

Investments

Private markets

A compelling returns story



Private markets – a compelling returns story

Exposure to assets that are unavailable through public markets.

Potential for excess returns relative to other asset classes.

Long-term historical returns above equities of 3%+¹.

Moving your portfolio from good to great

Following years of strong returns in traditional assets, we believe the forward-looking return expectations from these asset classes are low. Investors looking to meet their objectives need to reposition their portfolios for this new reality. Investing efficiently in private markets can be a tool that helps investors get from a good outcome to a potentially great one.

But what are private markets? Private equity first comes to mind for many investors and forms a significant component however additional examples include private debt, real estate, infrastructure and agriculture amongst other strategies. These assets offer different risk-return drivers and have the potential to outperform traditional assets over the long term. Whilst private equity is looking to generate capital growth, investors seeking yield can potentially benefit too from investing in certain strategies like private debt and real assets. This broad and diverse opportunity set means investors can build portfolios that not only reflect where the market is offering opportunities, but also reflect the specific needs of individual institutional investors.

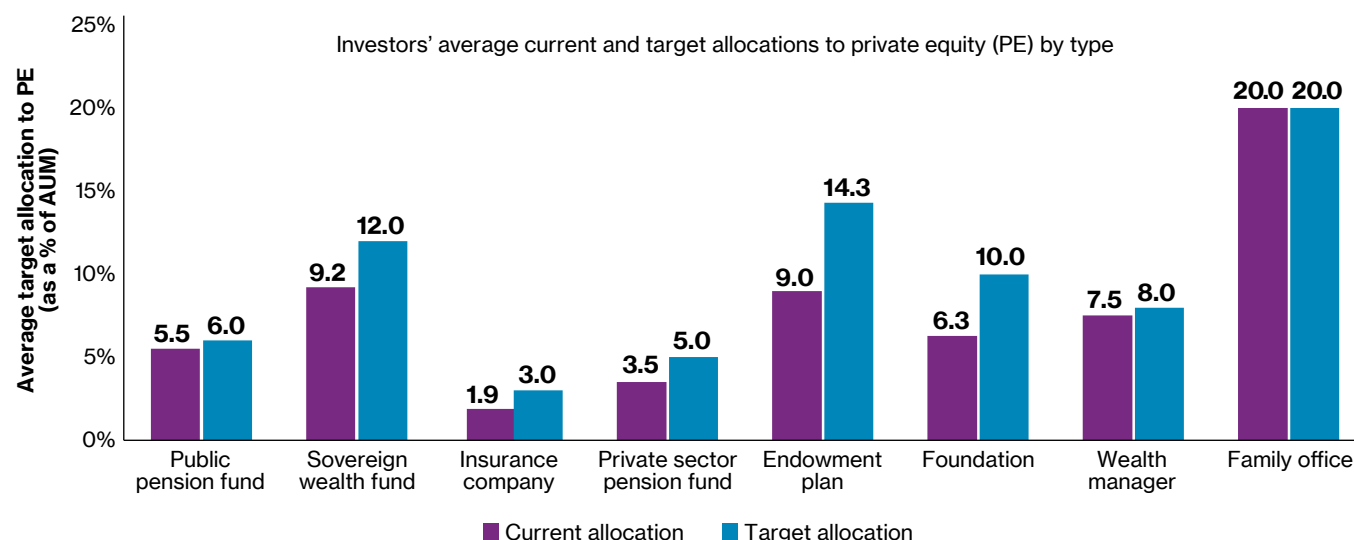
A \$7 trillion opportunity²

There is a tremendously vast and diverse opportunity set in private markets from which investors can source returns. With fewer and fewer companies choosing to go public³, investors are potentially missing out on a large portion of the investable universe if they simply invest in listed assets.

This is increasingly recognised across investor types, with private pension funds, public pension funds, sovereign wealth funds, family offices and endowments already allocating significant amounts to private investments. *Figure 1* shows an average 8% of institutional investors' assets currently allocated to private markets. With target allocations 33% greater than current allocations on average, we expect these investors to continue to build up their portfolios.

Our experience has shown that strategy allocation and long-term thematic investing can add significant value in private markets. While most managers and advisers structure single mandates around traditional asset class definitions, we advocate a global and holistic approach, investing across a wide range of opportunities, and unconstrained by those traditional strategy buckets.

Figure 1. Many investors are increasing allocations to private assets⁴



¹Please see *Figure 2* for more details of outperformance

²Preqin, October 2020. Future of Alternatives Report

³Thinking Ahead Institute, September 2019. Asset Classes of Tomorrow. www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2019/09/Private_equity_markets

⁴2020 Preqin Private Equity & Venture Capital Report

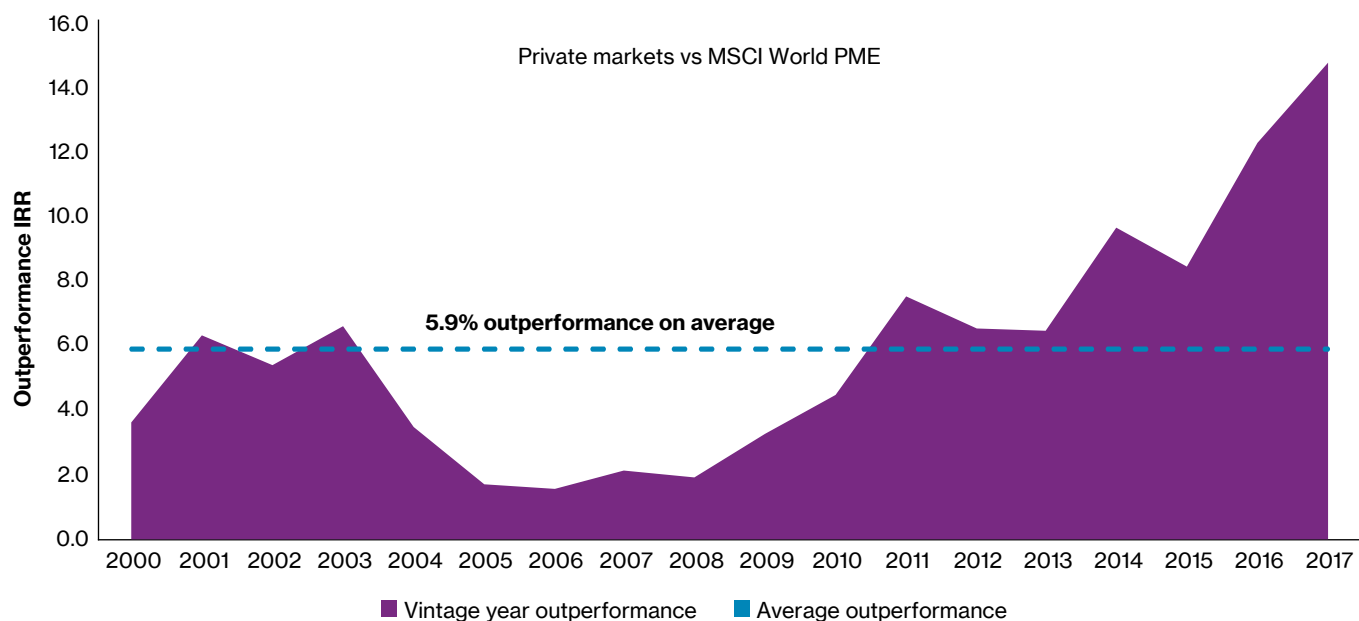
Proven returns

Private markets have a historical track record of achieving excess returns relative to other asset classes such as equities and bonds. *Figure 2* shows the outperformance of the median private markets manager for a particular vintage year, compared to a public equities equivalent.



Private markets investments have outperformed public equities by 5.9% per annum since 2000.

Figure 2. **Private markets outperformance**⁵



Past Performance is not indicative of future results.

⁵Preqin median private markets fund returns compared to listed equities (MSCI World), for vintages 2000 to 2017. 2018 to 2020 vintages are excluded due to immaturity of these investments. Data to June 2020.



Are private markets really right for me?

“Alpha from my listed equity investments can probably do the same job”

We believe diversifying the sources of returns to include illiquidity and greater skill can contribute to a more robust portfolio.

“The illiquidity worries me”

We believe illiquidity in private markets is typically overestimated. Even though lock-up terms are typically 10 years, cash flows are received throughout the term and the value remaining in a fund at year 10 is typically minimal. Furthermore, the significant growth of the secondary market has materially increased liquidity.

Unearthing compelling strategies – relative-value thematic investing

In an increasingly integrated global economy, investors are focusing less on allocating capital based on asset classes and geographies. A thematic investment approach (one that identifies economic, political, industrial, demographic and social trends and then seeks to invest in the most advantageous areas to benefit from them) can be used to help exploit opportunities to generate attractive potential investment returns. This has guided our approach to private markets investing since 2006.

Our approach combines insights from our 70 capital markets research, private markets research, and portfolio management investment professionals⁶. Each investment made is highly focused, attuned to serve the specific needs of our clients and rooted in a common belief: we believe investors that take a long-term view, whilst avoiding mission impairment in the short term, have a competitive edge over others.

“

“A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.”

Wayne Gretzky

(Steve Jobs often used this quote to describe Apple's strategy)

⁶As at June 2020



Case study: Using technological disruption to our advantage⁷



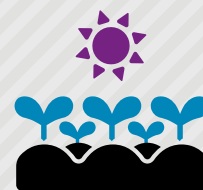
Our thesis:

- Cyber threat has increased dramatically as companies and individuals rely more and more on technology. Mobile devices and online services (such as banking applications) can pose a threat to security and privacy further heightened by the sophistication of the global information network and the ability of cybercriminals.
- The cost of data breaches is expected to increase globally as we become more connected. Companies and individuals need to respond to this by protecting themselves from this risk and the associated spending is expected to increase correspondingly.

Translating this into investible opportunities:

- With increased threats, costs and resulting spending, the space is ripe for innovation and disruption. It is our view that fresh, entrepreneurial thinking that will deliver innovation is best nurtured in small, flexible teams rather than in large corporates.
- We evaluated several technology specialist funds globally and invested in a fund that invests in small, but growing technology companies managed by principals with over 15 years of experience.

Case study: Positioning portfolios to benefit from emerging trends of sustainable production in agriculture⁷



Our thesis:

- Farming is undergoing a profound shift towards a more cost-effective model that maintains optimal growing conditions in order to meet the demands of consumers and retailers for year-round supply. In addition, the heightened awareness around food safety and sustainability of resource use has only increased the appetite for greenhouse-grown produce. We believe this presents a compelling investment opportunity for asset owners to invest in an emerging sector of agriculture production, by providing finance to develop advanced greenhouses.
- We also believe that this opportunity offers attractive entry pricing and income yield versus other income-producing real assets, however, these returns can be elusive and deep industry insight is paramount.

Translating this into investible opportunities:

- We evaluated the universe and invested with a manager that:
 - Takes advantage of the above opportunities and has a first mover advantage
 - Is an industry-leading grower in the United States, with an advanced agriculture infrastructure platform and has strong relationships with key industry players
 - Has the incorporation of Environmental, Social and Governance (ESG) factors into the heart of the business and engrained in the investment process

⁷This is a sample representation of our work with investment managers. Outcomes will vary and there is no guarantee that we can achieve any particular results with any particular manager in any particular asset class.

Building a high-conviction private markets portfolio

We believe in a fresh approach to private markets investing, which breaks down asset class barriers. By utilising a relative-value, thematic approach, we construct portfolios seeking to benefit from long-term trends that private assets are especially suitable for. We diversify portfolios across industries, sectors and regions, thereby looking to introduce more resilience into clients' portfolios.

The key features of this approach are its adaptability to the rapidly changing economic environment and the prioritising of investment strategies to optimise the risk-return profile of long-term investments. In our view, the flexibility of this approach is essential to achieve long-term success in private markets investing.

Ways to implement a private markets portfolio



Primary investments

Core component of a private markets portfolio. Investors (also known as a Limited Partner or LP) in a fund, commit capital to a manager (also known as the General Partner or GP) who takes this capital and sources and manages several investments to build a portfolio.



Secondary investments

Investing into an existing fund, or a portfolio of existing funds, typically to accelerate the 'ramp-up' of a private markets portfolio. Existing fund stakes can also be sold on the secondary market.



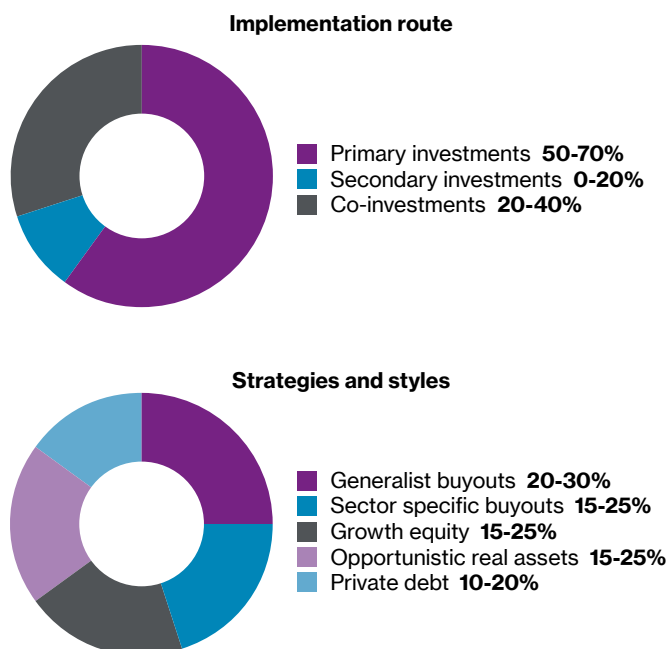
Co-investments

Investing alongside a GP directly into a portfolio company or other asset, typically at no fee or a reduced fee.

Willis Towers Watson's private markets beliefs

- Access a broad opportunity set and do not view opportunities through the lens of any single asset class
- Be selective – an over-diversified portfolio will deliver expensive market returns
- Adopt a relative value thematic approach to positioning the portfolio; this can harness long-term macro drivers that outlast business cycles
- Advocate for better alignment, securing better fees and terms where possible to reduce cost drag in what is often a high-fee component of the portfolio.

Figure 3. Illustrative Willis Towers Watson private markets portfolio



A full-service solution

- Willis Towers Watson has been partnering with our clients in private markets for over 20 years. We manage \$17 billion of assets across private markets and advise on a further \$43 billion⁸ for leading investors around the world.

How we can work with you⁸

The implementation of private markets can be complex; however, we aim to make this process as easy as possible for our clients. Our service spans the following areas:

- **Portfolio construction** – building and managing exposures and styles that complement each other and existing investments
- **Investment selection** – research-driven approach to identifying attractive opportunities and high-quality investment talent
- **Operational due diligence and risk management** – evaluating the functions supporting the investment teams at asset managers to detect unforeseen risks
- **Implementation of portfolio management** – legal reviews, completion of subscription and redemption documents, cash-flow management, and the ongoing monitoring of the portfolio



Conclusion

With great uncertainty around how the global economy will recover in the coming years, private markets can offer institutional investors an asset class that has historically delivered returns throughout market cycles. Investors should strongly consider whether they would benefit from these returns to meet their obligations.

A selective, thematic and disciplined approach is, however, required to build a robust, best-in-class class portfolio and we at Willis Towers Watson⁹ are well placed to assist clients on that journey.

⁸Data as at June 2020

⁹In Canada, Willis Towers Watson DIS is implemented by Towers Watson Canada Inc. and Integra Capital Limited ("ICL"), a wholly owned Willis Towers Watson company, which provides portfolio management, dealer and settlement services. ICL is registered with the Provincial regulatory authorities, the Yukon and Northwest Territories as a portfolio manager and exempt market dealer; as a registered investment fund manager in Newfoundland and Labrador, Ontario and Quebec; and as a commodity trading manager in Ontario



For more information please contact:

Ben Leach

Head of Private Markets Solutions

ben.leach@willistowerswatson.com

Joseph Bassey-Duke

Private Markets Portfolio Specialist

joseph.bassey-duke@willistowerswatson.com

Important information

Investors should regard an investment in private markets as a long-term investment which carries a higher risk than many other forms of investment and, given their unquoted nature, they may be difficult to realise through a sale.

Private markets underlying investments will normally be in unlisted companies and assets whose securities are not publicly traded and are therefore likely to be illiquid. They carry substantially higher risk than investments in the equity of larger, listed companies, their public debt securities, or in listed real assets.

There is usually less transparency in place around the management of private markets investments given the lower disclosure requirements. In general, there is limited information available on the investments and performance of their portfolio companies and assets, other than annual or semi-annual financial statements, or sometimes, quarterly reports.

The value of private market investments, and the level of income derived from them, may fall as well as rise and investors may not get back the money originally invested.

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United States**

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Canada

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Contact: Evan Rennie +1 905-829-7344

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