining both the Asian Investor Group on Climate Change and the Investor Group on Climate Change (Australasia) to supplement our ongoing work with the Institutional Investor Group on Climate Change in Europe
- Taking up roles as a member of the PRI Stewardship Advisory Committee, the chair of the EOS Client Advisory Board, a member of the recently formed IA and PLSA Stewardship Steering Group, and membership of the Wellington Management Sustainability Client Advisory Council, in addition to continuing roles on the board of the Investor Forum and as the chair of the CFA Future of Finance advisory council.

Click here for more details of the many initiatives in which Willis Towers Watson is involved.

Future plans

As we look ahead, we can certainly hope for a better year for society in 2021. There are plenty of reasons to be optimistic, not least the roll out of vaccines. However, the issues that surfaced and deteriorated last year will not go away on their own. We need to learn and change – particularly in our relationship with people and planet.

A spotlight on 'S'

The 'S' of ESG had perhaps received the least focus of the three letters historically, but this is hard to see lasting. 2020 was a watershed moment for many investors in appreciating the 'social' part of the sustainability equation – from the large scale crisis of inequality to the specific violations in corporate supply chains and destruction of culturally important land.

We, alongside our partners and collaborators in the investment industry, will elevate our focus on human rights in particular, recognising the must-have minimum standards across labour rights, modern slavery and others. Whilst this will target the most severe violations and raise standards, the quest for equality and inclusion extends more broadly. We have talked of our commitments in I&D, and our work here will span both how we invest and how we act ourselves.

Getting into the detail on climate

Whilst easier to separate E, S and G for the sake of an acronym, these areas are obviously closely tied. Perhaps this is no more evident than in climate, where we must have a *just* transition for there to be any transition at all.

We are very excited at having the expertise and analytical power of Acclimatise and the Climate Policy Initiative's Energy Finance team now within Willis Towers Watson. Our central Climate and Resilience Hub has more than tripled in size to around 70 people, recognising the vital importance of getting into the detail with climate. In order to really understand, quantify and act on climate risks and opportunities, investors must get granular – examining company and asset-specific data. We have seen a lot of strategic engagement with climate thus far as investors realise the extent and magnitude of the crisis, but to enable proper risk management and for investors to make well-informed and accurate decisions, it is critical to have detailed, bottom-up analytics and insights. And this is precisely why we have invested in our climate capabilities and data.

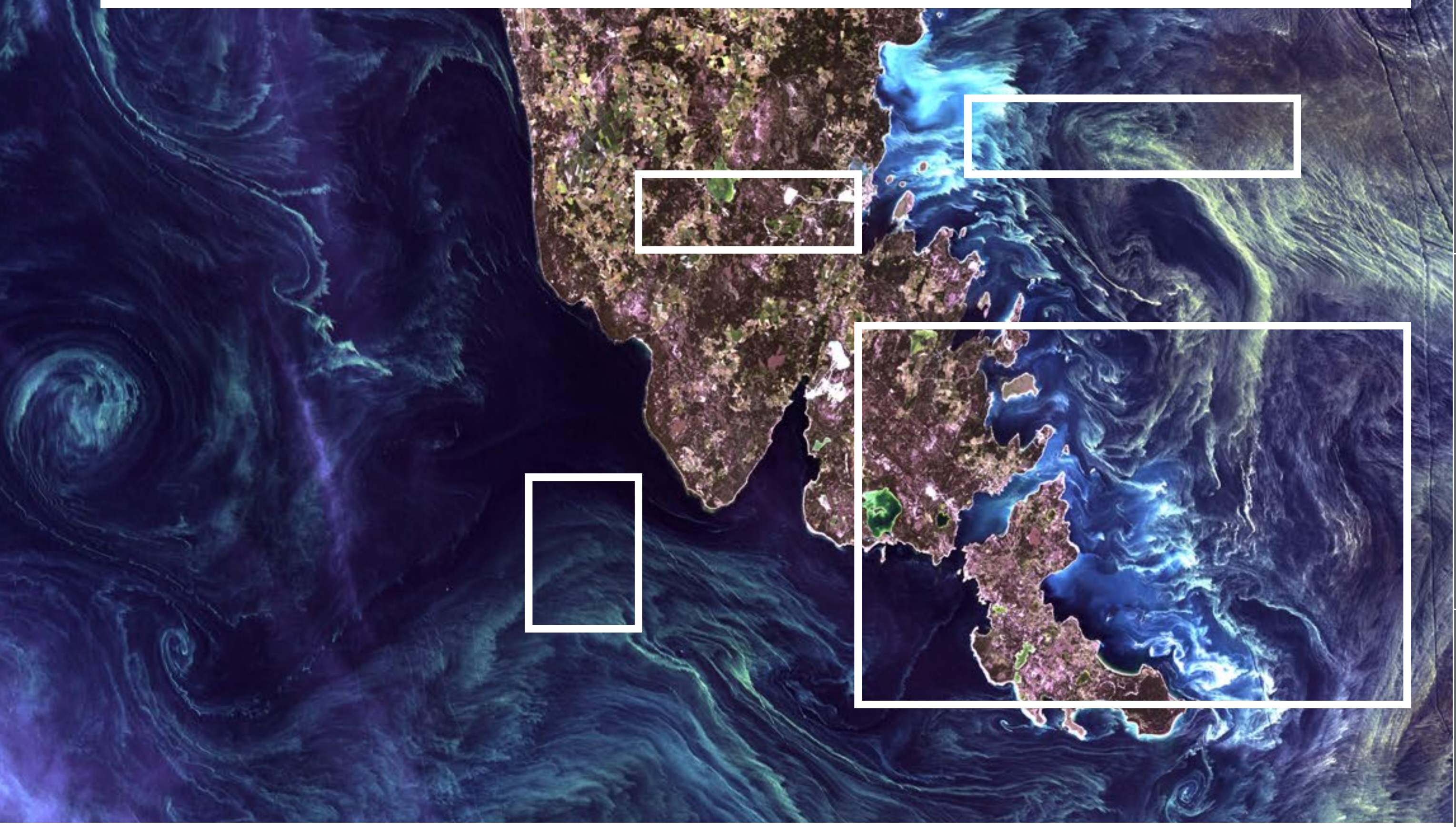


Table of contents
A word from our CIO
Integration
Stewardship
Future plans
Disclaimers

Stewarding financial risk

What climate also teaches us though is that we face systemic risks that affect all investors and that we must all address together. This transition to becoming true stewards of the financial system, rather than just stewarding individual assets in a portfolio, is nascent but essential.

We have long believed in the power of collaboration and the importance of addressing systemic issues. Our Thinking Ahead Institute (TAI) and the Willis Research Network are testament to this commitment, as well as our founding of the Coalition for Climate Resilient Investment (CCRI), and active participation in many other major initiatives.

TAI's 2021 research agenda is an excellent summary of where we see foundations for future investment success– in 3D investment mandates (where 'impact' sits alongside risk and return), in the Total Portfolio Approach, and in the power of culture. TAI members describe themselves as 'systems thinkers' and we believe it is critical that we all harness this systems perspective and become 'systems stewards' so that our investments and industry can best serve people and the planet in the future.

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Thinking Ahead Institute

The Thinking Ahead Institute (TAI) is a global not-for-profit group whose mission 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 and is an outgrowth of Willis Towers Watson Investments' Thinking Ahead Group.

The TAI research and innovation hub connects its members from around the investment world to harness the power of collective thought leadership and bring these ideas to life.

Sustainability is becoming an ever-more-important theme for the investment industry – indeed, the 'slow but unstoppable' sustainability train has now left the station, and is picking up speed. Sustainability is a subject close to the heart of the Thinking Ahead Institute and it has worked on a number of related initiatives since its beginnings in 2015. Much of the work focuses on equipping investment organisations to have a holistic and actionable understanding of sustainable investing and how they create value for wider stakeholders such as society and the planet. TAI does this through providing easy to navigate tools and guidelines, enabling better alignment of mission and broadening the focus of measurement.

During 2020, TAI research centred around two major workstreams that benefitted from over 20 member organisations actively contributing – the "Duty of Ownership"[1] and the "1.5°C portfolio"[2]. In addition, a major mid-year virtual summit was held in 2020 – The Climb to the New View – along with a two-day sustainability summit "Closing the gaps" which explored gaps around skills, data, collaboration and purpose, and a roadmap for the industry.

1 The Duty of ownership working group explored how to leverage ownership and investor collaboration to drive system-level and real-world impacts

2 The 1.5°C portfolio group worked towards the next generation 3-D investing mandate, that emphasises the links between return, risk and impact

Table of contents
A word from our CIO
Integration
Stewardship
Future plans
Disclaimers

Disclaimers

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