

Sustainability Risk Policy

The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires certain firms to document (by way of a policy and/or procedures) how sustainability risks are integrated into their investment decision-making processes. Under SFDR, ‘**Sustainability Risk**’ means “an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment”.

This is a summary of our Sustainability Risk Policy (the “**Policy**”), applicable to certain WTW entities (“**Firms**”) on the integration of sustainability risks in their investment decision-making processes and/or investment advisory services. The Firms within scope of our Policy are:

- Towers Watson Investment Management Limited – as investment manager of the WTW Irish Fund range
- WTW GmbH – providing investment management and advice
- Willis Human Capital and Benefits Limited – providing investment advice
- Willis Towers Watson (Ireland) Limited – providing investment advice

Overall approach

Sustainable investing (“**SI**”) describes long-term, finance-driven strategies seeking to integrate environmental, social and corporate governance (ESG) factors, and effective stewardship in investment arrangements. SI is a key part of WTW’s beliefs and investment approach.

We believe that the principles underlying SI, form the cornerstone of a successful long-term investment strategy, and that SI considerations can materially improve risk and/or return for our portfolios. This reflects, in our view, good risk management and supports a robust investment industry.

We look to integrate SI throughout our investment process, from setting a mission and belief framework, through risk management, portfolio construction and manager selection, to implementation and monitoring. We view SI as an integral input to the decisions we make, not a separate or disconnected consideration.

We also aim to integrate SI within our research, advice and solutions. In the course of our research and analysis, we will look across a range of potential sustainability risks. Unless client-specific objectives or requirements necessitate, we seek to identify, measure, manage and monitor those risks that we judge to be financially material.

We set out below further information of our integration of sustainability risks.

Sustainability Risk Management

As part of our broader risk management processes when investing, we have implemented procedures with respect to sustainability risks across integration, stewardship, monitoring and reporting, as outlined below.

The relevance and materiality of the sustainability risks identified and considered will vary depending on the client, financial product and asset class. Unless stated in product documentation or the terms and conditions of the advisory service provided, the consideration of sustainability risks does not result in a sustainability-focused financial product or advisory service but rather how Sustainability Risk information is considered as part of the overall investment process or advice.

We expect our approach to the integration of sustainability risks to continue to evolve.

Integration Identifying

Sustainability risks and sustainability-related considerations are key factors in identifying investments, themes and asset classes we pursue, avoid, overweight or underweight in the portfolios. Determining these views is an exercise of ongoing collaboration across all our research teams and portfolio management teams.

Manager research

We have a formal process for integrating sustainability risks into our manager research decisions, which is tailored to be most relevant and appropriate for the asset class and strategy in question.

Our assessment of an asset manager’s SI practices and implementation, in the context of individual strategies and products, feeds into our overall view of their ability to sustain a competitive advantage. Consequently, the overall rating we place on a strategy will reflect our view of the SI credentials and capabilities of the strategy under review.

In addition, a large part of our manager research process is based on assessing the culture of the asset manager. SI plays a significant part in this culture assessment, including with regards to inclusion and diversity principles.

Portfolio management

Our portfolio construction process focuses on maximising portfolio quality, as evaluated through a number of 'lenses', including sustainability. This helps us build robust, diversified portfolios relevant to our clients' risk and return objectives, as well as helping to best ensure our portfolios are resilient to a range of sustainability-related risks.

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

1. Portfolio resilience – exposure of the portfolio to sustainability risks.
2. Manager SI integration – the extent to which, and success with which, sustainability is incorporated into the decisions made by managers in the portfolio.

Portfolio tools

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

3. Portfolio resilience scoring – aggregating security-level sustainability data to indicate the total exposure of a portfolio (or parts of a portfolio) to a wide range of sustainability risks and issues.
4. Scenario analysis – stress-testing our portfolios, including for example on realistic global emissions pathways to assess portfolio quality in the face of various climate change scenarios.

We currently use a variety of third-party data sources as input to our proprietary tools. For example, in our equity, corporate credit, and sovereign bond exposures (including exposure through hedge funds), we make use of MSCI ESG Research which allows analysis of holdings-level sustainability scores, their component environmental, social and governance aspects, key climate change related metrics, and controversy data. At both a security and portfolio level, this allows us to challenge bottom-up security selection decisions with managers and apply top-down portfolio management, on absolute and relative bases.

These sustainability-focused tools are combined within our overall portfolio construction tool which assesses all the lenses of portfolio quality that we consider and allows us to build portfolios that weigh these lenses according to our investment beliefs, market conditions and client contexts.

The assessment of sustainability risks is complex, often requires subjective judgements, and may be based on data which is difficult to obtain, incomplete or estimated. Sustainability Risk data is a continuously improving space and there are still data gaps and challenges for certain companies, particularly within debt and outside of developed markets. We have identified areas where risk data is limited, and we are engaging with managers and third-party data providers to improve coverage and quality. We expect data coverage and quality to improve over time.

Stewardship

Effective stewardship is a critical aspect of WTW sustainable investing and Sustainability Risk management, and important to a well-functioning investment industry. We seek to exercise our stewardship responsibilities, either directly or via third parties, across relevant areas to mitigate risks, including sustainability risks, identified across our investment process:

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

We also engage with our clients, and with asset owners in general to ensure that we manage sustainability risks now and into the future, with a close understanding of their beliefs and needs.

Monitoring and reporting

In respect of monitoring and reporting, we undertake a wide range of activities as part of our research, portfolio management, risk management and client services. Our monitoring and reporting of sustainability risks is consistent with the principles and activities outlined above. We look to monitor and report against sustainability risks that are financially material in the given investment context, and we also look to align our report with regulatory standards and recognised good practices.

Our monitoring and reporting draws on both internal research and external third-party data. We view our monitoring and reporting as an important tool to help with the effective oversight of a client's investments, aligned to their ultimate investment objectives.

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).



[wtwco.com/social-media](https://www.wtwco.com/social-media)

Copyright © 2024 WTW. All rights reserved.
WTW_79710 10/24

[wtwco.com](https://www.wtwco.com)

