UK Stewardship Code

WTW annual report for 1 Jan 2021 to 31 Dec 2021

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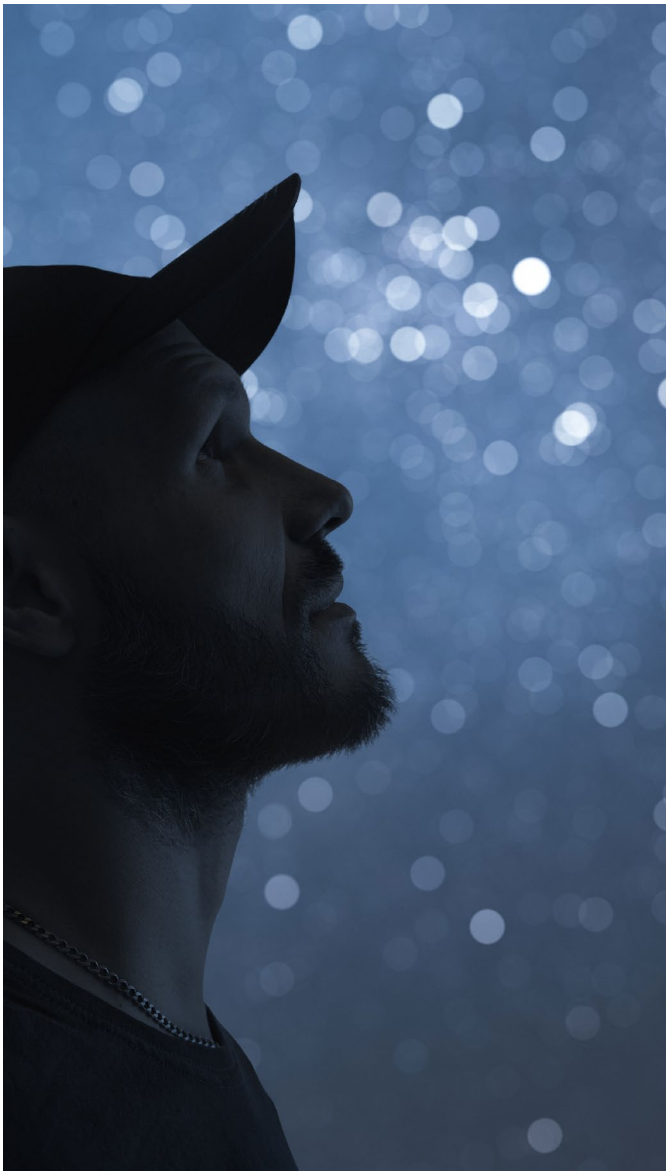

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Introduction

Purpose of this report

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

The purpose of this report is to demonstrate our adherence to the Code for the period 1st Jan 2021 to 31st December 2021.

Scope of this report

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

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

Some activities referenced within the scope of this report include those that are part of WTW's wider global organisation, not necessarily the aforementioned entities or solely the Investments line of business.

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

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

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

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

Shareholders Rights Directive (EU) 2017/828

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

- TWIM & TWL

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

Further information and key policy documents

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

- Sustainable Investment Policy
- WTW Investments Sustainable Investment webpage
- WTW Investments Net Zero commitment webpage
- WTW Investments Climate Change webpage
- WTW Environmental, Social and Governance webpage
- WTW Principles for Responsible Investment (PRI)Transparency Report
- WTW Thinking Ahead Institute Sustainability Spotlight

This UK Stewardship Code report, which is produced annually in line with signatory requirements, is subject to internal review and approval by our Global Leadership Team, Global Chief Investment Officer and Head of Sustainable Investment.

Foreword

WTW's Investments business has been pioneering and advocating for the power of effective stewardship for many years now.

We were delighted to be one of the first wave of applications recognised by the Financial Reporting Council in 2021 as a signatory of the 2020 UK Stewardship Code (the Code). This year's report will reflect all our Investment business activities – across research, fiduciary management and advisory – and address all the principles the Code covers, along with detailed context, activities and outcomes reporting. We have paid particular attention to work undertaken in 2021 and are pleased to share what we see as our meaningful contributions to a more sustainable industry and future for us all.

2021 was the year of WTW's public net zero pledge. Not only have we committed 100% of our discretionary assets to net zero via the Net Zero Asset Managers Initiative, but we also co-founded and launched the Net Zero Investment Consultants Initiative, with a commitment across our global Investment business. We have also begun publicly reporting on our progress towards net zero – please refer to our forthcoming 2022 Sustainable Investment Annual Report for that.

Climate is consistently a significant focus for all of our stakeholders, and it remains our most engaged topic within our stewardship activities, as this year's report will evidence.

However, covering all our investment activities globally, our stewardship activities go beyond climate, to include important areas such as culture, inclusion and diversity (I&D), as well as wider social, environmental and governance factors.

2021 has been a busy year on the stewardship front, and rightly so. There is much to do, and we acknowledge that this remains an area in which the investment industry needs to improve. We are conscious of the role we play in the system and the responsibility we have to help further advancements and positive change which deliver real-world impact.

As part of this, we have appointed a dedicated Head of Stewardship role, expanded our Sustainable Investment (SI) Steering Group, and significantly increased the number of full-time sustainability specialists in our team. We continue to review and refine our SI policy and approach, which guides our activities – from the way we gather client feedback and assure the quality of our service, to the way we monitor and engage with asset managers. Throughout, we ensure our purpose, **investing today for a more sustainable tomorrow**, remains front of mind.

Here we outline the highlights from our stewardship activity in 2021. For further details, explanation, and case studies we refer you to our full report. We also have dedicated spotlight pages to key areas: our net zero pledge, our work with EOS at Federated Hermes, the Thinking Ahead Institute, the Climate and Resilience Hub, and our focus on inclusion and diversity.

We hope you enjoy reading WTW's 2021 UK Stewardship Code Report.

Craig Baker
Global Chief Investment Officer

2021: Highlights

Expanding our teams and enhancing our internal governance

1 new Head of Stewardship role

1 new Head of Sustainability Solutions role

Growth of our core Sustainable Investment team to **10** FTEs

90+ climate specialists in our Climate and Resilience Hub

Network of **80** cross-business SI champions representing all teams and geographies

Our commitment to a net zero future

- **100%** of our delegated portfolios committed to **net zero greenhouse gas emissions** by **2050**
- At least a **50% reduction** by **2030**
- A commitment to **double our investments** in climate solutions by **2030**
- Co-founded and launched the **Net Zero Investment Consultants Initiative** as part of a group of 12 consultants representing approximately **US$10tn** assets under advice
- **Launched** Climate Transition Pathways accreditation framework in collaboration with the Climate Bonds Initiative
- **Creation** of a brand-new portfolio level climate dashboard aligned to the Climate Financial Risk Forum climate data and metrics guide which we co-led

Climate Transition Index (CTI)

We co-created and launched a family of indices, offering investors an innovative solution to help manage climate risk whilst capturing our latest thinking and research.

- Provides a more sophisticated approach to climate risk management through our proprietary Climate Transition Value at Risk (CTVaR) methodology
- Significant part of WTW's net zero commitment
- Utilises and highlights the expertise of WTW's multidisciplinary Climate Transition Analytics (CTA) team

Our participation at COP26

Significant involvement in the international UN climate change conference.

- Hosted **4 events**
- **Our CEO engaged in key panel sessions**, alongside COP president Alok Sharma
- **1 sponsorship** of the official "Art + Resilience" art exhibition, presented by our Coalition for Climate Resilient Investment (CCRI)
- **COP26: A planet in the balance**

Asset manager engagement and papers

Over **150** engagements with over **100** managers on sustainability, climate and stewardship

Researched **168** sustainability focused strategies

Over **30** public equity strategies researched with a climate or environmental focus

5 downgrades or late-stage rejections on sustainability grounds

Main topic of asset manager engagement:
climate risk management

25: number of I&D factors we collect information and engage with managers on

2000: number of products we have collected I&D data on

85: number of I&D specific engagements with managers

Related 2021 publications:

EOS at Federated Hermes (EOS)

A leading stewardship provider who we have partnered with since 2015 to provide public policy engagement, corporate engagement and voting services to supplement that of asset managers. Our Head of Stewardship currently chairs the EOS Client Advisory Board and we apply EOS's services to 7 of our funds, including CTI.

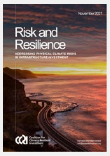
Throughout 2021, EOS:

- Stewarded **US$1.6tn** of assets under advice
- Engaged with **1,208** companies on **4,154** issues and objectives
- Made voting recommendations on **128,858** resolutions at **13,412** meetings
- Held **71** discussions with relevant regulators and stakeholders
- Responded to **64** consultations or performed a proactive equivalent
- Had a **69%** year-on-year increase in assets under advice engaged, allowing them greater breadth of influence in regards to systemic priorities
- Led or co-led on **25** focus companies as part of a leading role in Climate Action 100+

2021: Highlights

Market wide collaborative engagement activity

- **9** written responses to industry consultations and papers, of which 6 specifically on climate
- Contributed to **3** Principles for Responsible Investment (PRI) papers
- Convened and co-led the Coalition for Climate Resilient Investment, growing members to over **120** members representing US$20tn of assets across **21** countries
- CCRI was shortlisted for Stewardship Initiative of the Year by PRI
- CCRI published it's Risk and Resilience Report



- Contributed to the design of and became a signatory of the Asset Owner Diversity Charter
- Contributed to Institutional Investing Diversity Cooperative (IIDC) Diversity Disclosure Standard
- **2 net zero industry initiatives** joined, both within the Glasgow Financial Alliance for Net Zero (GFANZ):
  - Co-founded and launched Net Zero Investment Consultants Initiative with 12 other consultants
  - Committed 100% of our discretionary portfolios to the Net Zero Asset Mangers Initiative, joining over 230 managers with over US$57tn of assets
- WTW's Thinking Ahead Institute (TAI), now in its **7th year**, having grown to **53 members** responsible for **US$16tn**
- TAI published **14 Investment Insights**, and co-wrote **11 research papers** with members over the year such as: The Asset Owner 100 2021: the most influential capital on the planet and Thinking Ahead Institute Power of Culture study
- **15** years of the WTW Research Network, now partnering with over **60** science partners worldwide
- Major role in Investment Consultants Sustainability Working Group (ICSWG) initiatives such as the Engagement Reporting Guide

How are we doing?

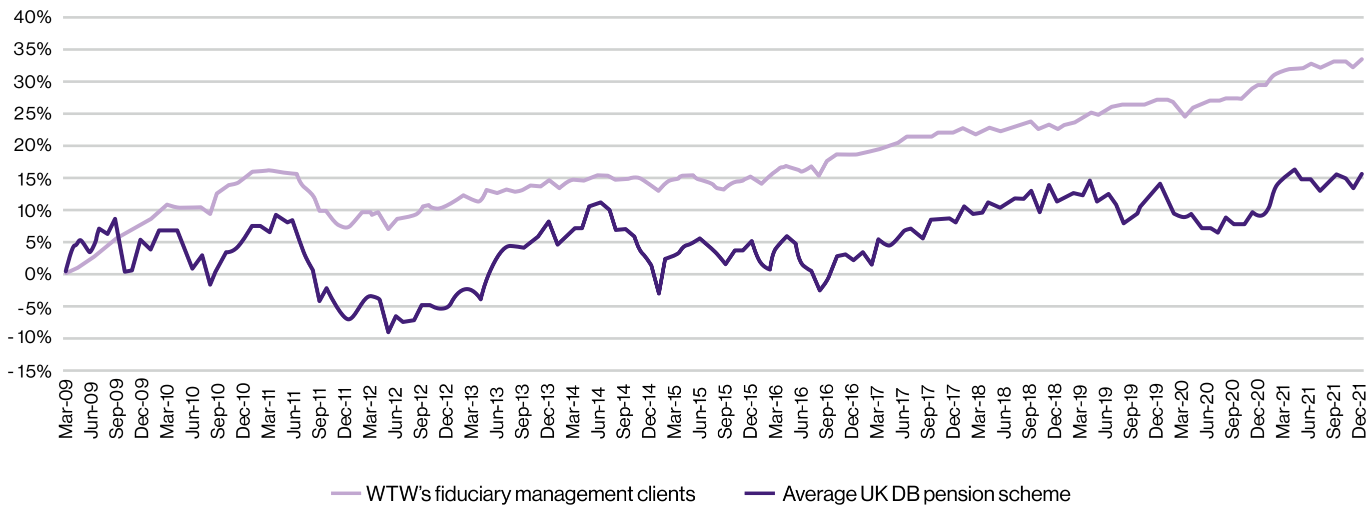
Ultimately, we can look to the performance of our delegated solutions to illustrate how we have been able to help our clients meet their investment and funding objectives.

The chart to the right shows the change in funding level over time (to 31 December 2021) comparing WTW's fiduciary management clients and the average UK Defined Benefit scheme.

About WTW Investments

- **US$4.8tn** in assets under advice (as of 2020)
- **US$186.6bn** in delegated assets under management (as at 31 December 2021)
- Over **1,300** institutional clients (as of 2020)
- Over **900 colleagues in 21 countries** across the globe (as at 31 December 2021)

How has fiduciary management (FM) added value for our clients?*
Change in Funding Level (FL) over time up to 31 December



***The figures refer to simulated past performance, which does not predict future returns.**

Manager research and ratings model of outperformance over ten years to 31 December 2020 (please see Principle 1 of the report for important notes):

1.6% in equities

0.9% in bonds

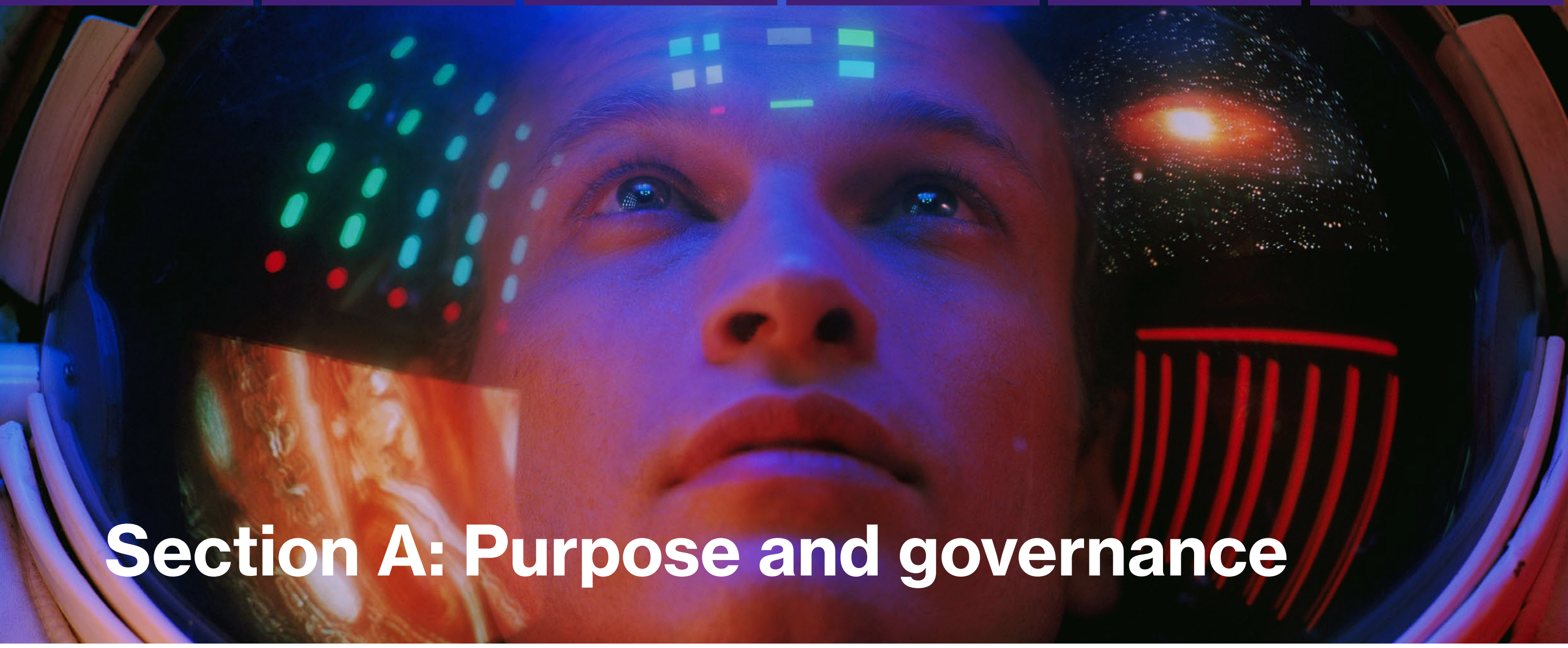
0.3% in diversifiers

2.8% in private markets

Our annual UK client survey:

- **99%** of respondents described the overall experience of working with WTW Investment services over the past 12 months as good, very good or excellent
- **98%** of respondents said portfolio performance was good, very good or excellent

Note: Past performance does not predict future returns. Please refer to the risk warnings in the Appendix for further information.



Section A: Purpose and governance

Principle 1 – Purpose, strategy and culture

Investing today for a more sustainable tomorrow

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

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

Context

WTW Investments purpose

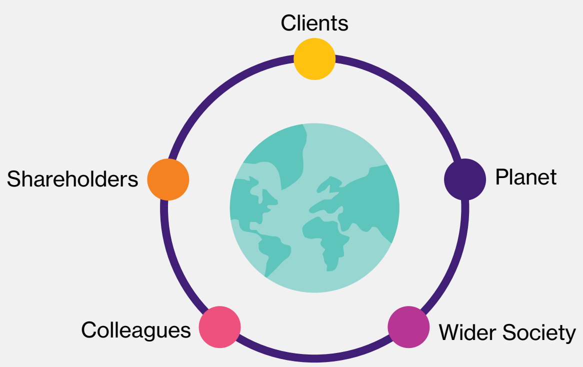
WTW's firm-wide purpose is 'we transform tomorrows': we help clients address current issues for a better future.

WTW Investments reflects this through its purpose statement 'investing today for a more sustainable tomorrow'. Sustainability is at the core of what we do.

Sustainability is central to what we do and why

Purpose:
Investing today for a more sustainable tomorrow

Core belief:
Sustainable investment is central to successful long-term investor outcomes



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

Key to SI is effective stewardship – not just for better outcomes, but also for a well-functioning investment industry. Achieving better outcomes may mean improving the quality of the savings system so that savers have more confidence in that system; it may mean investing in a way that has a positive impact on the world that savers live in and will retire into. Ultimately, WTW Investments exists to deliver better outcomes for savers, driving us to innovate and focus on the forward-looking risks and opportunities.

Better outcomes require changes – for us as individuals, as a firm and as an industry. We recognise our role in changing investment for the better, and see effective stewardship as key to that.

As an influential industry participant, we seek to exercise our stewardship responsibilities, either directly or via third parties, across various activities which are covered in this report:

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

We also engage extensively with our clients, and other asset owners in general. This ensures that we:

- provide the best possible services and outcomes now and into the future with a close understanding of clients' needs; and
- help clients contribute to a sustainable investment industry where they themselves can be influential, advocating for and supporting positive change.

Culture and values

We strongly believe in the value of culture. Our culture refers to our collective behaviours that give life to our values which are outlined as follows:

Client Focus

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

Teamwork

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

Integrity

We seek to earn our clients' trust every day through professionalism, doing what is right and telling the truth. We are accountable to the organisations and people with which we interact – including clients, shareholders, regulators and each other for our actions and results.

Respect

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

Excellence

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

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

Beliefs

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

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

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

Services, business model and strategy

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

- Advisory investment services
- Outsourced investment services

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

As a result, we continue to sponsor and pursue important collaborative initiatives including via our WTW-sponsored think tank the Thinking Ahead Institute (TAI) and the WTW Research Network. These two groups, amongst many other initiatives with which we actively engage, play a key role in developing and socialising our work on sustainability, bringing together leading practitioners, academics and organisations to complement and leverage our thinking.

We also continue to engage with and challenge the asset management (and wider investment) industry to develop and provide appropriate solutions for asset owners, carry out effective stewardship, and drive positive change. This work is also amplified via our partnership with EOS at Federated Hermes (EOS) who undertake significant public policy engagement and advocacy on our and our clients' behalves.

Advisory investment services

We transmit our sustainable investment beliefs and the importance given to stewardship throughout our advice to clients, and client agendas. These are also reflected through ongoing delivery of education and training on ESG and broader sustainability topics.

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

Outsourced investment services

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

Our delegation process operates via two core models as follows:

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

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

Activities

Ensuring our purpose, beliefs and culture enable effective stewardship

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

As described in our report last year, we finalised a significant project to update our WTW – Investment purpose in 2020. Stewardship is a core part of our purpose; for example, recognising our duty to multiple current and future stakeholders – clients, employees, wider society and the planet.

Our investment beliefs – formulated collaboratively with input from colleagues around the globe – are subject to ongoing review and evolution as appropriate, with SI being one of them (as outlined above). In 2021, our beliefs provided a platform for significant emphasis on stewardship: they refer to the importance of **"undertaking effective stewardship"**; they recognise the importance of collaborative engagement **"to give the investment industry a stronger voice and improve investment outcomes for all participants"**; they recognise the collective action necessitated by the **"systemic and urgent global challenge"** presented by climate change and the transition to net zero. In 2022, we will consider areas where our beliefs can be further strengthened.

The Thinking Ahead Institute (TAI) is WTW's global not-for-profit research and innovation member group, with a mission to mobilise capital for a sustainable future. In 2021, the TAI published Culture – the organisational superpower, which summarises findings from the latest The Power of Culture (TPOC) study. The paper reiterates the value of culture – the way it determines how a group will collectively understand a problem, create solutions, and respond to change over time.

Based on our belief in the importance of culture, we conducted a culture assessment on WTW Investments, facilitated by the TAI, in 2020. As a result, we have identified areas of strength as well as areas for potential improvement within our wider team. This assessment, its findings and our priorities, has been socialised among colleagues, including through all-colleague town halls and a dedicated intranet site. Continuing this work in 2021, a group of senior leaders worked on articulating the collective behaviours that make WTW Investments' culture unique. This was followed by workshops and communications to refine and embed these actions into the daily decisions we make, actions we take, and language we use.

Sustainability is inherent in our culture – the way we work, understand problems, and work to resolve them. Alongside this, we continue to emphasise the importance of stewardship among our teams. **In 2021, we introduced a new leadership role – our Head of Stewardship – to enhance our focus on stewardship within WTW Investments.**

Substantial activities enabled by our purpose, beliefs and culture

During 2021 our purpose, beliefs and culture supported significant emphasis from our team on sustainable investment and stewardship across a wide range of activity. Many examples are contained throughout this report. While it is hard to isolate single areas, the following are probably our three most substantial activities during the year linking most obviously back to our purpose, beliefs and culture:

1. **Focus on climate risk management:** Our net zero commitment, development of in house resources, launch of an industry leading climate transition index solution and deep involvement in a range of climate initiatives. See spotlights on Net Zero and the WTW Climate and Resilience Hub for more details.
2. **Focus on collaborative initiatives:** We dedicated senior resource across a range of collaborative industry initiatives including being the founder or co-founder for some. See Principle 9 and 10 for more details.
3. **Focus on asset manager engagement:** Sustainable investment, culture and inclusion and diversity have been the three key pillars of our substantial engagement with the asset manager industry during 2021. See Principles 7, 8 and 9 for more details.

Outcomes

We continue to see clients requesting more from us in terms of SI and, through 2021, we have been able to effectively support them. At a general level, we have been able to competently address technical client questions and requests using our experience, expertise and tools. This has included helping our clients meet growing regulatory and reporting requirements.

As noted above our purpose, beliefs and culture have supported substantial efforts in a number of areas and we have seen good progress in 2021. Taking these three areas in turn:

1. **Climate risk management:** Over 2021 we substantially upgraded our ability to support clients in this area. This includes new analysis, reporting, risk management tools and climate solutions. See Principle 4, spotlight on Net Zero and spotlight on WTW Climate and Resilience Hub sections for more details.
2. **Collaborative initiatives:** We have seen good progress from the various collaborative groups we have been working closely with and see strong momentum towards rising industry standards as a result. See Principle 10 for more detail and specific examples. EOS saw a good level of progress in company engagement in 2021 as measured by engagements meeting certain milestones. See Principle 9 for more details.
3. **Asset manager engagement:** We conducted over 150 engagements with over 100 managers on sustainability and stewardship. We saw a good level of receptiveness to suggestions for improvements with the vast majority of asset managers making progress in 2021. Still, we downgraded some asset managers where we felt progress was too slow. See Principle 7 for more details.

It is difficult to precisely attribute the outcome of all these activities in serving our clients' best interests. However, there are some measures described below that give us confidence that we have done so successfully over 2021, and over the longer term.

Within both client retention and business development, our SI and stewardship credentials and capabilities have been a significant part of our proposition.

We look to collect and respond to client feedback on an ongoing basis, and some further detail of this is included later in this report.

As part of this process, we undertook an annual survey with our UK clients. With responses from approximately 200 participants, the headline results are:

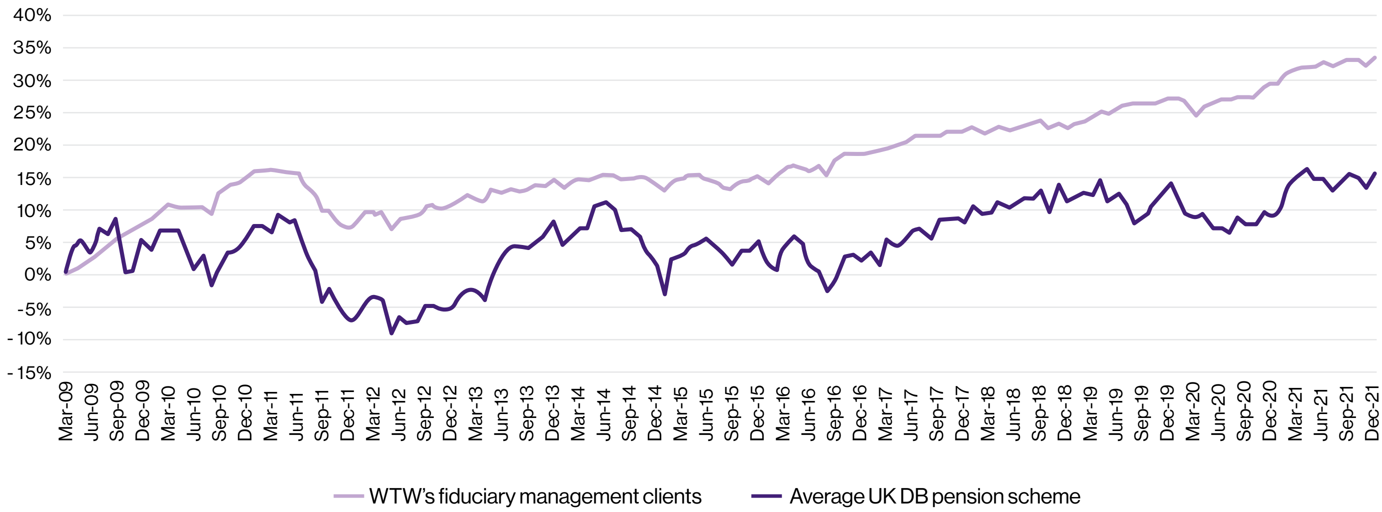
- **99%** of respondents described the overall experience of working with WTW Investment services over the past 12 months as good, very good or excellent
- **98%** of respondents said portfolio performance was good, very good or excellent

Note: Past performance does not predict future returns. Please refer to the risk warnings in the Appendix for further information.

Ultimately, we can look to the performance of our delegated solutions to help illustrate how we have been able to help our clients meet their investment and funding objectives. Below is a chart which shows the change in funding level over time (to 31 December 2021) comparing WTW's fiduciary management clients and the average UK Defined Benefit scheme.

How has fiduciary management (FM) added value for our clients?*

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



*The figures refer to simulated past performance, which does not predict future returns.

	Change in FL	Risk (pa)	Efficiency
WTW	33.5%	2.8%	12.0
Average UK DB Scheme	15.9%	7.6%	2.1

Please note that past performance does not predict future returns.

Notes:
Data sourced from the PPF7800 Index (Pension Protection Fund) and WTW as at December 2021
Risk is measured as the volatility of the monthly change in funding level since inception in March 2009
Efficiency is defined as the change in funding level divided by risk since inception in March 2009

Please also refer to the further information disclosures and disclaimers in the appendix of this report.

In respect of our manager research and ratings, we can look to the following annualised model outperformance over the ten years to 31 December 2020[1] (the most recent data available as at time of publication):

1.6% in equities

0.9% in bonds

0.3% in diversifiers

2.8% in private markets

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

71% of preferred products (equities, bonds & diversifiers only) have outperformed relative to their suitable benchmark.[2]

Notes: Performance for Equities, Bonds and Diversifiers presented in this document does not represent performance that any investor client of WTW 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. Model performance is displayed gross of manager fees and gross of WTW fees for Equities and Bonds as client specific fee levels vary, with WTW clients often paying significantly below rack rates, making it impossible to provide accurate net performance. Model performance is displayed net of manager fees and gross of WTW fees for Diversifiers given the tendency to report on a net basis and to allow for performance fees.

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

Sources: eVestment and investment managers
Please also refer to the further information disclosures, methodologies and disclaimers in the appendix of this report.

1 Private markets simulated performance is shown for the period starting 1 January 2006 and ending 31 December 2020. WTW has chosen to present performance over a longer period because it believes performance over shorter periods generally does not reflect how a manager's investment strategy will perform over a market cycle. Returns may differ materially if WTW had chosen a different performance period. Commitments made in 2017 – 2019 have not been included in the analysis as they are in the early stages of value creation and performance reported would be misleading. This simulated performance represents that of a model portfolio which was not made available as a specific product to any clients, nor did any specific clients obtain this performance.
2 Proportion of preferred products with at least 3 years of return which have outperformed from inception to completion across equities, bonds and diversifiers only. Model performance is gross of manager fees and WTW fees for Equities and Bonds, and net of manager fees and gross of WTW fees for Diversifiers.

Spotlight on: Climate and Resilience Hub

We recognise the significance of the climate challenge and our role in supporting a resilient society. In 2021, WTW's Climate and Resilience Hub (CRH) expanded its research base to enable us to respond to the needs of various stakeholders.

The CRH at WTW brings together deep climate expertise and capabilities from around 90 climate specialists. The team provides climate and resilience solutions to respond to a range of regulatory, investor, consumer, employee, and operating needs. Under the **Climate Quantified** brand, the CRH delivers analytics, advice and transactions to enable corporate, finance and public sector institutions to navigate the transition to a net zero and climate resilient future.

Learn more about the CRH's key capabilities.

Climate Quantified is our suite of climate data and analytical tools, allowing us to model hazards and vulnerabilities, and quantify physical and transition risks with global coverage and according to different climate scenarios.

Key activities in 2021:

- The CRH worked with sovereigns around the world to help model transition risk to economies. This included designing the world's first parametric insurance transaction – a critical innovation for building the economic and environmental resilience of island and coastal nations at risk from natural disasters.
- Convened public and private sector actors to advance climate issues, including the Coalition for Climate Resilient Investment (CCRI) and Insurance Development Forum (IDF)
- Participated in various forums, including co-leading the data and metrics work of the Prudential Regulation Authority and Climate Financial Risk Forum
- Ran several events at COP26

In 2021, WTW Investments partnered with the CRH and STOXX to launch the Climate Transition Index (CTI). This family of indices offers a systematic and transparent way for investors to incorporate climate transition risk into their investment decisions. The CTI uses the Climate Transition Value at Risk (CTVaR) methodology, which quantifies transition risk by integrating forward-looking company assessments with traditional risk and return models. That is, CTVaR measures the expected change in today's prices as a result of the transition to a net zero economy.

The first CTI fund was launched in November 2021, with an investment of nearly $1bn.

Our market-leading Climate Transition Value at Risk (CTVaR) methodology

The CTVaR methodology is a forward-looking financial risk metric that provides a tool to manage climate transition risk consistent with investors' fiduciary duty. It offers a bottom-up granular approach to measuring the effect that changes to the global economy (driven by climate change mitigation) will have on a company's valuation. With deeper data, CTVaR gives a higher resolution view of climate transition risks and opportunities. Find out more here.

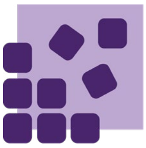
The team behind it:
Within the CRH is the multidisciplinary **Climate Transition Analytics (CTA) team.** The CTA team is comprised of 20+ members, with experience across investment, consulting, economics, academia, energy, and ratings agencies.

Partnering for a climate resilient future: WTW Investments continues to partner with the CRH to understand and advance the latest climate thinking and research, and develop our services and solutions for clients. There are various touchpoints and open communication channels to ensure that we are able to share knowledge, collaborate, and identify opportunities to solve for our clients' needs – and the needs of the planet.

Principle 2 – Governance, resources and incentives

Growing our teams and expanding our resources

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



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

Activities and outcomes

Governance structures

Our Sustainable Investment (SI) structure, reviewed and refined in 2021, is designed to maintain and enhance consistency of client delivery across the globe. It aligns to our purpose and values (see Principle 1), promoting collaboration, connectedness and a shared vision. In 2021, we grew and developed our SI team, furthering our expertise, seniority and diversity of thought. These changes were made to strengthen our governance and resourcing of SI and stewardship. It is a fast paced area and we want to ensure we remain at the forefront in delivering high quality stewardship and support for our clients.

Key changes to our governance structure in 2021:

- Appointing Heads of Stewardship and Sustainability Solutions, two new senior roles
- Expanding our SI Steering Group to include these two new roles, as well as our Investment Heads of Europe and North America
- Increasing the number of full-time SI specialists, to ensure that we have a dedicated, diverse team driving our content, analytics and solutions

Our approach within the Investments business is to integrate sustainability from the **top down** – in our investment beliefs, policies and strategies – as well as from the **bottom up** – in the analyses we perform and reporting we provide across asset research, manager research and portfolio management.

The governance of our SI processes has the highest priority across the business and is constantly being enhanced to respond to fast changing regulation and best practice.

SI ultimately is the responsibility of the Global Chief Investment Officer (via the Global Leadership Team) who oversees all our investment content and portfolio management. The Head of SI, alongside the Head of Sustainability Solutions and the Head of Stewardship, is tasked and empowered to ensure teams and individuals are applying best practice SI principles, as well as providing advice and training to associates as necessary. This extends to the growing number of full-time specialists on our SI team, who focus on content, communications, data and analytics.

Each associate applies SI as tailored to their particular role, further supported by a network of over 80 SI champions across the business. These SI champions are key in applying our beliefs and framework to their particular team and area of expertise, and the network has representations across all our teams and geographies.

Our governance structure mirrors our commitment to integrating SI in everything we do. The related resources – talent and technology – have continued to be invested in to ensure all our clients and stakeholders receive leading sustainability expertise and benefits.

In 2021 we appointed a Head of Stewardship and a Head of Sustainability Solutions in order to prioritise these areas within our SI governance structure.

Overview of the way SI governance is structured across our global leadership teams:

	Description of governance role	Example – Climate
WTW Global Leadership Team	Determines SI targets and commitments aligned to organisational strategies	Set organisational commitment to Net Zero and approve commitment to Net Zero Asset Managers Initiative
Investments Global Leadership Team	Sets the overall strategy, KPIs, and allocates resources to SI, as part of overall investment business objectives	Mobilises resources, approves business specific commitments including Net Zero Investment Consultants Initiative
Global Portfolio Management Group, Fund Investment committees, and Client Executive Committees	Adopts and/or adapts the SI policies and strategies Implements SI best practice based on Fund or Client investment strategic objectives	Set Fund-specific short- and medium-term climate targets and implement climate strategy
SI Steering Group	Implements based on KPIs from Investments leadership Sets SI policies, strategies and principles of practice Provides support for measurement and reporting of SI-related performance across the portfolios	Establish Net Zero working groups, develop technical guidance and climate risk management methodologies

The Head of Stewardship role introduced in 2021 gives our stewardship activities clear accountability and focus, further cemented through inclusion of our Head of Stewardship within our SI Steering Group. The appointment of SI specialists means clearer, stronger governance around stewardship, supporting more effective stewardship work. Essentially, our approach to governance as a business priority, where our Investments leaders oversee the application of our sustainability beliefs and frameworks, and where we have introduced a specific role to lead our stewardship thinking and activities, supports effective stewardship. This is reflected through the range of stewardship activity set out in this report.

Moreover, our global team of SI specialists ensures that our solutions are informed by our best thinking and ideas. Our structure means that we can collaborate as required to meet our clients' needs. With local and global oversight, our integration of people, research and resources ensures that we can offer clients quality advice.

Training and knowledge management

To support effective integration of SI and effective stewardship within our investment research, processes and client services, there is an extensive programme of training and knowledge sharing available. This includes compulsory SI training as part of graduate induction programmes and analyst training programmes, as well as all-colleague townhalls, a dedicated intranet site, internal newsletters, blogs, and more. We also run colleague training sessions on specific topics, and include external experts in the delivery of that where appropriate. Our network of over 80 SI champions also acts as a key source and conduit of knowledge and training for all colleagues.

Many of our colleagues complete either the CFA programme or pursue an actuarial qualification, and we provide extensive study support to help facilitate that. Over 2021, we have continued to engage with institutions around the development of curricula and courses, such as the CFA Institute, particularly on the incorporation of SI, climate and stewardship.

Several colleagues have completed the CFA Institute's ESG investing certification, and WTW was also involved in creating the syllabus for the CFA UK Certificate in Climate and Investing, with two colleagues participating in the pilot programme. In addition, a number of colleagues have participated in the climate science and investing course, run by Alliance Bernstein in partnership with the Columbia Earth Institute, as well as an online climate course run by the University of Exeter.

To support our clients' stewardship activities as well as positively influence the stewardship activities of the wider investment industry, we participate in ongoing knowledge sharing and training linked to the collaborative initiatives and specialist third parties we work with (see Principle 10).

Data and analytics

To ensure we are working with forward-looking climate assessment and impact data to best support our clients, we continue to invest in specific SI data, particularly through MSCI ESG Research. In 2021, we signed up to GRESB, who provide ESG performance data and peer benchmarks. Moreover, we are part of a number of industry working groups around data and metrics, including the Institutional Limited Partners Association (ILPA), a global organisation dedicated to advancing the interests of limited partners and their beneficiaries through education, research, advocacy and events – as well as co-leading the creation of the climate data and metrics guide of the Climate Financial Risk Forum (CFRF).

Wider resources

Climate and Resilience Hub

The Climate and Resilience Hub (CRH) has expanded, now comprised of around 90 colleagues with deep expertise on climate, as well as a range of sophisticated analytics and tools to help quantify and manage climate risks and opportunities. In 2021, a dedicated team within the CRH pioneered their Climate Transition Value at Risk (CTVaR) methodology, which was used to create an innovate climate transition index. See our CRH spotlight for a full overview of the CRH and our partnership.

Thinking Ahead Group

The Thinking Ahead Group (TAG) is the WTW executive to the Thinking Ahead Institute (TAI), WTW's global not-for-profit research and innovation member group (see our TAI spotlight for more information on TAI). With a vision to mobilise capital for a sustainable future, the TAG has expanded its team to continue working towards this vision – with new joiners whose specialisms range from impact management to environmental data analysis and risk management.

Innovation & Acceleration

WTW's Innovation & Acceleration (I&A) team has been formed to support our innovation, research and commercialisation capabilities, with a specific focus on: The Future of Risk; ESG & Sustainability; Organisation Resilience; and the Internet of Everything in People, Risk, and Capital. This will help us to scale new solutions, ensuring quality client delivery.

Working with EOS at Federated Hermes

We believe EOS at Federated Hermes (EOS) are a leading stewardship service provider, and we have partnered with them for many years. We have specifically engaged them to undertake public policy engagement and advocacy on our and our clients' behalves, alongside corporate engagement and voting advice on a variety of our pooled fund solutions. This allows clients to strengthen the asset-level stewardship being undertaken.

In 2021 we expanded our relationship with EOS to incorporate their engagement service for two of our TWIM public credit funds. We believe that EOS's stewardship experience, expertise, scale and influence adds significantly to our work in these areas, and ultimately helps deliver better investment outcomes for our clients.

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

We maintain a high level of engagement with EOS. Our Head of Stewardship is chair of EOS's Client Advisory Board and members of our teams regularly attend the EOS bi-annual Client Advisory Council events.

We continue to have input into EOS's engagement plan and prioritisation. For example, in late 2021 we discussed with the head of the EOS engagement team how to better incorporate real-world impact within company net zero transition plans to avoid higher emitting assets being offloaded to third parties who may have a worse record in management of GHG emissions.

EOS's 2021 Annual Review provides an excellent summary of their approach, activities and outcomes over the course of 2021. Below you will find some headline highlights, however we would refer you to our Spotlight page for further information:

Throughout 2021, EOS:

- Engaged with 1,208 companies on 4,154 issues and objectives
- Made voting recommendations on 128,858 resolutions at 13,412 meetings
- Held 71 discussions held with relevant regulators and stakeholders
- Engaged with 481 companies held in WTW portfolios

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

Performance objectives

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

Working with clients

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

SI considerations are typically embedded within agreed scope and terms of services to the extent they are explicitly called out. Irrespective of whether they are detailed separately, or whether we have been specifically asked to embed SI considerations in contracts or business plans, sustainability is fully integrated across all our client services and offerings we provide. Stewardship is a key client deliverable itself; we talk to clients about their own stewardship policies, encourage them to consider becoming stewardship signatories, and point to opportunities for collaboration and enhanced positioning in the industry.

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

Principle 3 – Conflicts of interest

Integrity in everything we do

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

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

Context, activities and outcomes

WTW approach

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

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

- Procedures to prevent or control the exchange of information between colleagues engaged in activities involving a risk of a conflict of interest, where the exchange of that information may harm the interests of one or more clients
- Separate supervision of colleagues whose principal functions for clients may conflict, or who otherwise represent different interests that may conflict
- Measures to prevent or control the simultaneous or sequential involvement of a colleague in separate activities where such involvement may impair the proper management of conflicts of interest
- Reporting lines which limit or prevent any colleague from exercising inappropriate influence over the way in which another colleague carries out their work
- All colleagues are required to identify and disclose any personal associations that may give rise to an actual or potential conflict of interest
- Internal guidance and training on the identification of actual and potential conflicts as they arise
- Escalation procedures which ensure that issues identified are referred to and considered at the appropriate level within WTW
- Other relevant policies and procedures, including those relating to ensuring fair deal allocation between clients, to personal dealing, to gifts, entertainment and hospitality, and an Anti-Bribery and Corruption Policy and other Financial Crime policies
- In some jurisdictions, WTW associates are required to pre-clear account openings and transactions, in compliance with local regulations. WTW also has an insider trading policy and observes blackout periods and ad hoc blackouts to protect associates from allegations of insider trading
- A number of the company's global policies and standards are embodied in its Code of Conduct
- The audit programme conducted by our Internal Audit department would include a review of financials and fraud arrangements covering potential conflicts and adherence to our Code of Conduct. The WTW Code of Conduct provides the general framework of principles and rules to guide the manner in which we do business

Our Code of Conduct states that: WTW is committed to providing our clients with services that are impartial and objective.

As a MiFID (Markets in Financial Instruments Directive) Firm, the Investments business has a more detailed policy to ensure the fair treatment of customers and address WTW's obligations in respect of the identification and prevention or management of conflicts of interest under the Markets in Financial Instruments Directive (MiFID). See our MiFID disclosure statement in the appendix. Please note that only our UK and EU Investments business are subject to this.

WTW offers a broad range of products and services to its clients. The firm also has relationships with other parties, e.g. asset managers and client pension schemes, and may encounter circumstances in which the interests of its clients and those other parties conflict with each other, or at least have the appearance of conflicting with one another. In addition, there may be occasions when the interests of clients or external parties are in conflict with the interests of WTW itself. Under WTW policy, and as a matter of law in many jurisdictions, Colleagues must always act in the best interests of clients. This Policy, and its associated Procedures, Guidance and relevant Conflicts Schedules, are designed to ensure that all appropriate steps are taken to identify potential conflicts, and that those conflicts are prevented or managed in a way that prevents harm to clients' interests.

Compliance with the policy is monitored by the business in the form of a Conflicts of Interest committee, Compliance, Excellence Leaders and Internal Audit, and incidents of non-compliance are reported. The committees and policies are regionally limited.

WTW Investments

In WTW Investments, our general framework of principles is:

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

We also manage potential conflicts that might arise from the actions of individual WTW employees; our policies on the acceptance of gifts and invitations, and on personal dealing are examples of this. In addition to the firm-wide policy, there may be cases when lines of business or geographies set more restrictive policies. WTW Investments also issued guidelines in accepting gifts and invitations from entities providing investment-related services to our clients on which we are or might be asked to give an opinion. We have a strict Inducements policy that requires Compliance approval for any non-monetary benefits from third party organisations. These organisations include investment management organisations, custodian banks, fund administrators and financial institutions offering investment-related services, which may or may not be currently providing services to our clients.

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

To ensure we are consistently putting clients' interests first, all of our colleagues are expected to follow our Excellence procedures and behaviours which set out clear ways to ensure the highest quality services is being provided to our clients. Our "Excellence" model is embedded across all WTW services with an effective governance structure to ensure monitoring of our work and refreshing guidance and training as necessary.

We review our conflicts of interest policy and procedures, and other associated collateral each year. In 2021, this resulted in an update of our MiFID inducements procedures.

Asset manager research

Asset managers invest and undertake stewardship for our clients. So, conflicts of interest is a topic which forms part of our assessment of asset managers.

As part of our Operational Due Diligence ("ODD") reviews on asset managers, we assess their approach, oversight and governance surrounding conflicts of interest (see the example to right).

We finalised 165 ODD reviews in 2021. As an outcome from this, we engaged with numerous asset managers highlighting areas where their approach could be improved. We experienced a high level of receptiveness to our recommendations. The ODD team conducts a pre-screening exercise prior to conducting full ODD on any new manager; this helps to filter out those managers who are unlikely to pass.

Specific to stewardship activity, we expect managers to document how they manage any conflicts of interest. As an example, for listed equity investment managers our assessment includes consideration of whether the investment manager's policy includes: an explanation of how they act in the best interests of clients; how conflicts of interest are identified; and the process followed when a conflict of interest is seen to exist.

During our engagement with asset managers particularly on stewardship, we have consistently raised conflicts of interest as an area of importance, and looked for managers to evidence that conflicts (potential, perceived or actual) do not inhibit effective stewardship. This was one of the topics that we highlighted, for example, in our research into stewardship at large indexation managers in 2019, which is available here.

2021 examples:

- We contacted a number of indexation asset managers highlighted in research by As You Sow ("Uncovering conflicts of interest", May 2021) requesting a formal response to observations made in the report. We received a written response in all cases and held follow up calls to further understand each manager's conflicts management approach.
- We conducted an initial ODD review on a small, French Private Equity Manager, on behalf of fiduciary clients. One concern raised during the review was related to a conflict of interest surrounding Gifts and Entertainment (G&E). The Firm did not conduct formal G&E training for staff, and the Firm's policy was lacking in a few areas regarding reporting and recording of G&E; this potentially exposed the Firm to heightened operational risk in relation to inducements. WTW engaged with the Manager, advising them on best practices in the industry, and specifically amongst the Manager's peer group. Following this successful engagement, the Manager included an annual G&E module within the Firm's Compliance training programme, to help ensure staff are aware of the potential conflicts of interest in relation to giving / receiving G&E. The Firm also amended their G&E policy, and now require staff to report any G&E up to the value of €200 to Compliance, for inclusion in the Firm's G&E register. The Firm also implemented a formal, annual aggregate G&E limit of €600, to help prevent potential conflicts around staff receiving repeated G&E from the same provider in a calendar year. The Manager was very receptive to the ODD's team recommendations throughout the process, and on finalising our ODD review, we rated this Manager a "Pass".

Engagement and voting

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

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

2021 example:

- As an illustration of the independent processes in action, EOS recommended voting against WTW company management for two out of 13 items in the 2021 voting season.

WTW solutions

We have managed the potential for any conflicts of interest by ensuring transparency across our interactions with clients. As we begin initial discussions with clients, we clearly flag our own Towers Watson Investment Management (TWIM) solutions, regardless of whether or not the client wishes to go this route. We want to ensure complete transparency about our offerings and solutions, so that the client is aware of them from the start and is able to make an informed choice. We will only actually recommend or select solutions when they are the most suitable solution for our clients.

Allocating to managers with limited capacity

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

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

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

Keeping clients informed

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

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

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

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

Fee negotiations and discounts

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

Within our multi-manager funds, we separate the fee we receive from the fees paid to the underlying managers. As a result, any savings made in the underlying manager fees, or if the portfolio evolves over time to using managers charging lower fees, will be passed on to the client. By keeping our fee and the underlying manager fees separate we promote transparency and avoid this conflict.

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

Asset manager remuneration

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

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

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

Principle 4 – Promoting well-functioning markets

Recognising and responding to global challenges

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

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

Activities

Core beliefs

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

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

Key WTW teams supporting this work

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

Asset Research team

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

Regular publications from this team include:

- Global Markets Monthly, which examines what asset markets are pricing-in and our economic outlook
- Medium-term outlooks, such as this quarterly compilation of thought leadership
- Thematic research on specific topics such as how we think about our workspaces, given the need for remote working and agility, largely precipitated by the coronavirus pandemic
- Our 2022 Global Investment Outlook has a strong focus on sustainability, identifying prosperity, inclusive growth and climate transition as key areas with multiple interactions which investors need to consider in line with sustainable growth

Thinking Ahead Group and Thinking Ahead Institute

The Thinking Ahead Group is the WTW executive to the Thinking Ahead Institute (TAI), which is a global not-for-profit group whose vision is to mobilise capital for a sustainable future. Please see the TAI spotlight page for background information.

Given its forward-looking focus, systems focus and systemic mandate, TAI has done extensive research on market-wide, systemic, and extreme risks, and effective risk management, including via the dedicated Sustainability Spotlight and Culture hub.

As also described further in this report, market-wide and systemic risks are at the heart of the TAI research agenda given their mission to mobilise capital for a sustainable future. During 2021 this research centred on:

- Culture
- Sustainability
- Transformation

Manager research

Our manager research team, whose work is described in greater detail elsewhere in this report (including in response to Principles 7 and 8), also looks to identify market-wide and systemic risks in its research and assessment of asset managers. This is particularly important in the assessment of asset manager stewardship.

We regularly conduct research to benefit both our clients and the wider market. Some 2021 examples:

- Managing climate risk in Buy and Maintain mandates
- How to integrate ESG risk analysis across a range of different fixed income mandates
- Our annual research and update to the asset manager community

Climate and Resilience Hub (CRH)

WTW have around 90 in-house climate specialists, with a focus on emerging research and analysis on the climate agenda. Please see the CRH spotlight page for more information.

Key market-wide topics in 2021

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

Climate change

We recognise climate change as a systemic and urgent global challenge – with impacts already being felt around the world. Therefore, we have undertaken a significant amount of work to analyse, quantify, assess and reflect the risks and opportunities it presents throughout our processes and portfolios. This includes multiple stewardship levers: third party (especially asset manager) engagement; issuer- and asset-level engagement; voting; policy advocacy and collaborations.

Key climate activities in 2021:

- We joined the Net Zero Asset Managers Initiative (NZAMI) and co-founded the Net Zero Investment Consultants Initiative (NZICI) as part of our focus on collaboration. Both initiatives are part of the Glasgow Financial Alliance for Net Zero (GFANZ), the global coalition launched in 2021.
- We committed to a target of net zero greenhouse gas emissions by 2050 at the latest, with a 50% reduction by 2030, in our fully discretionary delegated investment portfolios.
- We co-launched the Climate Transition Index (CTI) to offer investors a solution to help manage climate risk. The goal of the CTI is to align a broad-based equity index, from a valuation and financial perspective, with a global economic transition that would limit greenhouse gas concentrations to levels consistent with United Nations objectives for global temperature rise.
- We focused on the development of climate-related metrics and analytics. This includes the Climate Transition Value at Risk (CTVaR) methodology, developed by the CRH, which considers the loss or gain in value due to the transition to the net zero economy from changes to policy, regulation, technology, and consumer preferences – and forms the basis of the CTI.
- We actively contributed to a to a range of other collaborative climate focused initiatives:
  - Institutional Investor Group on Climate Change (IIGCC)
  - Asia Investor Group on Climate Change (AIGCC)
  - Investor Group on Climate Change (Australasia)
- During 2021, climate was a key engagement focus for EOS at Federated Hermes (EOS). EOS played a critical role in many collaborative climate groups including Climate Action 100+, where EOS led or co-led engagement with 25 focus companies. EOS co-led drafting of the upcoming IIGCC Net Zero Stewardship Toolkit.

Alongside this, we continue to:

- Utilise a 'Sustainability Lens' with an explicit and significant weighting applied to climate
- Integrate climate into our asset manager assessments, analysing both climate integration and climate stewardship as tailored to the strategy in question
- Identify climate opportunities, and make significant investments in areas such as renewable energy, electrification infrastructure, sustainable agriculture, forestry and others
- Ensure detailed monitoring and reporting which can be used both internally for our research and portfolio management, but importantly also provided to clients as part of standard reporting to facilitate better monitoring of key risks and opportunities within their portfolios
- Use proprietary climate tools and analytics, looking at both transition and physical risk, incorporating a variety of climate metrics including those which are more forward-looking (e.g. climate value-at-risk)
- Apply our climate scenarios, in line with the Network for Greening the Financial System (NGFS) framework, which we have used with clients as part of an integrated risk management approach (looking beyond asset portfolios to consider liabilities, covenant and members)
- Contribute to a significant number of collaborative initiatives directly or indirectly related to climate change – see Principle 10 for further information

Key market-wide risks, including interest rates and inflation

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

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

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

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

Industry initiatives we are part of, and our role

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

Our work in these areas clearly extends beyond the Investments business within WTW given the nature of these risks. For example, see the WTW Environmental, Social and Governance webpage and WTW Climate and Resilience webpage.

We have been strong advocates of the importance and need for more system stewardship externally in order to reduce common market-wide and systemic risks. This includes our engagement with the asset management industry as discussed elsewhere in this report. It is also evidenced by our long track record of collaborative engagement and proactive participation in key collective initiatives. We have already mentioned some climate themed collaborate initiatives above and pointed to the work of the Thinking Ahead Institute.

Some additional 2021 examples:

- We co-founded the Net Zero Investment Consultants Initiative (NZICI) as part of our focus on collaboration and commitment to net zero greenhouse gas emissions by 2050 across our delegated portfolios, alongside fully integrating net zero advice within our consulting business and reducing emissions within WTW's own business operations.
- As a signatory to the Principles for Responsible Investment (PRI) we maintained a high level of engagement this year. We inputted into the drafting of several papers and provided guidance on next steps for the PRI's Stewardship 2.0 framework which specifically emphasises addressing systemic risks faced by all investors. We suggested to PRI how Climate Action 100+ might create a new membership category to enable wider support for certain engagements.
- We co-founded the Investment Consultants Sustainability Working Group (ICWSG) in 2020 and had considerable input into a number of published works from the initiative during 2021. Our Head of Stewardship co-led the creation of the Engagement Reporting Guide, designed to improve quality of engagement reporting from asset managers. In addition, we contributed to the drafting of the ICSWG's trustee guide on consultant climate competency and ESG metrics for asset manager reporting.

Please refer to Principle 10 for more details.

EOS at Federated Hermes

As outlined elsewhere in this report, we have partnered with EOS at Federated Hermes (EOS) for many years, and have engaged them to undertake public policy engagement and advocacy on our and our clients' behalves to address a range of systemic risks.

In 2021 EOS participated in public consultations and meetings with government officials, financial regulators, stock exchanges, industry associations and other key parties to contribute to the development of policy and best practice. This ranged from tightening corporate governance expectations and related voting policy on diversity across continental Europe, co-authoring a paper setting out investor expectations on alignment of the banking sector with the Paris Agreement and responding to consultations from the Australian Treasury on reform options for proxy advisory services. These are just a few examples; you can read more within the 2021 Annual Review.

In 2021 EOS held 71 discussions with relevant regulators and stakeholders. They responded to 64 consultations or performed a proactive equivalent (such as a letter).

Outcomes

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

In respect of key market-wide risks, such as interest rate, inflation and currency risks we believe our responses have been effective, noting that these require ongoing attention and management.

For our portfolios, we have maintained high hedge ratios for interest rates and inflation, protecting clients' funding positions through market volatility – while adjusting hedge ratios to take advantage of opportunities. Specifically, we have been modestly underweight in our interest rate hedging, benefiting clients as interest rates have risen dramatically over the past 12 months. On currency, we have maintained a deliberate exposure to USD in UK client portfolios, which provided protection during difficult market environments.

With respect to climate:

- We have upgraded our ability to help clients manage this risk, including new analysis, reporting, risk management tools and climate solutions.
- EOS saw good progress in company climate engagements in 2021 as measured by company engagements meeting key milestones (See Principle 9 for more details). EOS has put in place more demanding standards with respect to climate voting guidance.
- Through our asset manager engagement, we observed many groups step up their capabilities, including a stronger focus and greater resource on climate stewardship. We will continue to push here.
- In terms of collaborative initiatives, we have seen progress from the various collaborative groups we have been working closely with and see strong momentum towards rising industry standards as a result. See Principle 10 for more detail and specific examples.

More generally we point to aspects identified under Principle 1 as evidence to support our assessment: the results of the annual survey with our UK clients and our ability to protect and enhance our clients' funding levels.

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

Spotlight on: Net Zero

In 2021 WTW announced its net zero pledge – committing a target of net zero greenhouse gas emissions to 100% of its delegated investment portfolios and its own business operations.

Press release: Global, April 15, 2021 – WTW Investments today announced that it is targeting net zero greenhouse gas emissions by 2050 at the latest, with at least a 50% reduction by 2030, in its fully discretionary delegated investment portfolios.

Climate change, and a just transition to net zero greenhouse gas emissions, is a systemic and urgent global challenge.

As investors, we have a really important role to **shape the system** going forward – to steward this whole economy transition.

We believe that working to achieve net zero by 2050 in our discretionary portfolios is **completely consistent with the financial goals** we have been given by our clients and have already embedded this in our investment process and ultimately in the portfolios we are **managing and stewarding**.

We recognise that the investment industry is not simply a 'taker of outcomes' generated by the investments it makes, but rather as allocators of capital and stewards of its client's assets it **can and should play a meaningful part in helping to ensure a just transition to a net zero and resilient future.**

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.

So what does this mean we will do in practice?

We believe that the transition to net zero should be achieved by:

A combination of **decarbonisation of existing investments** and new investment in **long-term climate solutions**.

Using multiple 'levers' including, changes to risk management and asset allocation, manager selection, index design, stewardship and policy level engagement.

We believe engagement is likely to be more effective in decarbonising the system than exclusions alone, but recognise that **divestment may be necessary at times where engagement cannot solve the problem**.

Let's work together

Investors need to do more than just react to the changes underway. We have an important role in shaping the system going forward. To be most effective in managing climate risk and stewarding the transition to net zero, we need to collaborate with others.

That's why we joined both the Net Zero Asset Managers Initiative (NZAMI) and co-founded the Net Zero Investment Consultants Initiative (NZICI) in 2021.

NZAMI – read the commitments here

- **236 signatories** around the world with **US$57.5tn** in AUM
- Aim to **galvanise the asset management industry** to commit to a goal of net zero emissions
- **Formal partner** of the UNFCCC's **Race to Zero Campaign**

NZICI – read the commitments here

- **12 signatories** responsible for advising on assets exceeding **US$10tn**
- Committed to supporting clients achieve the goal of **global net zero emissions** by 2050 by embedding net zero considerations into their advisory work
- Aim to use the consultants' role to help the industry make **rapid progress on climate goals**

Both NZAMI and NZICI are part of the Glasgow Financial Alliance for Net Zero (GFANZ) which was launched in 2021 to bring together existing and new net zero finance initiatives in one sector-wide global coalition.

What have we been doing?

WTW's 2021 UK Stewardship Code Report has many examples of the work we have been doing to honour and progress our net zero commitment going forward. Here are just a few of them:

- Helping other investors with their own net zero pledges and/or climate related goals
- Significant investment in climate data and metrics, in particular the market leading work on our Climate Transition Value at Risk (CTVaR) methodology
- Working in partnership with STOXX to create the STOXX Willis Towers Watson Climate Transition Index series
- Creation of a fund that tracks this index and incorporates EOS at Federated Hermes engagement services across all ESG metrics, set up as an Article 8 Fund
- Evolution in our fund offerings so that several of our existing fund range were adapted to be Article 8 Funds
- Increased resources via the expertise in our Climate and Resilience Hub
- Brand new Climate Dashboard to display net zero datapoints and progress at portfolio level
- Listening to clients' beliefs and needs regarding climate risk management and assisting them on the approach that is right for them
- Maintaining climate as our top theme for manager engagement
- Working with EOS closely as climate remains their top environmental engagement theme too

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

Continuously improving the quality of our activities

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

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

Activities

Our review process encompasses firm-wide frameworks and initiatives, as well as checks and procedures specific to WTW Investments, to ensure the quality of our processes and activities. These are designed to consider compliance and regulatory standards as well as principles of clear and fair communication.

WTW Enterprise Risk Management (ERM) Framework

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

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

Quality assurance programme

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

Our quality controls are audited in three ways:

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

For our reporting on stewardship activity, we typically use information supplied by EOS at Federated Hermes (EOS), or asset managers, or our own teams (when it comes to our involvement in collaborative initiatives).

Using EOS information in our client reporting:
EOS's reporting goes through quality assurance processes prior to publishing, with various touchpoints for review. For example, EOS's public company case studies are reviewed by the named companies in advance of publication for fact checking (see EOS section below for further detail). We, in turn, use EOS case studies in our reporting, comfortable that they have been reviewed for technical and editorial quality.

In addition, EOS sets clear engagement objectives and milestones for reporting statistics around engagement activity, tracking progress against these. This means that we can dig into the numbers, to ensure they are backed up by robust activity.

Using information provided by asset managers in our client reporting:
For voting, we have used the PLSA voting template as a way of asking managers consistent questions around the voting process. We have also developed our own voting analysis tools to consistently dig deeper into more complex voting activity. This has helped us to report summary analysis of voting activity to clients in a more insightful and consistent way.

In order to verify the information we receive on engagement, we meet with asset managers and discuss the case studies. Historically, we have also asked consistent questions and set a specific definition of engagement (to ensure consistency as different asset managers will define engagements differently). This has had mixed success given the natural heterogeneity in engagement activity. That's why, during 2021, we led work on a new industry standard guide (the ICSWG Engagement Reporting Guide project) to help get more consistent information around engagement activity from asset managers, which we can then report to clients. This has recently been finalised so we will roll out this year and next.

Consistent reporting of asset managers in private markets remains a challenge. Our involvement in the Institutional Limited Partners Association (ILPA), a global organisation dedicated to advancing the interests of limited partners and their beneficiaries, means that we have access to better quality data and metrics.

Our own reporting of WTW collaborative initiatives or consultation responses:
The reporting we develop on ourselves is reviewed in accordance with our normal quality control process. In addition, our involvement is typically a public matter. We also regularly interact with other members of these collaborative groups (other investment consultants, asset owners, asset managers etc) so would be disincentivised from overstating our involvement.

In addition, we have our own standard review process which ensures our reporting remains fair, balanced and understandable:

- Technical Review – requires the reviewer to check the technical aspects of the work, including compliance with applicable standards, laws, and regulations.
- Consulting Review – requires the reviewer to determine whether the client's needs and relevant issues are addressed and the methods, analyses, assumptions and recommendations are sound.
- Editorial Review – requires the reviewer to confirm that the advice is clear, and in the correct context. All written advice is reviewed by at least one other senior consultant on the team. Major items of work which are of significant complexity, require a particular specialism or are of significant financial sensitivity will be reviewed by a senior associate outside the client team.

Policies and procedures

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

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

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

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

Further examples for Sustainable Investment (SI) and Stewardship

Within WTW Investments we have established a clear governance structure with accountabilities and responsibilities as outlined in Principle 2. In particular, our Global Chief Investment Officer (Global CIO), Head of Sustainable Investment, Head of Sustainability Solutions and Head of Stewardship have overarching responsibility for reviewing our processes and activities. This is a key part of our framework for appropriate oversight, review and internal assurance over our SI policies and processes.

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

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

Working with clients on their own reporting objectives

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

We believe a robust policy is based on beliefs and values specific to the context of each asset owner. An effective policy therefore needs to align with the unique mission of the organisation, taking into consideration its specific circumstances, and be socialised enough to provide a strong sense of ownership and collective buy-in. To this effect we do not provide off-the-shelf or standard policies, but instead work with clients to assist them in developing their own beliefs, priorities and perspectives across the topics of sustainability. We then help formalise these beliefs into a policy that can be used to guide thinking and decision making as relevant to their investment process and strategy.

External reviews

In WTW Investments, we regularly engage with intermediaries who conduct questionnaires on our ESG capabilities. Across 2021, we had a total of 88 intermediary meetings, alongside eight annual research questionnaires/due diligence questionnaires, quarterly data requests for nine intermediaries (36 over the year), plus ad hoc questionnaires on specific topics. We responded to questionnaires from PwC, EY, IC Select, XPS and Isio in respect of our ESG activities, initiatives and processes.

Most of these findings form part of genericised reports that are publicly available, such as EY's 2021 survey findings. This survey assessed 17 firms across five key dimensions, including stewardship, in order to help stakeholders understand market approaches and practices related to ESG investing. As part of their feedback, EY raised the point that our reports were data-intensive, and that the data should be supplemented with more commentary on what the metrics mean for clients. This was incorporated in improved reporting, which now includes enhanced interpretation of the metrics, and how clients should be thinking about them.

These intermediary surveys provide impartial reviews of our processes and activities related to stewardship, as well as an understanding of how we compare to peers.

EOS at Federated Hermes

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

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

- A senior member of our team continues to chair EOS's Client Advisory Board which reflects our level of engagement with EOS, and this is in addition to attendance at the bi-annual Client Advisory Council events.
- We have ongoing channels of communication which can pick up specific queries, for example around certain corporate engagements, votes or case studies, as well as more widely on issues such as reporting and enhancements to their client servicing and EOSi platform.

Outcomes

We have a strong culture of continuous improvement as described and evidenced throughout this report. While many of these improvements are marginal or gradual (and, in turn, difficult to isolate and attribute to specific points of review or assurance), we have highlighted some examples of our stewardship developments in 2021 which we believe reflect these processes of continual improvement:

- We introduced a Head of Stewardship position, and restructured our SI Steering Group to include new leadership roles (Heads of Stewardship and Sustainability Solutions), as well as our Investments Heads of Europe and North America. Plus, we expanded our team to include more dedicated full-time SI specialists.
- We used our voting pattern analysis tool – developed to enable more detailed manager engagement, and better client reporting – to challenge stewardship teams in one-to-one meetings. In particular, we used the tool to identify specific vote decisions that seemed at odds with stated policies for further discussion. It is our belief that this provides a deeper understanding of actual practice which we can share with our clients. In addition, we believe this level of granular challenge encourages more emphasis on high quality stewardship by the underlying asset managers and evolution of practice over time. We have seen both occurring (see Case Study 4: Asset manager engagement: Global equity index manager in Principle 9).
- We upgraded and strengthened our stewardship questions of managers, and the standards by which we assessed them as we do every year as part of our annual SI reporting, helping to raise the bar of practice across the industry. For example, in 2021 we have increased the number of climate related questions we ask managers, and included further indicators to measure progress. We also incorporated the ICSWG Engagement Reporting Guide.
- We enhanced our reporting in 2021, including making significant investments in climate data and metrics to enable us to measure and assess the progress made against our net zero targets. This includes a new Climate Dashboard, clearly displaying several net zero datapoints (see Principle 6 for more details).
- As part of our ongoing review and implementation of our SI policy and approach, we formalised our focus on climate change through our net zero commitments, applicable to our internal business operations as well as our delegated investment portfolios.

Section B – Investment approach

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

Keeping clients front of mind

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

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

Context

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

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

- US$4.8 trillion in assets under advice (as of 2020)
- US$186.6 billion in delegated assets under management (as at 31 December 2021)
- Over 1,300 institutional clients (as of 2020)
- Over 900 colleagues in 21 countries across the globe (as at 31 December 2021)

Activities

Advisory services

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

With some clients we go into considerable detail – for example detailed training on specific topics, identifying thematic investment opportunities, how Sustainable Investment (SI) and stewardship can be integrated with strategic advice and portfolio construction work, as well as talking in depth about SI policies and engagement activity of specific third-party managers.

For other clients, given limited trustee bandwidth, they prefer us to keep the discussion and recommendations more high-level focusing on meeting minimum regulatory requirements.

SI and stewardship recommendations which we subsequently make are tailored to individual clients based on client specific beliefs, objectives and governance constraints. Where our recommendation is not fully aligned, or where there are additional challenges in implementation, we present a range of options to the client usually set out in terms of minimum compliance, good or strong practice of some equivalent scale. As such, we tend to frame the journey to integration as a journey of steps or part of a process that need to be achieved over a period of time rather than in one go. **Such an approach looks to steer and encourage clients towards better practice, as their views or beliefs may develop over time.**

This table highlights the spectrum of approaches and some typical client characteristics which we can work with them on:

Minimum compliance	Good practice	Strong practice
	Client characteristics	
• Typically, no internal team and governance constraints • Often invests in simpler, passive investment structures where scope to integrate ESG is more limited	• May or may not have its own internal team • May have some governance constraints • Often specific members of the Trustee Board have high interests in SI (e.g. involved in ESG on the Company side, strong beliefs on sustainable investing)	• Internal team whose role is to research managers and strategies, often does own monitoring and can dedicate extensive resource to ESG risk monitoring • Few governance constraints • Often majority of members of the Trustee Board have a strong interest in SI (e.g. involved in ESG on the Company side)
	Actions and approach	
• Ongoing advice and support around regulatory requirements e.g. SIP updates, preparation of implementation statements, governance and reporting around climate change risk • Sustainable Investment reports for all managers • Ongoing advice, training and support	• Sustainable Investment beliefs exercise with review every 3 years • Develop Sustainable Investment policy • Integration of climate change risk metrics into regular reporting and monitoring • Carbon journey planning • Regular training sessions • Where relevant, manager selection of responsible investments in integrated ESG themed strategies • Climate change scenario analysis	• Adherence to UK Stewardship Code • Signatory to other industry-wide initiatives e.g. PRI • Consider third party stewardship provider e.g. EOS at Federated Hermes or bespoke stewardship policy • Peer benchmarking / global best practice comparison • Engage with membership on SI views

We collect feedback from clients in a number of ways: direct feedback, questions to the client, independent client reviews, and industry surveys. We use this feedback as an input to direct our activities around sustainable investment both internally and for the services we offer. There are some examples of this in the Outcomes section below.

Across our business, we also regularly research hot topics for use with clients in the hope this will catalyse changes in behaviour.

Our global investment content teams, advisory teams and Retirement business produce research and blogs. In 2021, some of the key topic's clients engaged with were:

- DWP climate regulation and understanding TCFD climate metrics
- Net zero investor frameworks and policies
- Messages and outcomes from COP26 in Glasgow
- Government and industry campaigns e.g. in the UK – government letters to institutional investors, The Pensions Regulator guidance and private campaign Make My Money Matter

Our reporting activities depend largely on how we have been engaged by the specific client. For full retainer clients we report back and communicate with them on a regular basis, to both the Board or Investment Committee and to internal investment teams. We notify clients promptly should there be a relevant change that requires review amongst our preferred managers.

Around manager monitoring, trustees are increasingly looking to understand and engage with SI ratings and stewardship, which is both educational as well as helping them to fulfil their investment and stewardship responsibilities. We will discuss sustainability reporting with them and discuss potential challenges to managers which can then be raised directly or via us to effect changes and improve practices.

We also increasingly spend time educating trustees around different approaches to investing (including ESG tilts, climate strategies, impact, or ethical/exclusionary strategies), to ultimately help them decide on a preferred strategy.

Specifically, around climate where this is considered a priority for trustees we can research and educate on best-in-class environmental focused managers or specific climate strategies. This is also now an essential element of our NZICI commitment, as we integrate net zero alignment advice across all our consulting services.

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

Some examples of actions our advisory clients have taken in 2021 using advice based on our understanding of their views and needs are described below:

Case Study 1

A low governance client undertook a review of their managers' approach to sustainable investment aided by WTW's annual manager in-depth SI reports. The client identified that their active corporate bond manager was not transparently reporting on their engagement activities with companies which made it difficult to assess their impact.

The client took action to engage with the manager and raised their concerns. As a result, the manager is taking steps to report their engagement activity at the fund level rather than just at a firm level. This now allows the Trustees to more directly understand the engagements being undertaken on their behalf.

Case Study 2

A mid-governance UK DB Pension Scheme (which had identified climate change as a key area of focus) undertook a detailed review of their managers' approach to sustainable investment.

As part of the review the Trustee identified several areas in which the Scheme's managers could improve in respect of their approach to climate change. This included encouraging two equity managers to undertake an increased amount of climate focussed engagements with measurable outcomes, as well as more aggressive voting (having identified through their voting records that this could be more impactful and progressive). Additionally, they encouraged greater engagement in the Property sector with underlying tenants to increase carbon and efficiency data collation.

All managers have acknowledged the engagement and responded positively with reference to ongoing programmes to make these improvements. Monitoring next year will assess if appropriate improvement has been made.

Specific actions we take to help clients, in alignment with their views and policies, include:

- Reviewing and aligning clients' existing beliefs, investment strategy and policy in relation to SI and stewardship
- Helping clients define SI and stewardship investment objectives across short-, mid- and long-term time horizons and incorporating them into policies
- Aligning the policy with the relevant sustainability regulations and public policies
- Determining the client's SI risk-profile and materiality to inform the investment policy
- Researching SI trends, terminology and current debate to help create an up-to-date investment policy
- Comparing SI and stewardship investment policies of peers in the market
- Engaging the client organisations' executives, Board and any other stakeholders in the SI investment policy development
- Outlining the internal governance structure responsible for overseeing and implementing the investment policy
- Assisting clients to appoint a third-party specialist stewardship overlay provider
- Working with clients to identify managers with strong stewardship credentials for manager selection
- Providing monitoring and reporting on the stewardship activities of managers, including the development of a proprietary voting analysis tool
- Setting a 'carbon journey plan' which emphasises the benefit and importance of better engagement
- Educating clients on the importance of net zero alignment and supporting them develop policies that align their portfolios with a net zero pathway
- Helping clients understand why and how to prioritise real world emissions reductions

Outsourced investment services

Our fiduciary and delegated management services and solutions look to be a complete reflection of our investment expertise – building portfolios comprising our best thinking on return generation and robust risk management. We leverage the breadth of our research and insight to integrate sustainability across our investment processes, tools and decision making.

Our approach to integration is similar to our core consulting business, but given delegation of assets, we have greater opportunity to fully reflect and implement the agreed investment beliefs in client portfolios compared to a typical advisory relationship. Our fiduciary and delegated mandates are therefore our best opportunity to fully embed and leverage our research and idea generation to build portfolios that reflect our best ideas and ultimately deliver better outcomes for our clients.

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

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

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

- Scrutinising the SI and stewardship credentials and activities of managers appointed within our portfolio, and all else equal allocating to those who display best practices in these areas
- Appointing EOS at Federated Hermes (EOS) as a specialist stewardship provider to provide additional engagement and voting advice for some strategies within our delegated portfolios
- Managing portfolio exposure to sustainability-related risks
- Increasing exposure to sustainability-related opportunities
- Using tilted / targeted allocations where sustainability factors (including ESG) are material and/or mispriced
- Capturing systematic mis-pricing, e.g. move to a sustainability aware active manager or investment in an ESG tilted smart beta index

- Negative screening (e.g. exclusions to mitigate potential loss)
- Assessment of opportunities aligned to the UN Sustainable Development Goals (SDGs)
- Reverse-stress testing to determine materiality of sustainability themes / trends in terms of impact on performance and portfolio exposure
- Projection and calculation of expected impact of long-term sustainability themes / trends on performance and objectives / mission
- Physical climate risk country / industry heat map analysis
- Climate scenario modelling / analysis
- Portfolio climate reporting

Reporting

As mentioned, our reporting activities depend largely on how we have been engaged by the specific client. However, here we describe the key tools we use for monitoring investment and stewardship activities and how we typically communicate these to our clients:

a. Sustainability scorecard

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

b. Sustainable investment reports

We undertake detailed assessments of the sustainability practices of many managers, including all highly rated strategies used in our delegated portfolios. These assessments are summarised in our annual sustainable investment reports, which are tailored to the asset class and strategy in question, covering ESG integration and investor stewardship (engagement and voting (where applicable)). Our research team complete, update and review these reports as appropriate, mindful of both changes to the manager or strategy, as well as evolutions in industry best practices on an annual basis. Our Portfolio Management Group (PMG) is responsible for reviewing new manager products before they are available for delegated portfolios, and as part of this, PMG review the sustainable investment reports. On an annual basis, PMG consolidate all the manager sustainable investment reports to review them in their entirety and in a portfolio context.

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

c. Climate dashboard

The sustainability scorecard mentioned above has traditionally included several climate-related metrics. Since making our formal net zero commitment, we have expanded the datapoints we use to explore climate risks and opportunities throughout 2021. In adherence to our reporting responsibilities and commitments, we have developed a Climate Dashboard which displays this enhanced list of data and metrics across all our discretionary assets, including pooled funds. As part of this we are also including subsequent strategy specific carbon journey plans. Our annual reporting therefore aims to show an increased variety of data points to assess metrics from baseline to targets, both in the interim and against long term goals.

Figures 1 and 2 respectively show a carbon journey plan and climate dashboard for an illustrative portfolio. Full reporting would include portfolio specific commentary and performance narrative to explain the dashboard and its output, as well as corresponding approach to data and methodologies.

Figure 1

Climate dashboard
Portfolio X

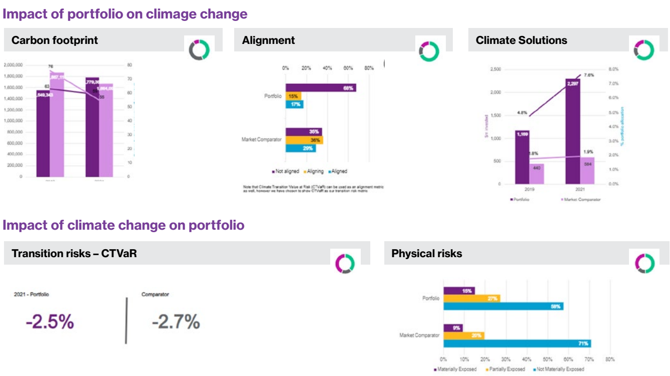
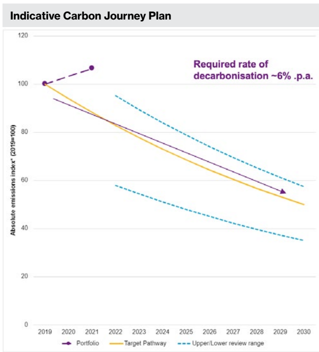


Figure 2

Portfolio X Carbon Journey Plan



- The Carbon Journey Plan (CJP) sets out a pathway of emissions from 2019 to 2030 that is consistent with the Fund's long-term net zero goals. It sets out an annual carbon budget for the portfolio that is consistent with a net-zero transition. The purpose of this analysis is to show the historical pathway of the portfolio's emissions against the desired long-term pathway to net zero.
- Explanation to cover: portfolio carbon emissions, outline of the balanced scorecard of metrics to consider, level of comfort that the existing carbon journey plan continues to set out an appropriate portfolio trajectory to net zero.

Please note these charts are for illustration purposes ONLY.

How do we monitor asset managers on their stewardship activities?

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

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

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

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

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

Product voting activity	
# eligible votes	450
% votes exercised	100%
% against | abstained	7% | 1%
% against remuneration	7%
% for shareholder proposal	19%
Top two topics voted against or abstained	General governance; Social

Product engagement activity	
# of companies engaged	30
# of engagements	35F
Top two engagement topics	Social; Board of Directors
Most significant company engagement	PQR (Socila)

Section B – Investment approach

Most significant votes:

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

Most significant engagements:

Company	Weight	Topic	Engagement details
PQR	Portfolio: 0.1% Firm: 0.2%	Social	Manager ABC has been a long-term shareholder in PQR. Operational performance has been impressive, underpinned by management's focus on keeping costs low, which has included using their scale and patience to get better rates for large-scale purchases. However, perhaps as a side-effect of such a strong focus on low costs, the company has attracted increasing criticism regarding its interaction with customers, employees and sometimes shareholders. In the Manager's view, stakeholder relations can impact the sustainability of a company's long-term strategy and therefore the investment case. For this reason, Manager ABC has engaged extensively with the company on a range of matters over the past few years. While Manager ABC recognises the company still has more to do, compared with five years ago, Manager ABC believes their engagement has resulted in some improvements to stakeholder relations. Manager ABC believes measures of success here include: • Any positive improvements made to corporate governance, shareholder rights, and employment practices • Any future requests for Manager ABC's input to changes in all the aforementioned areas
MNO	Portfolio: 0.1% Firm: 0.1%	Regulatory	Manager ABC engaged with Company MNO in Q1, primarily concerning regulatory pressure and public sentiment. The engagement with the CEO VP of Global Policy gave Manager ABC an overall impression that having attempted to contain issues around content and privacy, Company MNO was taking action. In Q3 Manager ABC had a meeting with the CEO and COO who made clear that the Company's acceptance of past errors has turned into action. Manager ABC were reassured that the Company is taking an increasingly proactive approach to addressing societal concerns. The Manager considers the ultimate measure of the success of their ESG and engagement activities is the long-term performance of their investment strategies.

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

The data we are collecting on voting and engagement are aligned with UK reporting requirements under Pensions and Lifetime Savings Association (PLSA) guidelines. We were part of the industry group who helped design the voting template, and we have also promoted its usefulness and refinement via the Investment Consultants Sustainability Working Group (ICSWG). Within the ICSWG stewardship stream, we have co-led the development of the ICSWG Engagement Reporting Guide, published in November 2021, which is a guide for asset managers designed to support the consistent collection of engagement data.

Client communication from EOS at Federated Hermes

As described and illustrated elsewhere in this report, EOS at Federated Hermes (EOS) provide a range of high quality, formal, qualitative and quantitative reporting for their clients (including us) on a regular basis (monthly, quarterly and annually) which supplements our own client communications.

This reporting outlines how EOS have implemented their engagement policy and is designed to help clients communicate with their internal and external stakeholders. The reporting includes statistics, engagement information (objectives, progress, meeting notes), case study examples and voting recommendations.

EOS gives clients the option to provide their input for consideration alongside other factors, on the development of a forward-looking Engagement Plan as described earlier.

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

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

Outcomes

Enhancing outcomes for clients

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

Below we describe some key examples of this in 2021:

- We incorporated views from several clients (either collected directly or from feedback from senior consultants) on the key ESG issues they prioritise. We then shared this with EOS as part of an annual questionnaire process they use to help prioritise their activities. Climate was the top priority identified in 2021 and was also the top focus of EOS' activities.
- Clients requested that we broaden our product coverage so that we can provide reports for all their investment managers. We have since upgraded our processes accordingly and are rolling this out to clients across 2022.
- Increasing focus on climate has meant clients need enhanced resources and knowledge in the space. We have therefore made significant investments into climate data and metrics, as well as utilising our experts in our Climate and Resilience Hub to ensure we are best equipped to assist clients. We have also increased training and education of our consultants and client teams to complement this.
- Clients are understandably expressing their preferences around the presentation of climate metrics and data. We have put significant effort in 2021 into producing our Climate Dashboard (shown above), as part of our monitoring and client reporting. This displays key metrics and commentary in a simple and straightforward way.

In the UK...

The Department of Work and Pensions climate regulation explicitly encourages clients to evaluate the ability of their advisors to incorporate climate change in their recommendations. As a result of this, we were evaluated during 2021 by our large clients on this basis.

Furthermore, clients have been required to put in place an appropriate governance structure for managing climate risk. To this end, we recommend that our formal Competition and Markets Authority objectives are amended to make clear that we are responsible for reflecting climate change in our advice. Clients are required to formally assess us against these objectives annual, following which we typically receive the feedback.

Further methods for evaluating effectiveness

In addition to this, we have further formal mechanisms specifically on client feedback which help us ensure we are as effective as possible for clients.

With respect to UK delegated clients as an illustration, here we describe how we regularly review the services we provide:

a. Client feedback

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

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

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

b. Solutions feedback

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

c. Portfolio management feedback

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

We undertook an annual survey with our UK clients, and the headline results from approximately 200 respondents are:

99% of respondents described the overall experience of working with WTW Investment services over the past 12 months as good, very good or excellent

98% of respondents said portfolio performance was good, very good or excellent

Note: Past performance does not predict future returns. Please refer to the risk warnings in the Appendix for further information.

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

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

We also work with third party evaluators who oversee fiduciary managers and assess both our performance and our approach on behalf of our mutual clients. You can read more about this in Principle 5.

In the UK, we undertook Independent Client First interviews with 71 clients over 2021, sometimes with multiple individuals. Clients asked us for:

- More interaction with wider team members. We have:
  - Used the virtual world to increase the number of attendees at formal meetings
  - Encouraged more informal interactions throughout the team
  - Used the right specialists, in the right situation
- Good interaction with other advisers, especially the Scheme Actuary. We ensure we:
  - Continued to emphasise the benefits of integrated thinking, particularly in valuation discussions
  - Focussed on risk as much as return
- Value for money. We took steps to:
  - Provide annual assessments of the work undertaken, and the associated outcomes
  - Look to develop the Competitions and Markets Authority (CMA) objectives exercise to be more meaningful
  - Seek feedback through projects
- Innovation, particularly around ESG metrics. We have:
  - Developed comprehensive reporting
  - Continued to develop investment products that meet these demands
  - Taken clients along at the pace suitable for them
  - Fully engaged with sponsors, in particular those who have made strong statements on their net zero targets.

Principle 7 – Stewardship, investment and ESG integration

Sustainable investment and stewardship as a core activity

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

Context and activities

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

Stewardship

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

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

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

a. Asset manager engagement

The main goals of our manager research process are:

a) finding the best asset managers capable of delivering superior net-of-fees outcomes to our clients over an appropriate time frame; and

b) working together with these organisations to explore ways to better meet our clients' evolving needs and industry best practice.

Each of our asset manager appointments is seen as a long-term partnership with an institution we rate highly. **Our manager research team practises asset manager engagement in the same manner that we ourselves expect asset managers to engage in a constructive dialogue with the businesses, issuers and assets they own.**

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

- Sustainable investment
- Culture
- Inclusion and diversity

What constitutes best practice in these three areas has been rapidly evolving, and as a result, we engage with asset managers not only to evaluate their current capabilities but also their plans and desired outcomes in the future plus activities to achieve them.

We encourage our preferred asset managers to articulate their purpose beyond narrowly defined financial returns and include benefits for clients, employees, society and planet.

We want to engage with those firms that recognise their responsibility in actively creating a sustainable future and expect an industry mindset shift in the way leading groups make their investment and business decisions towards more direct consideration of externalities. One important example is encouraging our preferred managers to carefully consider the coming global climate transition in their investment decisions.

We highlight stewardship as an area where the industry can and should do more. Where appropriate, engaging with underlying businesses, issuers and operating assets, not on quarterly results, financial models and valuations but on their longer-term strategies, culture, leadership, innovation, and sustainability is an opportunity for the asset management community to demonstrate actual value creation to society. During 2021, we undertook a number of projects to engage on common issues across groups of asset managers, alongside publishing position papers and running group events.

With closed-end funds, we often have significant representation on investor advisory committees which allows us a clear mechanism for ongoing engagement, oversight and influence. We currently have seats on over 60 investor advisory committees. Across our private equity strategies, we are on 37 boards.

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

In addition, our manager research team engages with our preferred asset managers and other third parties to design and provide seed capital for new solutions where existing offerings do not meet our clients' needs. We have created more than 233 such new solutions since the beginning of 2019.

b. Issuer- and asset-level engagement

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

To supplement corporate engagement carried out by individual asset managers, specialist stewardship provider EOS provides additional corporate engagement to that of the asset managers for several of our funds, applying their expertise, scale and market standing to effect positive change. See Principle 9 for some case studies of their activity on this front in 2021.

c. Voting

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

i. Third party funds

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

ii. Managed accounts

Where stocks are invested via managed accounts WTW make no underlying stock selection decisions; these continue to be outsourced to third party, best-in-class, specialist asset managers who also retain final decision-making authority for voting. However, we can influence voting more easily than for third party funds. As per above our manager research team reviews the voting policy and practice of the underlying asset managers to ensure good practice. In addition, across our active stock selection Global Equity Focus Fund (GEFF) range we use EOS to provide policy input and further voting guidance to the underlying asset managers. EOS' input is informed by its extensive research and experience in stewardship as well as their long-term engagement activities with companies. We then regularly monitor the voting decisions each manager makes against the guidance by EOS, engaging or challenging the underlying asset manager where necessary.

You can see EOS's global voting guidelines here. EOS's key policy documents and approach to stewardship and escalation are available online here. Our conviction, monitoring and ongoing engagement with EOS is described elsewhere in this report, including in response to Principle 8.

Throughout this process we pay particular attention to ESG related resolutions especially on the topic of climate given this is a key topic for many of our clients.

d. Public policy, advocacy and collaboration

We have strong conviction that collaborative engagement and advocacy are important to give the investment industry a stronger voice and improve investment outcomes for all participants. As a trusted adviser, we believe that undertaking activities to promote resilient and well-functioning economic and investment markets is consistent with our fiduciary duty and with our aim of changing investment for the better. We do this in several ways, including engaging in a dialogue with regulators and policymakers and participating in the work of industry bodies and collaborative investor initiatives, to promote high industry standards and effective investment markets.

Please refer to Principle 10 for examples of our activities in industry wide collaborative initiatives and engagements. Our partnership with EOS also allows them to engage with policy makers and institutions around the world on our and our clients' behalves. This is an area in which we feel EOS is very strong. Please refer to our Spotlight page and Principle 4 for examples of activity EOS has performed on our behalf.

Systematic ESG Integration

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

a. Asset research

i. Identifying investment opportunities and risks

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

ii. Long-term themes

Our asset research team analyse long-term global trends and have developed detailed long-term themes which we subsequently consider the exposure of our portfolios to. WTW tracks hundreds of specific geographical and sectoral changes driven by changes in policy, supply and demand, investment, and purpose. This type of probabilistic real-world risk assessment enables us to determine which components or uncertainties, with regards to the following three themes, pose the greatest risk and opportunities to financial investors and countries. We that we develop investment strategies that manage that risk, reduce the uncertainty, add financial value and create positive impact.

Our 2022 Global Investment Outlook identifies prosperity, inclusive growth and climate transition as key areas with multiple interactions which investors need to consider in line with sustainable growth.

b. Portfolio management

Our portfolio construction process focusses on maximising portfolio quality, as evaluated through a number of 'lenses', including sustainability. This helps us build robust, diversified portfolios as we describe in Principle 6.

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

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

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

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

The portfolio management team has the job of bringing together all of the research, risk management and idea generation done by different specialist teams in the business in a consistent manner for all our clients and funds. Our clients have many different constraints and types of mandate with us, meaning a 'one size fits all' approach is not possible. Each portfolio management team must make different trade-offs to create the best quality portfolio possible through our lenses, guided by our Portfolio Management Group (PMG), which is responsible for setting model portfolios for delegated clients globally.

c. Portfolio tools

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

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

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

d. Manager research

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

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

In addition, we recognise that long-term themes may create return opportunities and we explore these through our manager research process too, where we look for positive alignment, particularly in private markets.

Finally, a large part of our manager research process is based on assessing the culture in place at the asset manager. Our Thinking Ahead Institute has written multiple papers on how to assess culture, focusing on leadership, the client value proposition and the employee value proposition. SI plays a significant part in this culture assessment, including inclusion and diversity principles. We discuss this in Principle 1.

In order to better assess the quality of sustainable investment approaches, our focus varies by asset class and we believe it is vital to tailor our consideration of SI to the specific context. Below we outline our manager research approach in respect of some different asset classes to demonstrate the use of common principles, but tailored application.

i. Equity research

Sustainability topics including ESG and stewardship are formally integrated into our deep due diligence and monitoring of equity managers.

Where sustainability themes could impact asset prices over the expected holding period, we expect managers to reflect this in their investment thesis, financial models, portfolio construction and stewardship activities (such as voting and engagement).

We require asset managers to navigate ESG risks across all strategies although we recognise active equity strategies with a long time horizon will be more sensitive to sustainability factors than trading style strategies which have a higher portfolio turnover and shorter expected holding periods. In particular passive strategies with permanent ownership can expect to feel the full force of market-wide impacts such as degradation of natural capital and physical or transition risks related to climate.

We assess the sustainability risk profile of equity portfolios and challenge asset managers by drawing on stock-specific data supplied by a third-party research providers as well as WTW's Climate Transition Analytics team. Through this we identify where the most material sustainability risks lie within a portfolio from a regional, sector and stock perspective. This analysis provides another lens alongside more traditional risk attribution, through which we assess portfolios. We place significant emphasis on the strength of an asset manager's assessment of these risks.

Our assessment also looks at the depth and quality of resourcing made available to integrate ESG and conduct effective stewardship, including people, tools and data. Specifically when looking at people resourcing, we assess calibre and level of industry experience, as well as degree of buy-in at all levels.

Where managers show shortcomings or deterioration in their approach to ESG integration and stewardship this feeds into our overall rating and assessment of their strategy. This may also trigger us to engage with the manager to improve practices.

Within the private equity space, you are investing capital in companies with a long hold period and the GP may be a majority owner of a company, which presents a strong opportunity for ESG integration and effective stewardship. It is expected that GPs will carefully integrate sustainability considerations throughout the entire investment process, with ESG risks and opportunities identified early on during the diligence phase and tailored ESG objectives set for each individual portfolio company, which can be executed during the value creation phase. We have engaged with generalist managers across all strategies to drive best-in-class ESG practices, promote better data collation and ESG target setting, and we have encouraged managers to align with a net zero pathway. Last year, we joined the ILPA ESG Data Convergence Initiative, where GPs and LPs have partnered to align on a standardized set of ESG metrics and mechanism for comparative reporting. We encouraged the GPs that we work with to join the initiative, and many of them have since joined. Asides from engaging with more generalist managers to drive best-in-class ESG practices, we are also actively seeking out more specialised strategies within the climate solutions space, utilising frameworks from the IIGCC and the EU Taxonomy to determine what can be considered a "climate solution".

ii. Credit research

Much of our approach is common to that described for equity managers above, that is, sustainability topics including ESG and stewardship are formally integrated into our due diligence and monitoring of credit managers. Despite being higher up in the capital structure, there is strong evidence that sustainability related themes can impact the credit worthiness of a firm, sovereign or securitisation, including their ability to access capital markets. Thus, a critical part of the manager assessment is around understanding the manager's ability to assess the sustainability risks of their respective issuers. Furthermore, despite the lack of voting rights issued with credit securities, it is clear that credit investors can have influence on the issuer and the wider investment system. Hence strong stewardship practice is critical.

Where our sustainability approach differs for credit managers is in the recognition that the credit universe is highly multi-dimensional. The universe is complex, with different borrowers, instruments, quality, maturity and place in the capital structure. This often means that a more nuanced approach is required, as different sustainability related themes could impact the securities from the same issuer in different ways. We expect managers to reflect this in their investment thesis, financial models, portfolio construction and stewardship activities.

Historically, for many credit strategies the financial risks associated with the environment and climate change have been perceived to be beyond their time horizons. However, it is clear that the energy transition away from fossil fuels is underway and currently impacting both corporate and sovereign issuers. We therefore expect managers to assess these risks as part of their investment and risk management processes as per any other financial risk. Similar to our approach for equities we challenge asset managers by drawing on issuer-specific data supplied by third-party providers as well as WTW's Climate Transition Analytics team. Through this we identify where the most material sustainability related risks lie within a manager's portfolio.

We actively seek out certain credit strategies that offer positive environmental impact, utilising frameworks from the IIGCC and the EU Taxonomy to determine what can be considered a "climate solution". Having identified issues with the labelled green bond market, we have looked beyond security-level third party verification to identify managers who can more effectively verify the environmental credentials of an issuer as a whole, combating the risk of greenwashing, sustainability-washing or other undesirable effects.

Within private debt, the wide range of collateral types requires a tailored ESG framework. With private debt fund lives averaging five to seven years, it is critical to consider thematic, longer-term market trends. Impact investing, or investing with an intention to generate social and environmental benefits alongside a financial return, is also more common in private debt as a result. We would expect a deeper understanding of material ESG issues versus public debt managers, given the bilateral nature of loans (negotiated directly between the manager and the borrower). It is unlikely that third-party research will exist on an issuer or asset. Positively, best-in-class managers have generally embraced this and consider ESG as a core part of their investment process. For direct lending managers that may be providing loans to companies owned by private equity sponsors, it is important that there is awareness of what the private equity firm is doing to further the understanding of ESG risks to that company. In doing so, this should help foster a culture across closed-end markets that see ESG as a necessary part of analysis and monitoring, and an area where it is important to engage.

A newer development in private debt is recognizing the financial benefits of a firm improving its approach to ESG, thereby incentivizing borrowers to decrease borrowing costs on demonstrable ESG progress. We are now seeing funds raised with the sole purpose of making loans that incentivize borrowers to improve on ESG-related practices through such measures as a borrowing cost reduction upon meeting specific ESG metrics/key performance indicators (KPIs) or, conversely, seeing borrowing costs rise if these goals are not met. Examples may include percentage of inputs into the business from recycled materials, achieving a meaningful reduction in emissions or achieving a higher level of female representation in company management. Once established, these KPIs can begin to be reported and assessed by an external third party.

iii. Real assets and infrastructure

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

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

We are strong advocates on the use of third parties such as GRESB for independent ESG auditing and measurement, as well as advocating for independent members of investment committees where appropriate and relevant. We formally monitor our strategies via regular meetings with managers, as well as through our proprietary WTW sustainable investment assessment process, rating and report. We have recommended many strong ESG scoring real assets strategies to clients and in several cases helped managers seed new strategies with strong sustainability credentials / themes. Examples include strategies focusing on sustainable indoor agriculture, renewable energy, social and temporary housing and waste to energy plants, forestry and Electric Vehicle (EV) charging. We are currently assessing the investment case for Hydrogen.

iv. Liquid diversifiers, including hedge funds

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

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

Outcomes

Across all asset classes, we researched 168 new sustainability-themed strategies in 2021. 10 of these were ultimately approved with our highest rating and recommended to our clients. **Over 2021, we made significant allocations to strategies in areas such as renewable energy, forestry, electrification infrastructure and sustainable agriculture.**

In 2021, we undertook over 150 engagements with over 100 asset managers on the topics of sustainability and stewardship. We also held seats on over 60 real asset fund advisory committees to help formalise our ongoing stewardship of those funds, as well as sitting on 37 boards across private equity strategies. Given the rise in prominence of ESG considerations in the marketplace, we found asset managers to be very open to discussing how they might improve their approach. Our manager research specialists were frequently used as a sounding board to understand best practice within a particular asset class and proactively reached out to asset managers who we thought were falling short of expectations on this front. In this context we saw a good level of receptiveness to suggestions for improvements with the vast majority of asset managers making progress in 2021.

Our preference is to build long-term relationships with asset managers and engage with laggards to achieve improvement over time. We are also sensitive to asset manager size in setting realistic demands. But still there were some asset manager examples during 2021 where we felt progress was too slow or where we decided the gap between current practice versus best practice was unlikely to be closed through engagement. Five managers were downgraded or rejected (after significant research engagement / due diligence) for this reason in 2021.

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

Inclusion & diversity

This has been part of our manager research and portfolio management process for many years, explicitly drawn out through our Culture reviews and engagement with managers. **I&D is considered for each new strategy we rate.** More recently in 2020 and 2021, we have doubled our efforts in this high priority area and have made some leaps forward, working to collect broader diversity data and create holistic tools for our internal teams and clients to assess diversity.

We are increasingly engaging with managers and collecting information on 25+ I&D factors for over 2,000 products in our proprietary database. In 2022, we will be expanding our data collection further, leveraging our collaboration with the Diversity Project and the Asset Owners Diversity Charter to build out an extensive industry-standard questionnaire. Alongside this, we will record qualitative, forward-looking views of I&D for our Preferred rated products, leveraging our regular engagements.

To truly understand the current state of play, we advocate for higher quality diversity data across the industry. Alongside this, we continue to amplify both our sourcing and engagement efforts with managers. Doing this in parallel gives us the greatest chance of making a wider impact across the industry.

In 2021:

- We conducted over 85 I&D specific engagements with managers
- We collected granular, multi-dimensional diversity data for 450+ of our Preferred rated products

We continue to undertake regular I&D engagements with managers, with a nearer term focus on more data transparency and more robust I&D policies and initiatives. In turn, we have run our Investment Committee diversity analysis on WTW's own investment teams, and we have run our client 'Diversity Dashboard' for all WTW TWIM funds. Having this transparency available to our Investment Committees ensures I&D is properly considered at the portfolio level when making investment decisions.

Case Study 1: Identifying and investing in a hedge fund manager with positive ESG qualities

We identified a new equity long-short manager with a focus on investment in companies that offer disruptive, market-driven solutions to global sustainability challenges. This strategy runs a fairly concentrated portfolio of approximately 50 positions on the long and short sides across a wide range of sectors including energy, industrials, infrastructure, technology, and consumer.

As part of the investment process, the manager assesses investment opportunities that focus on sustainability by evaluating each business based on its core operating activity. They view sustainably oriented businesses as companies offering lower environmental impact or less resource-intensive products or services than incumbent players. The manager strives for a positive inclusion bias (not a formal screen out list) and seeks to consider material ESG-related risk factors as part of the investment process. The manager also has strong stewardship characteristics, including engagement with all portfolio companies on ESG issues and monitoring of their adherence towards goals.

The portfolio currently has exposure to a broad array of sustainability themes, including to the United Nations' Sustainable Development Goals ("UN SDGs") of 'affordable and clean energy' and 'clean water and sanitation', as well as other themes such as health conscious consumer preferences and electric vehicles.

Outcome:
This strategy was added to one of our multi-manager portfolios.

Case Study 2: Real assets US oil royalties – rejected opportunity due to ESG concerns

We were approached by a manager to consider a fund investing in US oil royalties. Oil royalties are perpetual land interests entitling the owner to a percentage of revenue from oil extraction activities operating on the land. This was a small and niche strategy focused on a segment of the market where there appeared to be mis-pricings.

Although the central scenario expected returns appeared attractive, our team felt uncomfortable with the downside scenarios, especially in an environment where there was a risk of stranded assets. The team was also concerned that the managers ESG policy was generic and lacked details around the specifics of the strategy.

Outcome:
We decided not to conduct our normal detailed research on this strategy as we felt there were more compelling ideas which also integrated more of a sustainability tailwind.

Case Study 3: Engaging with a global sovereign bond manager on its culture

Throughout 2020 and 2021, WTW engaged with a global sovereign bond manager on its culture. WTW rate this manager Preferred across a number of strategies and seeded a new idea with them in 2020. The team's diversity was broadly similar to industry averages – but less so at senior levels – and leadership's attitude towards culture and diversity, while not necessarily weak, was less formalized than many peers and at risk of falling further behind best practice.

We highlighted areas of weakness in a detailed feedback session and shared best practice policies and actions. Areas discussed included: lack of reporting on diversity metrics (current and target), limited practices to attract and retain a diverse workforce, and weaker diversity within investment team leadership. The manager was very receptive to the feedback and has actively sought our ongoing input.

Outcome:
The senior leadership group is small and stable, so meaningful change in metrics at that level will take time, but the firm has taken tangible steps to improve at intermediate/junior levels and in non-investment functions:

- Greater transparency – the manager now tracks employee diversity across a range of metrics (voluntary 90% opt-in rate) and publicly publishes aggregate results on a quarterly basis.
- Better internal policies and practices:
  - Staff have undergone unconscious bias and inclusive performance management training.
  - Cultural factors are now formally embedded in staff KPIs.
  - HR policies have been updated to be more gender-neutral and more flexible working arrangements adopted as the manager works toward fostering a more inclusive workplace.
- Broader recruiting and external engagement - the manager has committed to more diverse recruitment practices, initially focusing on current areas of underrepresentation within the team. The firm has also redesigned its intern program replacing a largely referral-based model with broader & deliberately diverse sourcing channels. It has also published its first CSR report – publicly committing to change and reporting its progress going forward.

What has been keeping our manager research teams busy? Asset class specific 2021 highlights

Equities

- With the aim of ensuring that climate risks are assessed and managed, in 2021 we researched over 30 public equity strategies with a climate or environmental focus.
- We were involved in the initiative to launch an innovative new Climate Transition Index (CTI) as described elsewhere in this report.
- WTW's net zero commitment led to significant engagement with public equity managers, in particular those used within our delegated client portfolios over our expectations for them with regards to net zero. For asset managers in our Global Equity Focus Fund this included a company-by-company assessment of holdings most at risk from climate transition and monitoring of asset manager engagement for these companies. We designed a new monitoring report to assist with this process.
- Within private equity, we undertook a number of projects contributing to enhanced disclosure:
  - We reviewed potential third-party service providers that focus on improving quality of emissions reporting. We then assisted GP's we work with in selecting a provider.
  - We joined IPLA's ESG Data Convergence initiative and encouraged GP's we work with to participate. The Project's objective is to streamline the private equity industry's historically fragmented approach to collecting and reporting ESG data in order to create a critical mass of meaningful, performance-based, comparable ESG data from private companies.
  - Our Asian team also contributed to a PAII paper on private equity, which will be used for building out the NZIF framework on private equity.

Credit

Recognising key ESG risks and opportunities across different subsectors of credit, before identifying solutions for our client's portfolios has been a focus in 2021. This was summarised in our paper An asset owners guide to fixed income ESG integration.

Across the year our credit team:

- Published a paper on managing climate risk in Buy and Maintain mandates
- Rated a climate bond strategy, which invests in the credits of corporates who are aligning with the Paris Agreement
- Launched our Focused HY strategy in EMEA with explicit sustainability related exclusions
- Participated in several roundtable discussions on topics including ESG integration in credit and the green bond market
- Engaged with our rated managers who were classed as laggards, which led to the majority of them being upgraded by the end of the year
- Assisted our Climate and Resilience Hub with the development of a Debt CTVaR metric to help better assess the climate transition risk of our credit portfolios

Real assets and infrastructure
A particular engagement focus during the year has been on the collection and reporting of emissions data. Given the nature of real assets, this requires landlords to actively engage with tenants, something we are seeing them start to do. The situation is more complex for other sub-asset classes within real assets but all have a part to play in reporting on net zero journey plans.

Liquid diversifiers including hedge funds
Researching and engaging with new strategies, in particular: one focusing on investing in companies offering disruptive, market-driven solutions to global sustainability challenges and another investing in carbon allowances, supporting a smooth transition to a low carbon intensive economy.

Spotlight on: Inclusion and diversity

We recognise that inclusion and diversity (I&D) is a significant industry challenge. In 2021, we continued to prioritise I&D – our aim is to encourage diverse teams to deliver the best possible outcomes for our clients, and to support representation in the investment industry.

Researching I&D

Our Thinking Ahead Institute (TAI) continues to focus on I&D in its research agenda. In particular, the latest edition of the ongoing The Power of Culture (TPOC) study, published in 2021, demonstrates how culture differentiates investment organisations. I&D is a cornerstone of exceptional culture, strengthening belonging, group identity, and cognitive diversity. While study findings are encouraging, there is still plenty of room for progress in I&D across the investment industry.

Engaging on I&D

Through 2021, I&D has been one of our key pillars of engagement with the asset manager industry, alongside sustainable investment and culture. Throughout the year, **we conducted over 85 I&D-specific engagements with asset managers.**

We believe that asset managers should better reflect society and the diversity characteristics of institutional savers on whose behalf they operate.

Assessing I&D

A large part of our manager research process is based on assessing the culture in place at the asset manager and I&D is considered for each new strategy we rate. Increasingly, we are engaging with managers and collecting information on more than 25 I&D factors for over 2,000 products in our proprietary database. We have requested additional granular metrics for 450+ of our Preferred rated products. In 2022, we will be expanding our data collection further, leveraging our collaboration with the Diversity Project and the Asset Owners Diversity Charter to build out an extensive industry-standard questionnaire. Alongside this, we will record qualitative, forward-looking views of I&D for our Preferred rated products, leveraging our regular engagements.

We have run our Investment Committee diversity analysis on WTW's own investment teams, and we have run our client 'Diversity Dashboard' for all WTW TWIM funds. Having this transparency available to our Investment Committees ensures I&D is properly considered at the portfolio level when making investment decisions.

The Diversity Project

We are founder members of The Diversity Project – an initiative which aims to attract and retain diverse talent in the industry. In 2021 we contributed to the design of and became a signatory of its Asset Owner Diversity Charter, which was formed with an objective to formalise a set of actions that asset owners can commit to, to improve diversity, in all forms, across the investment industry. Our Global Head of Research also sits on the Diversity Project's Advisory Board.

In 2021, we:

- Signed the Asset Owner Diversity Charter
- Contributed to Institutional Investing Diversity Cooperative (IIDC) Diversity Disclosure Standard
- Continued to participate as a member of INREV ESG Committee and INREV Inclusion and Diversity sub-committee
- Responded to the Diverse Asset Managers Initiative (DAMI) Investment Consultant survey

Principle 8 – Monitoring managers and service providers

Working closely together for effective client delivery

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

Activities and outcomes

In order to deliver the best possible advice and solutions to our clients, we work with a large number of external parties and service providers. Most notably in respect of Sustainable Investment (SI) and stewardship, these include asset managers, data providers and stewardship specialists.

We have outlined below some key details of how we work together and monitor these firms, and specific activities during 2021 that are illustrative of our ongoing engagements and partnerships.

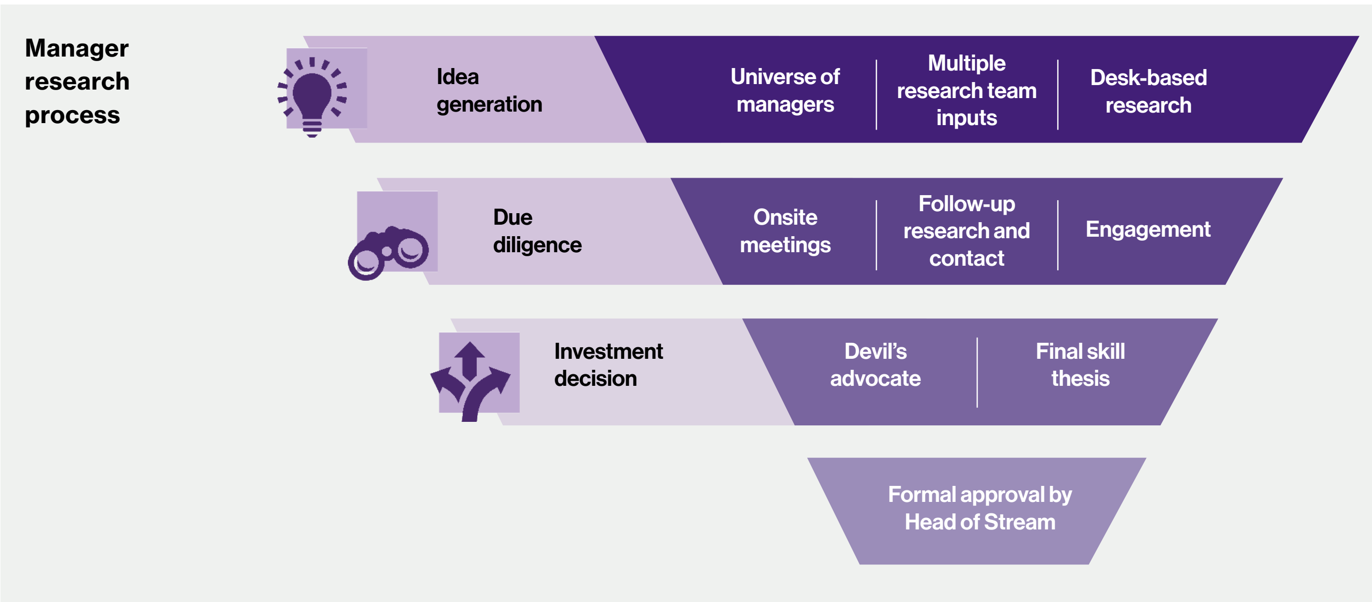
Asset managers

As detailed throughout this report, we work very closely with the asset management industry.

Our aim is to unlock the highest conviction investment opportunities. There are tens of thousands of institutional investment products available and although we have one of the largest global research teams, our research agenda is highly focused:

- Focus on product creation and innovation – we focus on identifying attractive investment opportunities using our extensive network and then determining the most appropriate implementation of these ideas. We have helped create over 233 such products with significant benefits, including lower fees, more appropriate fund structures and better tax transparency since the beginning of 2019.
- Focus on high conviction ideas – we focus on products which we believe will outperform net of fees
- Use of technology – we have developed proprietary tools and a structured assessment methodology that allow us to engage with the asset management market more efficiently. This sits alongside our qualitative research to challenge any unconscious biases that could otherwise exist.

Our analysis seeks to identify 'success factors' (see table below) focused on a manager's competitive advantage and its sustainability.



Manager selection criteria

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

Throughout this report, and in particular in response to Principles 7 we have described and evidenced the outcomes of our ongoing engagement with the asset management industry, where SI and stewardship have been key pillars. During 2021, we engaged extensively with the asset manager community on SI, and as mentioned previously we conducted over 150 such engagements with over 100 managers. We saw a good level of receptiveness to suggestions for improvements, with the vast majority of asset managers making progress in 2021. Our preference is to build long-term relationships with asset managers and engage with laggards to achieve improvement over time. We are also sensitive to asset manager size in setting realistic demands. But still there were some asset manager examples during 2021 where we felt progress was too slow or where we decided the gap between current practice versus best practice was unlikely to be closed through engagement. Five managers were downgraded or rejected (after significant research engagement / due diligence) for this reason in 2021.

Data providers

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

Our principal external data provider for SI is MSCI ESG Research. We have partnered with MSCI for several years and during that period have undertaken significant reviews of other data providers as well. This ensures we have access to the best quality data in the marketplace to match our and our clients' needs. We have been regular members of the MSCI EMEA Client Advisory Panel sessions and have had numerous additional meetings where we offer feedback on different strategies and process developments.

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

Investing in enhanced climate data and metrics has been a key priority in 2021. To supplement the extensive data we receive from MSCI, we have been combining it with our proprietary Climate Transition Value at Risk (CTVaR) data and in-house analytics for assessing physical risk data.

Additionally, last year we noted that we were investigating expanding our SI data with a focus on real assets. From 2021, we now subscribe to GRESB to cover unlisted real assets data and are increasingly integrating such research into our processes.

Stewardship specialists

As highlighted earlier in this report, we have partnered with EOS at Federated Hermes (EOS) for several years.

We have a dedicated relationship manager at both WTW and EOS, and regular ongoing and open communication and reporting – as outlined in Principle 2.

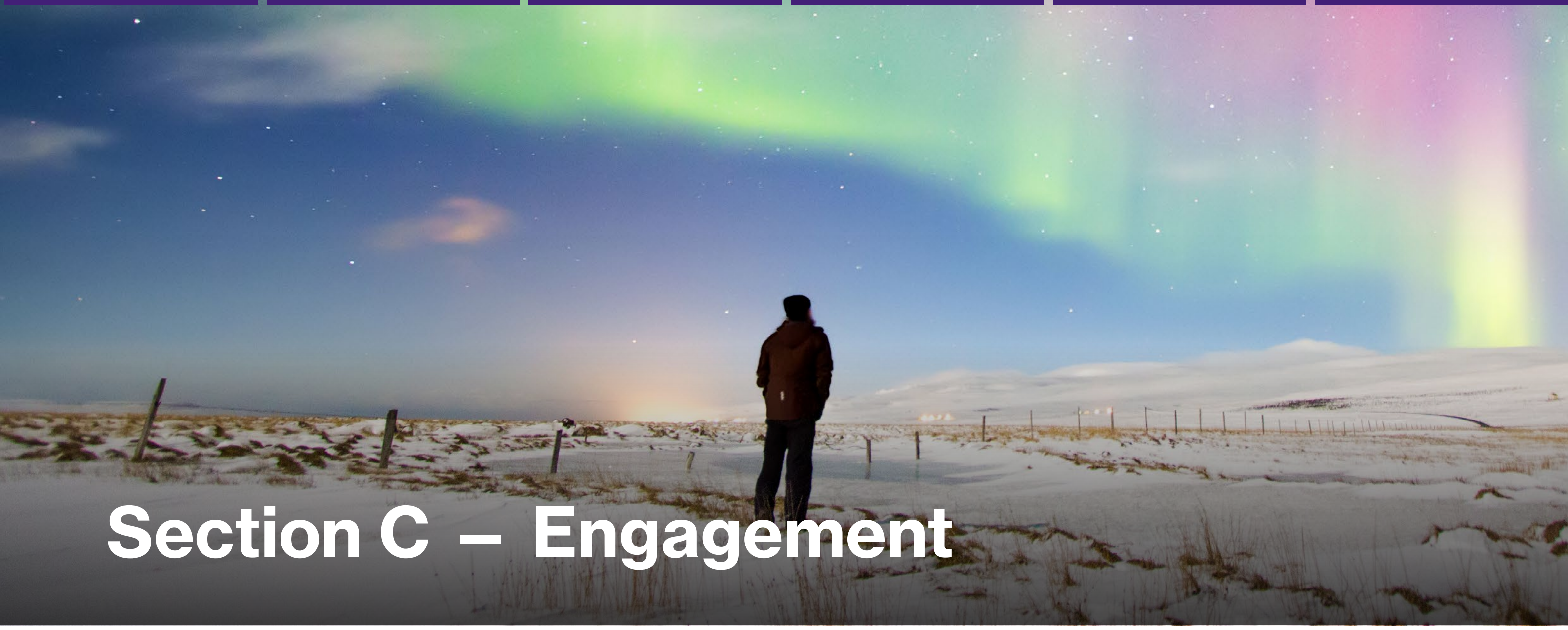
In 2021, we undertook an extensive review process to assess the current stewardship provider marketplace against our client's needs. It was important we were up to date with the market and the various firms' activities to ensure we are constantly providing the best service and options to our clients worldwide. We identified a number of suitable firms and put together a questionnaire for them, alongside reviewing publicly available information and third-party research. We went on to interview and meet a number of firms.

Our conclusion of the review was to retain EOS as our overlay provider, primarily deeming them the best fit for our client's requirements.

We believe that EOS have delivered an excellent service, and this is evidenced through our close collaboration but also in terms of their engagement activities with corporates and on public policy.

To help illustrate these activities and outcomes, we would highlight the EOS 2021 Annual Review and our Spotlight page.

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



Section C – Engagement

Principle 9 – Engagement

Proactive engagement for better outcomes

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

Activities

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

Below we reiterate some key highlights and examples of our work in respect of our asset manager engagement and issuer- and asset-level engagement. We note that asset manager engagement is also addressed under Principle 7 in some detail. Our public policy, advocacy and collaboration is particularly addressed in Principle 10.

Issuer- and asset-level engagement

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

What about fixed income?

While we have mainly highlighted equity related activity under this Principle, influencing issuers is also a key part of fixed income investing. We provide examples of engagement by fixed income asset managers in case study 3 within Principle 9 and the issuer engagement case studies in both Principles 10 and 11.

In 2021, engaging with issuers became a central expectation for fixed income investing. We saw our managers move on from making statements about the non-applicability of engaging in fixed income to providing detailed engagement examples with concrete outcomes. Gaining influence with the issuers was the biggest challenge given the lack of voting rights, so investors relied on dialogue relating to specific sustainability objectives with a laser focus on the business case. This granted them access to senior decision makers at the issuer who were often open to engagements relating to sustainability matters and the covenants and protections for debt investors. Debt investors' influence was seen to increase dramatically when they engaged alongside equity investors with the same objectives. We increasingly see debt investors engage with the equity owners in order to align objectives.

Section C – Engagement

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

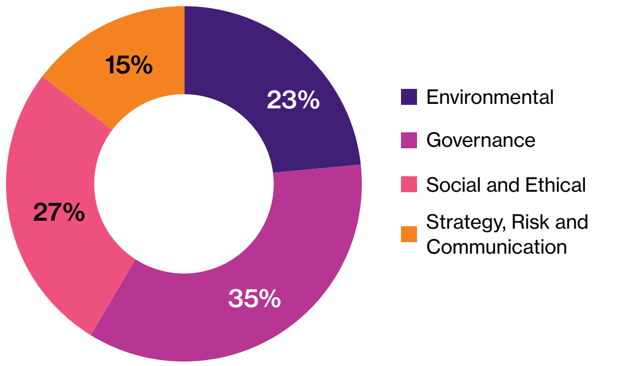
We have worked closely with EOS for many years and input into their engagement planning and prioritisation (see Principle 2 for details).

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

In 2021, EOS engaged with companies held in the GEFF portfolio on a range of 463 ESG, strategy, risk, and communication issues and objectives.

EOS at Federated Hermes had 463 engagements with the companies in GEFF's portfolio over 2021

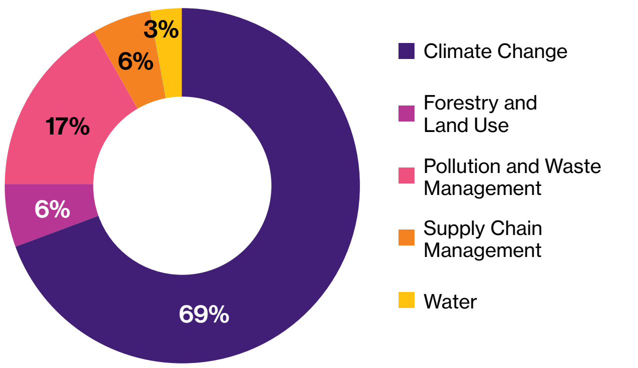
463 engagements across 94 companies



Source: EOS, December 2021.

Environmental topics featured in 23% of engagements in 2021

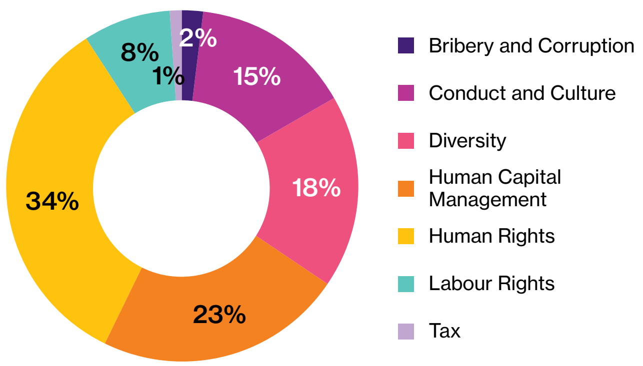
108 Environmental engagements



Source: EOS, December 2021.

Social and ethical topics featured in 27% of engagements in 2021

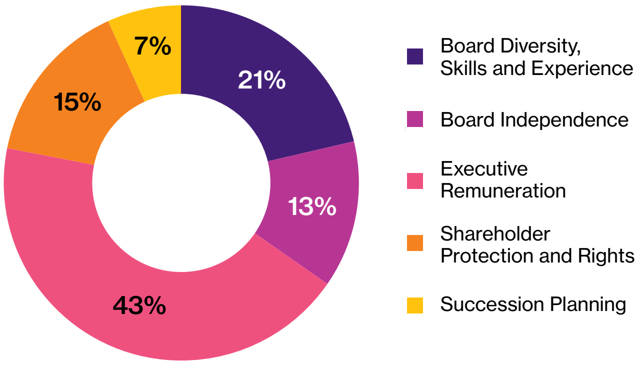
123 Social and Ethical engagements



Source: EOS, December 2021.

Governance topics featured in 35% of engagements in 2021

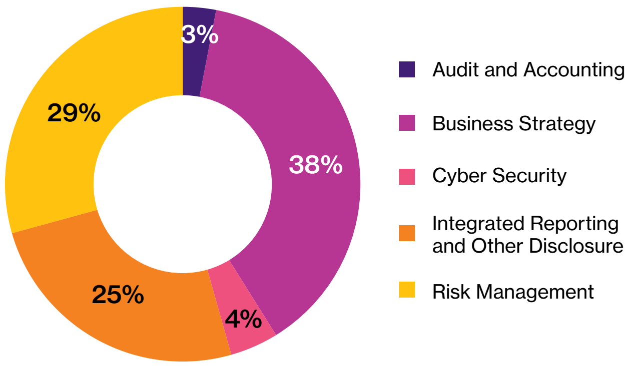
164 Governance engagements



Source: EOS, December 2021.

Strategy, risk and communication topics featured in 15% of engagements in 2021

68 Strategy, Risk and Communication engagements



Source: EOS, December 2021.

Manager engagement

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

The main goals of our manager research process are:

a. *finding the best asset managers capable of delivering superior net-of-fees outcomes to our clients over an appropriate time frame; and*

b. *working together with these organisations to explore ways to better meet our clients' evolving needs and industry best practice.*

As mentioned in Principle 7, three main priorities that continue to define our asset manager engagement in the foreseeable future are as follows:

- Sustainable investment
- Culture
- Inclusion and diversity

What constitutes best practice in these three areas has been rapidly evolving, and as a result, we engage with asset managers not only to evaluate their current capabilities but also their plans and desired outcomes in the future plus activities to achieve them. This is described in further detail below and elsewhere in this report.

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

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

Our researchers have deep specialist knowledge so are well placed to understand the areas of relevance for each asset class. Our manager research specialists were frequently used as a sounding board to understand best practice and proactively reached out to asset managers who we thought were falling short of expectations on this front.

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

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

Our aim to change investment for the better continues and, as industry practice has evolved, we have raised the bar for what we consider to be good practice. New criteria will be incorporated in our SI reports over time, as the questions we ask are reviewed annually.

For example, as part of our increased focus on climate and our net zero commitment, we have been encouraging asset managers to provide more information around their engagement with climate laggards.

In addition to manager-specific engagement conversations we also undertook projects to engage on common issues across groups of managers, published position papers on key topics and ran group events. One example is our annual Managers Ideas Exchange publication. We provide further examples under Principle 7.

In particular we recognise the importance of engagement beyond listed markets, and view effective stewardship as a critical component of successful private markets investing. In respect of specific funds and co-investments, we often look to formalise our ongoing engagement with asset managers via membership of investor advisory committees or similar. Currently we hold seats on over 60 real asset fund advisory committees to help formalise our ongoing stewardship of those funds, as well as sitting on 37 boards across private equity strategies.

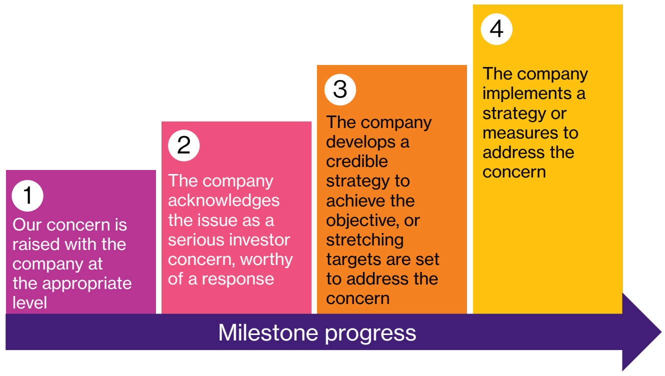
The funds that we typically invest into in this space are often direct owners of the assets that they hold, and in a significant majority of cases are either sole owners, majority owners or meaningful minority owners (with corresponding governance rights) of these assets. Given this, in most cases, where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

Outcomes

Outcomes of issuer- and asset-level engagement in 2021

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

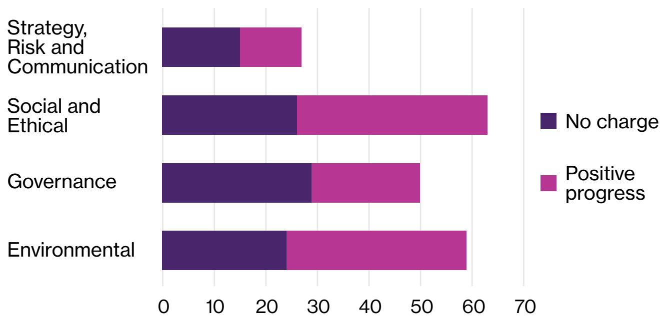
EOS use a four-stage milestone system allowing it to track the progress of its engagements, relative to the objectives set for each company, as follows:



Source: EOS Engagement Plan 2021-2023

Here we show the progress that has been made against engagement milestones with objectives in the GEFF portfolio, split by topic, across 2021. EOS made solid progress in delivering engagement objectives across themes and regions. At least one milestone was moved forward for about 53% of objectives during the year.

Engagements with objectives – progress breakdown



On the following pages are two company specific case studies showing EOS's engagement outcomes. There are further examples under Principle 11 and in EOS's 2021 Annual Review.

Asset managers we work with also undertake numerous engagements. We provide a real estate debt example in case study 3 and further case studies under Principle 10 and 11.

Case Study 1: Amazon's commitment towards net zero

Background

Amazon's scale means that it has an important influence where it operates in key areas such as employment and health and safety standards within its value chain. The company's rapid growth trajectory has required significant evolution of its corporate reporting as the company has sought to keep up with market expectations. Important and growing risks and opportunities for its business include, in EOS' view, its environmental impact, particularly concerning those of the products it sells and social issues: its treatment of its employees, sub-contractors and workers in its value chain. GEFF had an allocation of 1.3% to Amazon as at 31 December 2021.

Engagement

EOS began engagement with Amazon in 2012, when they informed the company that they were recommending a vote for shareholder proposals seeking better disclosure on climate change and on its political activity and donations. In their first conversation that year, they pushed the company to respond to the CDP survey on climate change and questioned its governance and the multitude of directors with connections to the founder.

Although at times in the earlier years they struggled to have a consistent dialogue with the company, engagement has improved in recent years, following the appointment of a head of ESG engagement. Their engagement dialogue has covered a number of topics, calling for: an enhanced board composition; an improved sustainability report and carbon-neutrality across its own operations; and other governance improvements.

Outcomes

EOS are pleased that the board has evolved over time and the directors are now much more diverse in terms of experience, including, importantly, directors with experience of leading large mature companies outside the technology sector. Particular improvements requested included the appointment of two directors with experience leading retail and consumer goods companies and wider gender and ethnic diversity improvements on the board and at its most senior executive management level. In addition, in line with EOS' engagement, the company set a deadline of 2040 to become net zero across its operations, cementing its more open-ended commitment it had held for several years. It also published a more strategic sustainability report in 2020, with further improvements in 2021.

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

Case Study 2: Accelerating BAE Systems' societal and environmental ambitions

Background

Like many of its peers in the aerospace and defence industry, BAE has a highly experienced workforce that is nearing retirement. This presents an opportunity to reshape the workforce by diversifying and upskilling alongside the risk of ensuring knowledge transfer. The company's future will depend on its ability to attract and retain science, technology, engineering and mathematics (STEM) professionals who are increasingly in demand, particularly in artificial intelligence (AI) as the industry undergoes a digital transformation. The defence industry also faces the challenge of being a major source of carbon emissions, with defence forces contributing a substantial amount to governments' emissions. Given the longevity of defence equipment, achieving decarbonisation targets by 2050 will require action today.

EOS has been engaging with BAE since 2009 on a range of issues, including payment of living wages to its workforce, improving gender diversity in its leadership teams, and expanding its climate strategy and targets beyond its own operations. GEFF had an allocation of 0.6% to BAE Systems as at 31 December 2021.

Engagement

EOS began engaging with the company on its management of climate impact and human capital in 2018. They noted that the company's CDP score of C for 2017 was low relative to some of its peers and encouraged it to look more holistically at its carbon impact by including use of its products in its Scope 3 emissions. EOS were pleased to hear that, although climate had not traditionally been a priority focus, it was becoming so for its corporate responsibility committee. They also discussed the human capital management challenges in the context of an ageing workforce, where nearly 50% were over 50 years old. Recruiting and developing talent from all backgrounds, whilst creating an inclusive culture was a priority.

In subsequent meetings, EOS were pleased to hear that changes in leadership had brought greater focus on human capital and particularly gender diversity. They encouraged the company to set aspirational targets and improve reporting on human capital management, welcoming news it was improving its internal human capital data. They also requested the company seek accreditation as a Living Wage employer. The topic of human capital and better reporting was returned to in late 2018 and early 2019. EOS were pleased that internal targets for improving gender diversity had been set and reiterated their request for public targets on improved diversity in leadership, supported by credible plans to achieve them.

EOS also raised concerns about the bottom-up approach to managing environmental impact, rather than a strategic approach overseen by the board. Although the responsibility committee chair cautioned that the business model, based on contracting, made it difficult to exert full control, he did indicate that work was underway to reshape the environmental strategy. EOS continued to raise their expectations around the reporting and underlying management of climate impact through meetings with the director of corporate responsibility and at a governance roundtable with the board chairs and committee chairs.

Outcomes

In 2021, EOS welcomed several public commitments from the company. On gender diversity, it announced targets to achieve 50% women in the executive committee and 30% women in the UK workforce by 2030 and achieved accreditation as a Living Wage employer. It also provided improved reporting on human capital management during its 2021 ESG investor event. Climate change was identified as a principal risk in the 2020 annual report and the company announced its ambition to achieve net zero emissions across its operations by 2030 and to work towards a net zero value chain by 2050.

EOS continue to engage with the company on human capital management and monitor its progress on diversity, encouraging more granular reporting and seeking additional commitments. On climate, they will review the net zero roadmap once published and engage on the progress made in achieving the company's ambitions.

Case Study 3: Real Estate Debt

Background and engagement

One of the real estate debt managers we work with has been engaging with non-profits, fellow real estate investors, real estate LPs and potential CEOs of new-formed non-profits over 2021 with the aim of forming a resident services program. As more institutional investors own real estate, there's a large opportunity for extra work from the property manager and investors to better the lives of residents and improve the financial returns of the properties. The manager expects to formally hire or launch a non-profit in 2022. The manager is very active in creating onsite programs with these groups. This engagement has been led by the manager's head of real estate investment and co-founder. The manager has led active engagements and dealt with C-suite and head of business development across various organizations. There will be public statements once program is formally launched.

Outcomes

The manager's engagements have exceeded expectations and the manager has been impressed with stakeholders willingness to contribute time, energy, resources in creating mission-driven resident programs for residents. Real estate LPs have stated interest in committing funds to non-profit type programs for resident wellness. The manager plans to test if the program leads to financial benefit. Engagement will continue from here with formal launch of program in due course. Learnings from anticipated resident programs and resident involvement will inform portfolio management decisions.

Outcomes of our asset manager engagement in 2021

Here we focus on some of the outcomes of our asset manager engagement to complement the examples already provided under Principle 7.

We engaged with many of our top-rated managers, as well as asset managers we were considering for upgrade and new capital in 2021:

- We conducted over 150 engagements with over 100 managers on sustainability and stewardship
- We researched 168 new sustainability-themed strategies

What did we find?

- We found asset managers to be open to discussing how they might improve their approach.
- Our manager research specialists were frequently used as a sounding board to understand best practice within a particular asset class and proactively reached out to asset managers who we thought were falling short of expectations on this front.
- In this context we saw a good level of receptiveness to suggestions for improvements with the vast majority of asset managers making progress in 2021.

Our preference is to build long-term relationships with asset managers and engage with laggards to achieve improvement over time. We are also sensitive to asset manager size in setting realistic demands. But still there were some asset manager examples during 2021 where we felt progress was too slow or where we decided the gap between current practice versus best practice was unlikely to be closed through engagement. Five managers were downgraded or rejected (after significant research engagement / due diligence) for this reason in 2021.

Consistent with our 2021 net zero commitment, our main topic of engagement during the year was around climate risk management. Such is the importance of this issue that we felt a public statement was important to send a clear message externally. The outcome of this and subsequent conversations is that asset managers are fully aware of the importance we place on them to: a) be able to measure, report and manage climate risk, and b) use their influence to undertake stewardship that supports a Paris aligned climate transition.

Climate will continue to be our key topic of asset manager engagement in 2022 as we push for more and review the level of progress made.

Case Study 4: Asset manager engagement: Global equity index manager

Background and engagement

We engaged with a large, influential index manager on these topics, amongst others:

1. Resourcing – limited stewardship team resource vs company coverage and vs assets under management
2. Voting on environment / social resolutions – the manager supported less than 10% of these resolutions which seemed surprising given some of the key risks identified by the manager's stewardship team.
3. Climate stewardship – given the urgency, we called for greater ambition and structure including use of milestones to track progress

We have been engaging with the manager in multiple in-depth meetings on these issues since late 2018. In terms of escalation, following the initial meetings we continued to engage at a senior level; we shared our broad view in a public paper *One Hand on the Wheel* (2019) and when speaking at various external events. We also contributed to a PRI paper on the topic *Making voting count* (2021). We built our own analysis to assess the manager's voting record and every year we have raised case studies to understand and challenge the rationale for not supporting certain votes. We also discussed a regulatory consultation response which appeared somewhat inconsistent with articulated views on the importance of tackling ESG issues.

Outcomes

We have clearly not been the only group engaging with this manager on stewardship but believe our dialogue and challenge has contributed to positive change across the three topics:

1. Team resourcing: The stewardship team has grown to over 60 people in 2021, doubling over three years.
2. Voting on environment / social shareholder resolutions: Alongside a change in policy from the manager, we observed increased support for these resolutions over the 12 months to December 2021. We estimate support for environmental resolutions has increased to around 40% and support for social resolutions to around 30%.
3. Climate stewardship: The manager has announced an enhanced focus on climate, expanding engagement on climate disclosures to 1,000+ carbon intensive companies with an intention to vote against management, board director elections and voting in favour of shareholder resolutions if the company lags on climate. We have seen a stronger focus from the manager on linking engagement and voting with company outcomes and look to see this to continue and strengthen.

Case Study 5: Asset manager engagement: Asian credit manager

Background and engagement

We noted a number of areas for improvement within this Asian credit manager's approach to sustainability. While not necessarily inconsistent with its Asian peers, the manager's approach to ESG was quite basic – the manager had a strong focus on governance risks, but less so on environmental and social issues, and ESG risks were not explicitly considered in the credit underwriting process. The manager was not a supporter of any sustainability initiatives, nor did it have a formal policy around sustainably issues.

WTW has maintained a Preferred rating on this strategy since 2017 and since then has maintained frequent dialogue with the manager about its ESG approach. The manager has been very receptive to the feedback throughout, and has actively sought our ongoing input and views on proposed changes.

Outcomes

The manager has made significant improvements in incorporating ESG factors into the investment process over the past 12–18 months – it has implemented a formal ESG policy, provided relevant training for all credit analysts, expanded the list of excluded industries to include tar sands and established an ESG risk rating process whereby proprietary ratings are assigned by credit analysts, supported by third-party data were appropriate and available. This was further evolved more recently, with the manager is now assigning individual E, S, and G scores, allowing a better evaluation of the broader ESG credentials at a portfolio level.

We also note a number of investments over the past 12 months with a more proactive environmental or social perspective – investments in alternative energy (geothermal, solar) and/or in manufacturing businesses that supply equipment for these industries (wind turbines, polysilicon); and government-sponsored affordable housing in New Zealand.

While significant improvements have been made on ESG integration, we continue to engage with the manager. We are encouraged by the manager's demonstrable track record of working with us to improve its processes.

Spotlight on: Thinking Ahead Institute

Effective collaboration is needed to achieve system change through stewardship. As an example, WTW's Thinking Ahead Institute (TAI) brings together leading industry groups to navigate and solve for key industry challenges.

TAI is WTW's global not-for-profit group, whose vision is to mobilise capital for a sustainable future. Various investment organisations have collaborated to bring this vision to light, through designing fit-for-purpose investment strategies, better organisational effectiveness and strengthened stakeholder legitimacy.

Sharing insights is a key part of this; TAI publishes research papers, releases podcasts, and runs events to circulate knowledge and drive learning in the investment industry.

The Institute's research agenda is driven by its members, who work with the TAI team to co-create intellectual capital and develop proprietary investment tools and practical solutions. In 2021, key research themes included culture, sustainability and transformation – with a focus on inclusion and diversity, climate and purpose.

53 members:	**US$16tn**
28 asset owners **25** asset managers	**in assets under management** as at end December 2021

Working together

TAI is key to developing and socialising our work on sustainability. The Institute brings together leading practitioners, academics and organisations to complement and leverage our thinking. This, in turn, supports our responsibility to encourage and improve processes in respect of stewardship, with a view to positively influence the system as a whole.

Activities over 2021

TAI's annual report shows key activities and contributions over the past year, creating sustainable value for all stakeholders. Highlights include:

- **Thought leadership:** on the Institute's members-only discussion forum, TAI published 14 Investment Insights, and also co-wrote 11 research papers with members over the year.
- **Research working groups:** TAI ran the Investing for tomorrow working group (with the climate beliefs working group as a subset) and the Investment organisation of tomorrow working group, supporting investment organisations with guidance for their net zero ambitions and transformational change.
- **Awards for published papers:** The World's Largest 500 Asset Managers was highly commended for Best Investment Industry Paper 2021, while both the TAI's Global Pensions Asset Study and World's 300 Largest Pension Funds were highly commended for Best Pensions Paper 2021.
- **The Power of Culture (TPOC) study:** TAI's ongoing culture study, The Power of Culture (TPOC), focused on the asset owner model in 2021, and demonstrated how culture differentiates investment organisations – in a white paper and at two events.
- **Events:** TAI ran 13 events for members and one public event, Adjusting Focus. This event had 46 member organisations in attendance, along with 48 non-member organisations; totalling 94 attendees. Across events, four out of five attendees gave a rating of 'good' or 'excellent'.
- **Digital capabilities:** TAI has upgraded its website and digital capabilities (videos and podcasts), resulting in website users increasing by 2000 in the last year, to 77,673. Page views have also increased by 7% this year to 181,333.

Principle 10 – Collaboration

Giving the investment industry a stronger voice

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

Activities and outcomes

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

Long-term value creation relies on robust economic and investment markets. **As a trusted adviser, we recognise the role we play in the investment chain**, believing that undertaking activities to promote resilient and well-functioning economic and investment markets is consistent with our fiduciary duty and with our aim of changing investment for the better. We do this in a number of ways, including engaging in a dialogue with regulators and policymakers and participating in the work of industry bodies and collaborative investor initiatives, to promote high industry standards and effective investment markets.

We also partner with EOS at Federated Hermes (EOS) to undertake public policy engagement and advocacy on our and our clients' behalves. Further details of EOS's activities and outcomes in this area are detailed in response to Principles 4 and on our Spotlight page.

As part of our manager research and industry engagement, we encourage investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term value and help address systemic risks. As part of our research, assessment and monitoring of managers, we consider whether the manager's policy specifies their stance on collaborative engagement activities and the extent to which the investment manager contributes to and can evidence these efforts.

We outline below some of the main collaborative initiatives and engagement that we have been members of and directly contributed to during 2021.

Net Zero Investment Consultants Initiative (NZICI)

We co-founded NZICI in 2021 with eleven other investment consulting firms, responsible for advising institutional asset owners on assets of approximately $10 trillion. The group committed to supporting the goal of global net zero greenhouse gas emissions by 2050 or sooner and halving emissions by 2030 through nine commitments, which apply to investment advisory services, fully discretionary services and own business operations.

The aim is to highlight the critical link that the investment consultant provides between asset managers and asset owners and the outcomes and impact to be had through the capital they advise on. On a global basis, investment consultants are responsible for advising clients on the investment of trillions of dollars of capital. How this capital is invested and applied to influence real-world action will be key to whether society is able to achieve the global goal of net zero emissions by 2050 or sooner.

The NZICI members have a real focus on the role they should play in achieving real world impact. We also recognised the importance of having consistency across the industry and are motivated to work collaboratively to put a level of consistency in place to whatever extent possible.

During 2022, we will be finalising NZICI's role in the Race to Zero campaign and actively contributing to different workstreams within the initiative, from putting together a suitable reporting framework for member firms to creating a strategy for external relations within the industry.

Net Zero Asset Managers Initiative (NZAMI)

In 2021, we joined NZAMI, an international group of asset managers committing to the goal of net zero greenhouse emissions by 2050 or sooner. WTW joined in its capacity as an OCIO provider and commits 100% of delegated business to the initiative. NZAMI has 236 signatories with $57.5 trillion assets under management (as at February 2022).

Working with GFANZ

NZAMI and NZICI are both part of the Glasgow Financial Alliance for Net Zero (GFANZ). GFANZ was launched in April 2021 to bring together existing and new net-zero finance initiatives in one sector-wide coalition. As part of NZAMI and NZICI, we actively contribute to the following GFANZ workstreams:

- Financial institutions net zero transition plan
- Sectorial pathways
- Real economy transition plans
- Portfolio alignment measurement

Investment Consultants Sustainability Working Group (ICSWG)

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

Throughout 2021, ICSWG produced a number of key resources including:

- A guide to help trustees assess investment consultants on their climate competency – we had input into the drafting of this.
- Its Engagement Reporting Guide, to improve quality of engagement reporting from asset managers. We co-led the creation of this guide working with the other ICSWG consultants, which included extensive industry engagement.
- A list of ESG-related metrics for public equity and public credit asset managers to target reporting on – we had input into the drafting of this.

The ICSWG also produced responses to four consultations in 2021. We had input into or co-led these responses.

Our Global Head of Research also sits on the ICSWG Steering Committee and is co-Chair.

Thinking Ahead Institute (TAI)

The Thinking Ahead Institute is a global not-for-profit group whose vision is to mobilise capital for a sustainable future. Its members comprise asset owners, asset managers and other groups motivated to influence the industry for the good of savers worldwide. It has 53 members with combined responsibility for US$16 trillion. The Thinking Ahead Group, comprised of some of the most senior members of WTW Investments, is the executive to TAI, leading the research agenda, workstreams and events.

During 2021, research centred on three key themes:

- Culture
- Sustainability
- Transformation

In September 2021, TAI hosted The Power of Culture (TPOC) summit – a virtual three-day event to explore key findings from the TPOC study with some of the world's leading investment organisations.

As outlined in our Spotlight piece, TAI continues to contribute to the investment industry by conducting market-leading research, sharing key insights and learnings, and driving collaboration through events.

TAI produces an annual Integrated Report which is available online, and contains further information about their activities and achievements during 2021. These include:

- Content
  - 15 published papers
  - 21 forum posts
  - 11 podcast episodes
  - 8 organised events
- Engagement
  - 46 members
  - 21 working group calls
  - 391 event attendees
  - 2,424 social followers
- Reach
  - 169,677 website visits
  - 185,024 social impressions
  - 111 media releases
  - 444 receiving Memo

WTW Research Network

WTW Research Network was founded by WTW 15 years ago, and is a collaboration between academia and our insurance and reinsurance experts, currently working on programs and projects with over 60 science partners worldwide.

The purpose of the WTW Research Network is to help society better prepare and cope with the types of events we have all experienced in 2020. Since its formation in 2006, the Network has focussed on developing the science of resilience to support the management of extremes from natural, manmade and hybrid risks.

WTW Research Network had another remarkable year in scientific collaboration, real-world application and impact across its research themes and geographies throughout 2021. Activities and outcomes are documented in their annual review, which can be found online.

One highlight from 2021 is the Challenge Fund, where members were challenged to come up with ideas for short collaborative research projects focusing on specific elements of risks associated with climate change. Three ideas were chosen and recently presented findings here. Alongside climate, technology risk remains a key area of interest and the next round of the Challenge Fund will also feature topics around trust in technology and the impact of changing technology on trends in the workplace.

WTW Research Network's annual review also details ongoing results and research from a selection of partnerships, including valuing climate risks in real estate markets with Loughborough University, representing European windstorm risk with the University of Exeter and researching the risk landscape impacting technology, media and telecommunications organisations with the Wharton Mack Institute for Innovation Management.

Principles for Responsible Investment (PRI)

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

A senior member of our team is a member of the Stewardship Advisory Committee.

In 2021 we contributed to the PRI in numerous ways including:

- Providing input to the drafting of the following papers:
  - Investment Mandates: Embedding ESG factors, improving sustainability outcomes
  - Making voting count
  - Listed equity divestment
- Advising on next steps for PRI's Stewardship 2.0 framework
- Suggesting to PRI how Climate Action 100+ might create a new membership category to enable wider support for certain engagements

Institutional Investors Group on Climate Change (IIGCC)

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

We have contributed to the Paris Aligned Investment Initiative, including as part of the Strategic Asset Allocation working group. We continue to engage with the Net Zero Investment Framework, including promoting the framework within the industry and with our clients, and using it to base our own net zero reporting on.

We are a member of the working group for net zero stewardship and inputted into its most recent draft paper setting out best practice stewardship for organisations committed to net zero. We provided substantial feedback including a push to emphasise real world outcomes.

Coalition for Climate-Resilient Investment (CCRI)

WTW launched the Coalition for Climate Resilient Investment (CCRI) at the UN Climate Action Summit in 2019 in partnership with the World Economic Forum and the governments of the UK and Jamaica. It now has over 120 members across 21 countries representing over $20 trillion of assets (as at February 2022). CCRI aims to create a more resilient global financial industry in which key incentive structures foster an accurate pricing of physical climate risks in investment decision-making, resulting in more resilient economies and communities across the world.

During 2021, CCRI worked closely with the UK Cabinet Office to curate its COP26 programme of events, which included CCRI-led panel sessions, involvement in further finance and resilience sessions, and the Official UN COP26 "Art + Resilience" art exhibition, presented by CCRI. Significant momentum was made at COP26 and it was encouraging to see CCRI given such a prominent platform, with a positive reception and feedback on its progress and delivery.

CCRI also released its maiden Risk and Resilience Report this year, which focuses on the need to incorporate physical climate risks in infrastructure design and investment decision-making.

We are delighted that CCRI was shortlisted for Stewardship Initiative of the Year by the PRI in 2021.

EOS at Federated Hermes

We have partnered with EOS at Federated Hermes (EOS) for many years, and have engaged them to undertake public policy engagement and advocacy on our and our clients' behalves. Our Head of Stewardship currently chairs the EOS Client Advisory Board.

We view EOS's approach to collaboration and active participation in many collaborative initiatives to be a particular strength of their work.

To help illustrate these activities and outcomes, we would direct you to our EOS Spotlight page and we would further highlight the EOS 2021 Annual Review. Some headlines include:

- Significant public policy engagement including 64 consultation responses or proactive equivalents (such as a letter) and 71 discussions held with relevant regulators and stakeholders
- Maintaining an 'A+' rating from the Principle for Responsible Investment (PRI) for stewardship, equity and private markets operations, maintaining an 'A+' InfluenceMap Climate Engagement Score, and receiving a 1st in Hirschel & Kramer's Responsible Investment Brand Index, all for the international business of Federated Hermes, recognising EOS activity
- Active participation in many collaborations, with their involvement in Climate Action 100+ being a particular strength
- Regional public policy case studies from around the world, from the UK to US, Asia to Australia, continental Europe and Latin America.

In addition, published case studies often include outcomes of collaborative engagements where EOS have played a leading or otherwise significant role. All these case studies can be found on the EOS Insights page.

The Diversity Project

We are founder members of this initiative which aims to attract and retain diverse talent in the industry.

In 2021 we contributed to the design of and became a signatory of its Asset Owner Diversity Charter, which was formed with an objective to formalise a set of actions that asset owners can commit to improve diversity, in all forms, across the investment industry.

Further industry engagement

Alongside being members and contributors to the above listed industry initiatives, WTW also proactively respond to various industry and government consultations and reports worldwide. Some examples of this activity in 2021 include:

- Submitting a response to the Association of Superannuation Funds of Australia on climate risk
- Providing comments on a Paris Aligned Investment Initiative (PAII) paper on private equity, which will be the basis for more NZIF guidance on private equity
- Responding to the UK Department of Work and Pensions' consultation on TCFD as well as a response to its consultation on alignment
- Writing both our own, and assisting with the Diversity Project's response to the UK Financial Conduct Authority (FCA) consultation on inclusion and diversity within UK financial services
- Providing guidance for the draft PLSA IA report Investment relationships for sustainable value creation: Alignment between asset owners and investment managers which was in response to the Asset Management Taskforce Report Investing with purpose, placing stewardship at the heart of sustainable growth

Section C – Engagement

This table summarises key collaborative and industry initiatives WTW Investments is actively part of. Further information in respect of WTW activities are available here.

Initiative	Status	Date joined
Founders and leaders		
WTW Research Network	Founder	2006
Thinking Ahead Institute	Founder	2015
Coalition for Climate Resilient Investment (CCRI)	Co-founder	2019
Investment Consultants Sustainability Working Group (ICSWG)	Co-founder	2020
Net Zero Investment Consultants Initiative (NZICI)	Co-founder, signatory	2021
Members or signatories		
Principles for Responsible Investment	Signatory	2011
The Diversity Project	Co-founder	2018
Transition Pathway Initiative	Member	2019
Institutional Investor Group on Climate Change (IIGCC)	Member	2020
Asia Investor Group on Climate Change (AIGCC)	Member	2020
Investor Group on Climate Change (Australasia)	Member	2020
Net Zero Asset Managers Initiative (NZAMI)	Signatory	2021

Further groups we support

Several colleagues are also individually members of various working groups, committees, and boards across industry organisations. Some examples of this include:

- Our Global Head of Research is an Investor Forum board member, Diversity Project advisory board member and member of the IA/PLSA Stewardship steering group
- Our Head of Stewardship currently chairs the EOS Client Advisory Board, is a member of the PRI Stewardship Advisory Committee, a member of the IIGCC Net Zero Stewardship working group and a member of the ICSWG-UK Stewardship Group
- The co-founder of our Thinking Ahead Institute is on the CFA Future of Finance advisory board
- Our Head of Portfolio Strategy is a member of the GFANZ portfolio alignment measurement workstream and one of the CRH's senior directors is a member of its financial institutions workstream
- Our Head of Sustainability Solutions is a member of the NZICI external relations working group and the ICSWG asset owners' group
- Our head of investments in North America is a board member of the IIDC
- Between them, other individuals in our team are members of: the RICS Taskforce on sustainability in real estate in Europe, the City of London's socioeconomic diversity taskforce, and the Wellington Client Advisory Council on Climate Change

Collaborative engagement by asset managers we work with

We encourage asset managers we work with to contribute to collaborative engagements. There are numerous examples of this – below we highlight two examples.

Asset Manager Collaborative Engagement Case Study 1: Private Infrastructure Debt

Background and engagement

An asset manager we work with decided to participate in a working group launched by the Long Term Infrastructure Investor Association (LTIIA). The group aims to foster climate risk adaptation of privately-financed existing infrastructure assets. The asset manager decided to participate in this group as it focused on issues of the utmost importance from a risk management perspective. They also wanted the opportunity to shape future policies which will create incentives for asset managers or borrowers to engage with climate adaptation. Within the working group, the asset manager outlined their vision on this topic, shared practical difficulties they had identified to date and helped shape potential future solutions.

Outcomes

The working group is still outlining its scope of work including whether it should focus on the private sector or include the public sector in potential emerging solutions (subsidies, tax incentives). The asset manager expects the outcome to be a new toolkit to help infrastructure finance stakeholders and policy makers with valuable insight on how to address the climate adaptation challenge. It is possible these will be presented at COP27.

Asset Manager Collaborative Engagement Case Study 2: Emerging Market Debt

Background and engagement

One of our Emerging Market Debt managers has engaged both collaboratively (as a co-lead of the ClimateAction100+/UN PRI working group) and bilaterally (through regular communications with investor relations and management) with a large Latin American Oil and Gas quasi-sovereign issuer. The issuer represented a large position across its portfolios and had specific sustainability issues relating to climate disclosure and employee health and safety. The manager has tracked 9 engagement meetings (either directly with the issuer or through the working group) from mid-2020 to end-2021 with key stakeholders such as the CFO, investor relations, and government officials (specifically the government Head of Public Credit).

Outcome

The manager has seen some positive steps from the issuer in improving disclosure as the last two quarterly investment presentations featured a dedicated section on ESG and provided updated statistics on platform accidents with guidance for additional follow-up from root cause studies being conducted. It continues to lag behind peers on ESG disclosure, but the manager hopes to continue to engage through collaborative and bilateral means to continue to improve disclosure, especially in the areas of climate and health and safety. The CA100+ working group has also grown to 26 investors including some local investors (pension funds) and is updating its leadership team and objectives for 2022 which should increase its influence.

Principle 11 – Escalation

Pushing for progress

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

Activities and outcomes

Our oversight of asset manager escalation processes

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

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

- whether the investment manager's policy specifies when and how they will escalate engagement activities
- overall engagement statistics (volume and areas of focus)
- examples of the most intensive engagement activities such as case study 4 and 5 in this section

Escalation in our engagements with asset managers

During 2021, we engaged extensively with the asset manager community on SI, and as mentioned previously we conducted over 150 such engagements with over 100 managers. **We saw a good level of receptiveness to suggestions for improvements, with the vast majority of asset managers making progress in 2021.** Our preference is to build long-term relationships with asset managers and engage with laggards to achieve improvement over time. We are also sensitive to asset manager size in setting realistic demands.

But still there were some asset manager examples during 2021 where we felt progress was too slow or where we decided the gap between current practice versus best practice was unlikely to be closed through engagement. Five managers were downgraded or rejected (after significant research engagement / due diligence) for this reason in 2021.

When engaging with an asset manager the ultimate sanction is a rejection or downgrade of a strategy (which may then flow into disinvestment from our delegated solutions or advice to our clients to disinvest). Before we abandon an engagement, we have various other methods of engagement escalation. These will depend on the issue being discussed and our level of leverage with the asset manager. Below are three specific case studies to exemplify some of this work.

Case Study 1: Escalation by WTW – Australian lending strategy

We identified a lending gap in the Australian SME market and worked with a manager on a direct lending strategy focusing on Australian SME corporates that are seeking to grow their business. We noticed areas for improvement within the manager's approach to ESG integration and engagement. Since seeding the fund, WTW has maintained constant dialogue with the manager about its ESG approach and escalated the nature of our requests to push for further improvements.

Outcomes:

As the only client in the fund, we were able to engage more meaningfully and work with the manager towards specific goals and expectations.

The manager has since made notable improvements in ESG integration; however they are still behind on ESG engagement, not least due to the profile and size of their borrowers, and the tendency to avoid the loan where there is a level of ESG discomfort with a potential borrower.

WTW continued to engage with the manager to seek further improvements with a focus on engagement. The manager has made much improvement in incorporating ESG factors within the investment process in response to the feedback we have given over the past 12-18 months.

Internal credit papers now include consideration of ESG issues, and ESG is now a separate agenda in the manager's monthly portfolio construction meetings which include presentation on ESG positions of individual borrower and at portfolio level. The manager sends annual ESG questionnaires to the borrowers which allows the manager to track improvement over time. The manager has committed to expand its firm ESG policy to include engagement activity, formalize recording and reporting of engagement activity, and more formally engage with borrowers on ESG issues.

Case Study 2: Escalation by WTW – China onshore equity manager

In undertaking detailed due diligence on a China equity manager located in mainland China, we identified an asset manager who we thought exhibited several positive investment traits. However, we found the analysis of ESG information, formalization of this research process and stewardship (voting and engagement activities) to be behind our expectations of good practice from equity fund managers.

We understand that Chinese asset managers are in the earlier stages of formalizing their approach to thinking about and assessing ESG information, but this manager was willing to work with us to help formalize their assessment of ESG information and approach to undertaking stewardship activities.

In early 2021 we communicated our views to the manager on their ESG and stew ardship activities and explained our expectations for asset manager activities, and how these would be translated into our investment beliefs, research approach and expectations for good practice.

We proposed to the manager a series of targets to show progress against over 24 months. Short term targets included formalizing an ESG policy, providing ESG training to the investment team and executing proxy votes. Medium term action items include developing stronger climate change considerations within the investment process, and long-term action items include joining and participating in collaborative engagements.

Outcomes:
This engagement resulted in the manager developing a firm-wide ESG policy to oversee ESG risks, and establishing sector-specific ESG assessment guidance for the investment team. They have also selected a third-party data vendor to support their ESG research, established a proxy voting process across all portfolios, and outlined plans to further their ESG practices.

We viewed the manager's progress and overall intentions positively, assigning the manager with a Preferred rating in mid 2021. We continue to monitor their progress towards longer term engagement actions as part of our regular interactions.

Case Study 3: Escalation by WTW – Global equity index manager

Please refer to 'Case Study 4: Asset manager engagement: Global equity index manager' under Principle 9 for another example of how we have escalated engagement with managers.

Escalation in issuer or asset-level engagements

EOS at Federated Hermes

As mentioned previously in this report, EOS at Federated Hermes (EOS) provide additional corporate engagement to that of the asset managers for several of our funds. As part of this, **EOS regularly escalates engagements where the company is not receptive to engagement, no progress is being made or progress is too slow.**

Escalations include attempting engagement at a more senior level, site visits, letters and presentations to the board of directors, collaborating with investors or other stakeholders, speaking publicly to media, open letters, questions or statements at annual meetings, recommending votes against annual meeting items, and supporting and/or filing/co-filing shareholder resolutions. In EOS's regular reporting to clients, they provide such examples of escalation.

EOS recognise that working with other investors is critical to driving change. EOS's Q3 2021 Public Engagement Report evidences escalation techniques EOS has used with companies, in particular as part of its leading role in Climate Action 100+. These include:

- Helping to lead the drafting of, and co-filing, the first CA100+ resolution in Europe at BP's annual shareholder meeting in 2019, which resulted in a significant shift in strategy towards becoming a net-zero company.
- Co-filing a resolution at Berkshire Hathaway in 2021 requesting improved climate reporting, which gained support from a near-60% majority of the independent vote.
- Recommending a vote against the election of the responsible director for climate change at over 100 laggard companies in this year's voting season; this included not supporting four 'Say on Climate' votes at major companies due to material misalignment with the Paris goals.
- Making statements at nine annual shareholder meetings in 2021 and asking live questions at six; this included moving a collective statement at Total's meeting in their role as CA100+ co-lead and leading a delegation of eight institutional investors at LyondellBasell's meeting in their role as CA100+ lead. This involved the use of a legal mechanism under Dutch law to require a discussion on climate change at the chemicals company's shareholder meeting.

Source: p5 https://www.hermes-investment.com/uki/wp-content/uploads/2021/10/eos-per-q3-2021-final-spreads.pdf

EOS's key policy documents and approach to stewardship and escalation are available online here.

Further information on issuer- and asset-level escalation engagement and voting in detailed in response to Principles 9 and 12.

Case studies 4 and 5 provide examples of different escalation approaches by asset managers we work with.

Case study 4: Escalation by asset manager: European Credit

Background and engagement

An asset manager we work with engaged with a European bank to gain a better understanding of how they were planning to address concerns around corporate governance. Issues were first raised by the asset manager with the bank in June 2020. These issues related to conflicts of interest at the bank and supply chain risk management and governance processes. The manager engaged with the bank but it gave unsatisfactory responses so, as a form of escalation, the manager downgraded its internal ESG rating in March 2021.

Outcome

Following the downgrade in ESG rating the manager sold its exposure to the bank. This was done ahead of a large controversy so it proved to be a positive investment decision. The manager continues to monitor the bank's development and engages to encourage an improved corporate governance structure.

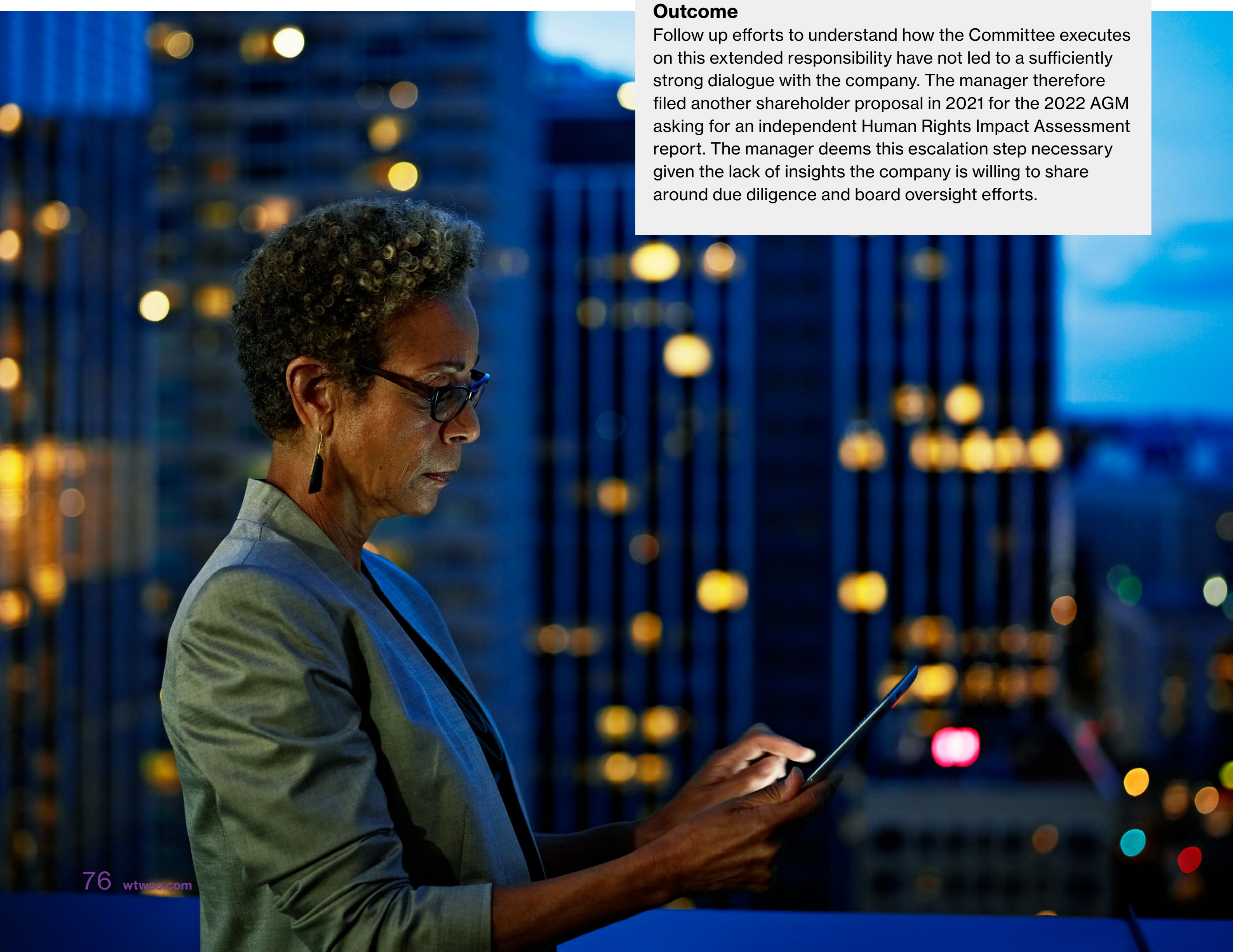
Case study 5: Escalation by asset manager – US Credit

Background and engagement

An asset manager we work with utilised their exposure through both the debt and equity of a company to engage on the social impacts of artificial intelligence. The manager has a central active ownership team that focused its engagement on the ICT sector and engaged with companies that both develop and use AI in their core business models. It started its engagement with a large company in this space in 2019. Initially it was challenging to set up a dialogue with the company around its overall commitment to human rights. The manager decided to escalate and co-led the filing of a shareholder proposal at the company's AGM in 2019 asking the company to establish a Human Rights Risk Oversight Committee within the Board of Directors, which garnered support from around 45% of the non-controlling shareholder votes. At the end of 2019 the company formalized board oversight for major risk exposures around sustainability and civil and human rights in an updated charter for their Audit and Compliance Committee.

Outcome

Follow up efforts to understand how the Committee executes on this extended responsibility have not led to a sufficiently strong dialogue with the company. The manager therefore filed another shareholder proposal in 2021 for the 2022 AGM asking for an independent Human Rights Impact Assessment report. The manager deems this escalation step necessary given the lack of insights the company is willing to share around due diligence and board oversight efforts.



Section D – Exercising rights and responsibilities

Principle 12 – Exercising rights and responsibilities

Using all available levers

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

Context

We believe that actively exercising ownership rights and responsibilities is a critical part of effective stewardship and in turn, effective long-term investment. Investors across all asset classes hold a range of such rights and responsibilities.

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

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

i. Third party funds

In this ownership model, we delegate stock selection to third party managers. In doing so, we also delegate voting rights and the execution of those rights. Therefore, assessing the voting practices of our agents is an important part of our process. Our manager research team looks at this across both active and passive mandates; it is also specifically assessed and monitored via our Sustainable Investment (SI) reports. This report tracks and summarises various voting processes, resources and metrics, ultimately assigning a positive, neutral, or negative score on a manager's voting practices.

ii. Managed accounts

Where stocks are invested via managed accounts WTW make no underlying stock selection decisions; these continue to be outsourced to third party, best-in-class, specialist asset managers who also retain final decision-making authority for voting. However, we can influence voting more easily than for third party funds. As per above, our manager research team reviews the voting policy and practice of the underlying asset managers to ensure good practice. In addition, across our active stock selection Global Equity Focus Fund (GEFF) range we use EOS to provide policy input and further voting guidance to the underlying asset managers. EOS' input is informed by its extensive research and experience in stewardship as well as their long-term engagement activities with companies. We then regularly monitor the voting decisions each manager makes against the guidance by EOS, engaging or challenging the underlying asset manager where necessary.

You can see EOS's global voting guidelines here. EOS's key policy documents and approach to stewardship and escalation are available online here. Our conviction, monitoring and ongoing engagement with EOS is described elsewhere in this report, including in response to Principle 8.

Throughout this process we pay particular attention to ESG related resolutions especially on the topic of climate given this is a key topic for many of our clients.

Manager research

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

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

Within the provision of outsourced investment services, for managed accounts where we have full delegated authority, stock lending is not permitted.

Activities and outcomes

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

What about fixed income?

While we have mainly highlighted equity related activity under this Principle, influencing issuers is also a key part of fixed income investing. We provide examples of engagement by fixed income asset managers in case study 3 within Principle 9 and the issuer engagement case studies in both Principles 10 and 11.

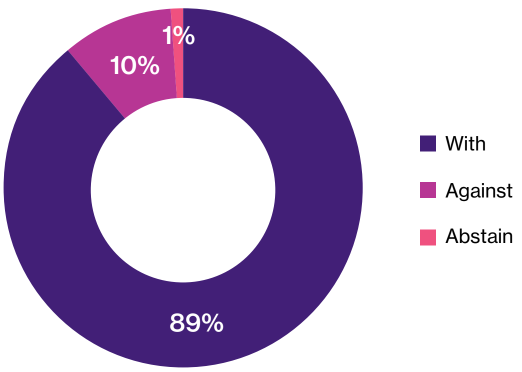
In 2021, engaging with issuers became a central expectation of fixed income investing. We saw our managers move on from making statements about the non-applicability of engaging in fixed income to providing detailed engagement examples with concrete outcomes. Gaining influence with the issuers was the biggest challenge given the lack of voting rights, so investors relied on dialogue relating to specific sustainability objectives with a laser focus on the business case. This granted them access to senior decision makers at the issuer who were often open to engagements relating to sustainability matters and the covenants and protections for debt investors. Debt investors' influence was seen to increase dramatically when they engaged alongside equity investors with the same objectives. We increasingly see debt investors engage with the equity owners in order to align objectives.

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

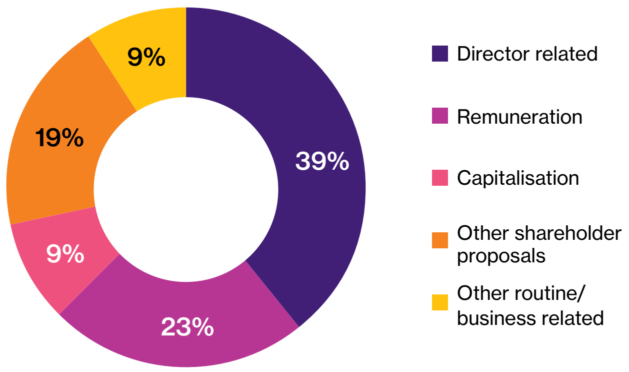
GEFF's underlying managers are accountable for voting all proxies, where appropriate, for shares they hold. EOS at Federated Hermes (EOS) provides policy input and further voting guidance on certain ballots, to the managers. EOS' input is informed by its extensive research and experience in the area of stewardship as well as their long-term engagement activities with companies. Underlying managers retain the final decision-making authority on the vote. We monitor the voting activity of the managers and challenge these where appropriate. Our voting and engagement activity is disclosed to clients.

Of the total 3,007 votable proposals during 2021, our managers voted against company management 10% of the time, predominantly around director and non-salary compensation related votes.

FIGURE: Votable proposals during 2021



Votes against management by topic during 2021



Source: WTW, ISS, EOS at Federated Hermes

Voting statistics – 12 months to 31 December 2021					
# of meetings with eligible votes	181		# of votes against management	299	10%
# of votable resolutions	3007		# of votes abstained	24	1%
# of votes exercised	3000	100%	# of meetings with at least one vote against management	108	60%
# of votes with management	2677	89%	# of votes contrary to proxy recommendation	324	11%

Source: WTW, ISS, EOS at Federated Hermes

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

Company	Weight at vote	Topic	Guidance	Voting action	Rationale
Disney	1.0%	Governance – executive compensation	Proxy: AGAINST Management: FOR	AGAINST	Our manager escalated its engagement relating to matters of remuneration, writing to the management outlining reasons for voting against the resolutions at their respective 2021 AGMs. Our manager has engaged with Disney on a number of occasions to share views regarding compensation best practice and continue to believe that it could foster greater shareholder alignment through improved compensation structures. The vote was ultimately progressed and our manager will continue to engage with Disney on this matter.
Facebook	2.4%	Social – digital platform use	Proxy: FOR Management: AGAINST	FOR	Our manager voted in support of a report on platform misuse, believing that it poses perhaps the key risk to Facebook. Per the saying "what gets measured, gets managed", additional management attention on this topic is most welcome. To the extent that the Community Standards report is already measuring much of this, then that simply lowers the incremental cost of this report. The vote failed, but our manager will continue to consider proposals whether from management or shareholders which enhance the ESG standards of the company.
Amazon	1.6%	Environmental – plastics	Proxy: FOR Management: AGAINST	FOR	Our manager voted in support of a report on the impacts of plastic packaging. They believe it promotes transparency around environmental issues and consider ESG factors to be a major factor influencing the long-term predictability and sustainability of a company's revenue and earnings growth. The outcome of the vote failed but our manager will continue to consider proposals whether from management or shareholders which enhance transparency around environmental issues.

Spotlight on: EOS at Federated Hermes

We recognise our duty to steward capital effectively, and uphold our stewardship responsibilities in the industry more broadly. In 2021, we maintained and expanded our relationship with EOS at Federated Hermes (EOS) to support this.

Who is EOS? EOS is a **leading stewardship service provider** – they specialise in helping institutional investors to be more active owners of companies and fulfil their fiduciary duty. They offer corporate engagement and proxy voting services and currently advises on over $1.6 trillion of assets under advice around the world.

EOS does important stewardship work such as:

- Engage with all types of companies to improve sustainability practices. Themes are aligned to the SDGs and EOS uses the power of its collective client base to drive positive outcomes across the industry and wider society
- Escalate when companies are not responding or progressing to a satisfactory level
- Lead or co-lead on many corporate engagement initiatives such as Climate Action 100+ to significantly further climate change efforts
- Engage with government authorities, regulatory bodies, standard setters and NGOs to identify and respond to market-wide and systemic risks

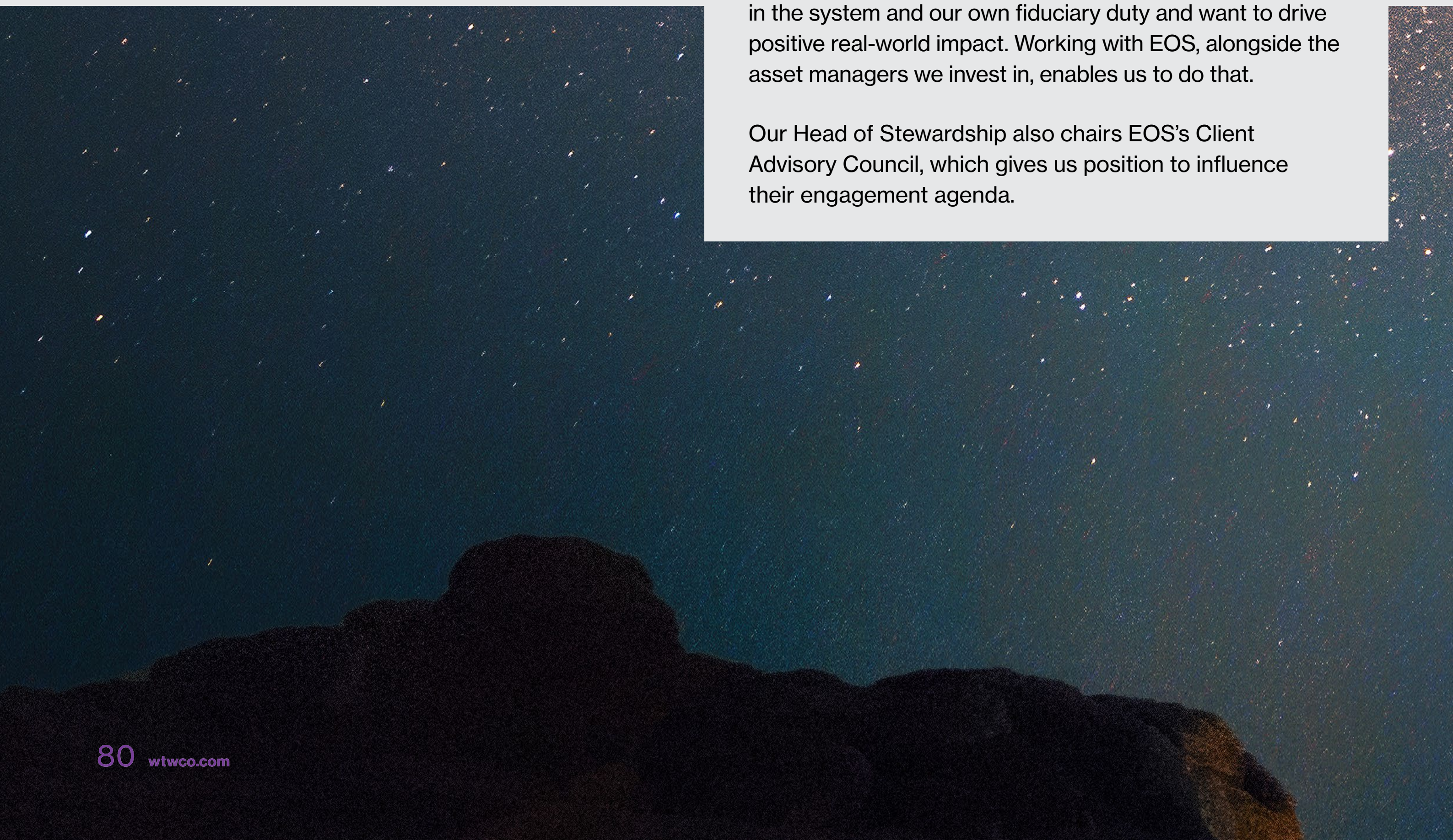
How does WTW work with EOS?

We have specifically engaged EOS as an **overlay service to our delegated portfolios** – they supplement and add to the stewardship work performed by the underlying asset managers we work with.

They undertake corporate engagement and voting advice on a variety of our pooled fund solutions which are Article 8 funds, covering both listed equity and some fixed income. In addition to the bottom-up company engagement, they also perform public policy engagement and advocacy on behalf of us and our clients.

This is important because it helps to **enhance WTW's ability to be effective stewards of capital**. We recognise our role in the system and our own fiduciary duty and want to drive positive real-world impact. Working with EOS, alongside the asset managers we invest in, enables us to do that.

Our Head of Stewardship also chairs EOS's Client Advisory Council, which gives us position to influence their engagement agenda.

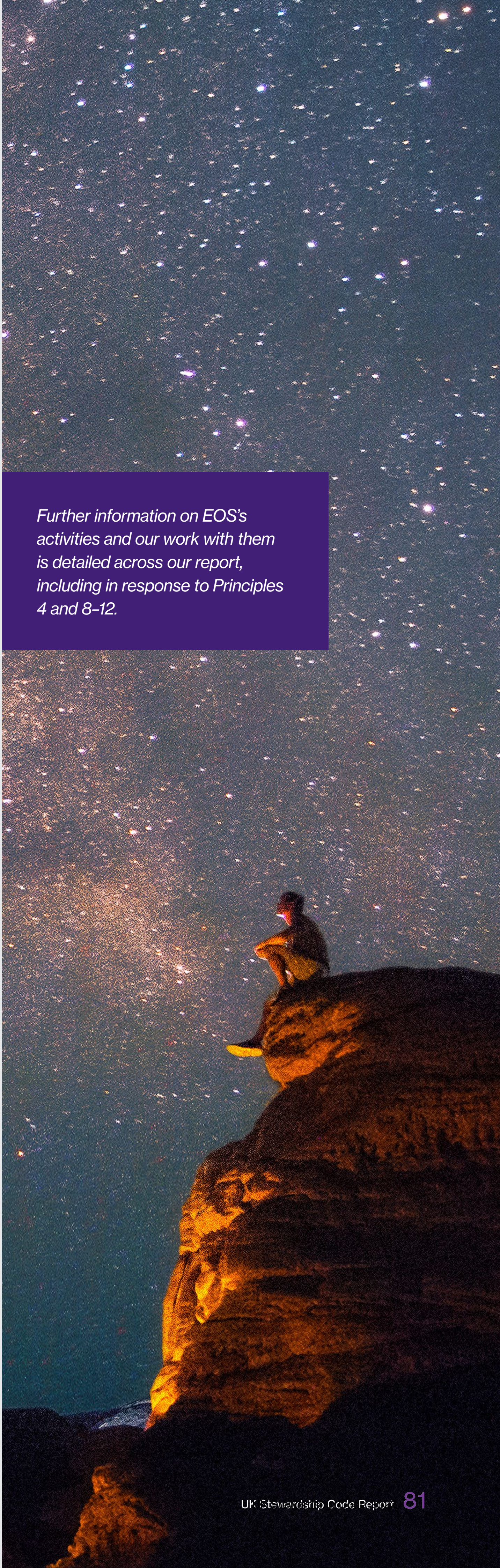


EOS's work in 2021

EOS's 2021 Annual Review provides an excellent summary of their approach, activities and outcomes over the course of 2021.

Some highlights include:

- Engaging with **1,208 companies** on **4,154** issues and objectives
- Making voting recommendations on **128,858 resolutions** at **13,412 meetings**, including **20,665** vote recommendations against
- **64 consultation responses** or proactive equivalents (such as a letter)
- **71** discussions held with relevant regulators and stakeholders
- Active participation in many **collaborations** including Climate Action 100+, where EOS lead or co-lead engagement with 25 focus companies
- Engaged with companies accounting for **63%** of the value of the MSCI ACWI All Cap
- **Four priority themes in 2021:** climate change action, human and labour rights, human capital, and board effectiveness and ethical culture
    - Further engagement being pursued in the fast-growing areas of: biodiversity, fast fashion, and digital rights
- Co-filing a resolution at Berkshire Hathaway in 2021 requesting **improved climate reporting**, which gained support from a **near-60%** majority of the independent vote
- **Recommending a vote against** the election of the responsible director for climate change at over 100 laggard companies in this year's voting season; this included not supporting four 'Say on Climate' votes at major companies due to material misalignment with the Paris goals
- Making **statements** at nine annual shareholder meetings in 2021 and asking live questions at six; this included moving a collective statement at Total's meeting in their role as CA100+ co-lead and leading a delegation of eight institutional investors at LyondellBasell's meeting in their role as CA100+ lead. This involved the use of a legal mechanism under Dutch law to require a discussion on climate change at the chemicals company's shareholder meeting
- **Also engaged with**: Royal Dutch Shell, Siemens, Daimler, BP, Burberry, Sainsbury's, Associated British Foods, Adidas, TotalEnergies, the Australian Treasury, the European banking sector, UK government consultations and US stock exchanges amongst many, many more examples found in its annual review
- Hosted a **two-day conference** at COP26, 'Further, Faster'
- **Maintained an A+ rating** from the Principle for Responsible Investment for stewardship, equity and private markets operations, an A+ InfluenceMap Climate Engagement Score, and received a 1st in Hirschel & Kramer's Responsible Investment Brand Index, all for the international business of Federated Hermes, recognising EOS activity



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

Appendix

Disclosures and disclaimers

Funding level performance data

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

Disclaimer – Delegated Client Base Performance

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

Purpose

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

WTW Client Index composition

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

Limitations

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

Average pension scheme

Based on the PPF7800 Index released monthly by the PPF. We have converted the reported average funding level on a PPF basis to a gilts flat basis, by adjusting for differences in the underlying assumptions and benefit levels. The average scheme funding level shown is a weighted average on a gilts flat basis and includes contributions. The contributions received by the average UK scheme may be different to that received by WTW clients.

Time period

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

Important information and key risk warnings

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

- Towers Watson Limited has approved this marketing material for issue to Professional Clients only
- This investment is intended for investors with long-term investment time horizons
- The value of all investments and the income from them can go down as well as up. This means you could get back less than you invested
- Changes in exchange rates may cause the value of investments to decrease or increase
- Past performance is not a reliable indicator of future returns
- The document contains figures that refer to simulated past performance, which is not a reliable indicator of future returns
- Expected performance is not a reliable indicator of future returns

- Securities and derivatives trading in which the portfolio funds engage are speculative and involve a substantial risk of loss
- Exchange rate changes may cause the value of overseas investments within the portfolio funds to go down as well as up
- Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future
- The securities and derivatives investment activities which the Fund engages in may be speculative and involve a substantial risk of loss.
- The Fund may be exposed to credit and/or default risk of issuers of debt securities that may be held within the Fund
- The issuers of any bonds within the Fund may default or not be able to pay the bond income as expected
- If the Fund is denominated in a currency other than your home currency, movements in exchange rates may, if not hedged, have a significant impact on the value of (and income from) your investment
- Shares/units in the Fund may become illiquid and investors may redeem their investments only as stated in the Fund's prospectus
- 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

Manager research ratings study – methodology

Relative returns for ratings

- Analyzed 'preferred products' for active long only Equities, Bonds and liquid Diversifiers from 1 January 2000 to 31 December 2020. '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 WTW and its predecessor firms). It should be noted that product renaming/mergers/splits will impact the ratings history which has not been independently verified. The ratings reflect all managers rated during such a time period. Ratings are forward-looking
- Ratings were mapped to the performance of the product match we believe to be the most appropriate within the eVestment database. Where a suitable performance stream was not available on eVestment, reasonable efforts were made to use returns from other available sources but ratings without performance were excluded from the analysis
- Relative returns are calculated relative to the appropriate benchmark (see below)
- Performance in product base currency compared with benchmark return in the same currency; for Hedge Funds, we use return in base currency compared with HFRI fund weighted index in USD as Hedge Funds are normally assumed to be perfectly hedged to a currency
- Fee information for Diversifiers is sourced from eVestment. In the minority of cases where no fee information is available in eVestment, we use "Expected fee %" from internal research to supplement the missing info. If no fee information can be found from either source, assumed mandate default fee % is used
- Performance is assessed from the quarter following the rating creation up until the quarter end date following the rating having been downgraded or changed to unrated. This removes the benefit of hindsight as the rating is set in advance of performance being known
- Asset class returns are calculated by annualizing the average relative quarterly return data within the specified period for the named asset class, for example the three year Equities number includes all available quarterly relative returns for Positive/1 and preferred rated products in the period 1 January 2018 to 31 December 2020

Benchmark considerations

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

Proportion	Benchmark source		
Area	**Override Benchmark**	**Manager preferred benchmark**	**Default Benchmark**
Equities	3%	81%	17%
Bonds	2%	80%	18%
Diversifier	84%	16%	0%

Disclosures

Equities, Bonds and Diversifiers model performance

The aggregated manager model performance shown is for the stated time period only; due to differences in the managers selected by or for client accounts, the timing of such selection, and market volatility, each account's performance will be different. Manager returns are shown either gross or net of manager fees, but before trading costs, custody charges, and other direct or indirect charges. The returns shown assume the reinvestment of dividends and other income. Aggregated manager model performance does not reflect the deduction of any fees related to WTW'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 WTW or any other actually attained. The aggregated product model performance presented is based upon the following assumptions: investors equally allocated capital across all applicable products at the start of each quarter; each product was open to new investments during the applicable period. See Ratings study - methodology regarding the approach utilized in performing this study.

Certain of the assumptions have been made for modeling purposes and are unlikely to be 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 WTW 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 WTW 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 WTW Return distributions are not, and are not intended to represent, actual performance of any WTW client.

The Positive/1 and preferred rated Bonds universe represents managers following active fixed income-focused investment strategies that WTW has reviewed and rated most likely to add significant value on a risk-adjusted basis net of all costs, but not necessarily recommended for investment by clients.

The Positive/1 and preferred rated Diversifiers universe represent managers following a variety of liquid alternative asset classes strategies, including but not limited to Direct Hedge Funds, Real Estate, Infrastructure, Multi Asset and commodity Smart Beta & insurance-linked investment strategies that WTW 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.

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

Private markets performance

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

Certain assumptions have been made for modeling purposes and may not have been 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. Model returns have many inherent limitations and may not reflect the impact that material economic and market factors may have had on the decision-making process if client funds were actually managed in the manner shown. Actual performance may differ substantially from the model performance presented. Changes in the assumptions may have a material impact on the model returns presented. Other periods selected may have different results, including losses. There can be no assurance that WTW will achieve profits or avoid incurring substantial losses.

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

Model portfolio simulated performance is compared to the MSCI World Index or in its form ADV Part 2A, utilising the Public Market Equivalent (PME) calculation methodology. As described in the MSCI website, the MSCI All Country World Index "is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries and 24 emerging markets countries. It covers approximately 85% of the free float-adjusted market capitalisation in each country." The PME analysis assumes that the private markets cash flows are invested into a public market index and compounds it until the end of the measurement period to arrive at a synthetic ending portfolio value. An IRR calculation is then made based on the actual cash flows experienced and the synthetic ending portfolio value.

The MSCI index and PME analysis presented are not benchmarks and are presented only as a comparison among asset classes. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts. Investments cannot be made directly in those indices to replicate the exact cash flow profile of the private markets model portfolio.

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

Conflicts of Interest – Disclosure Statement

Introduction

It is a fundamental requirement for a financial services firm to identify and manage conflicts of interest. This is central to the duty of care we owe to our clients. Willis Towers Watson will take all appropriate steps to identify conflicts, manage them effectively and to treat our clients fairly. This document seeks to provide a high-level description of how conflicts of interest can arise in our business and how they are managed. Willis Towers Watson has numerous controls, policies and procedures in place to ensure that we manage conflicts when providing services or products to clients. Employees, directors and non-executive directors of entities within the Willis Towers Watson Group are required to follow them. Towers Watson Ltd, Towers Watson Investment Management Ltd, Towers Watson Investment Management (Ireland) Ltd and The Asset Management Exchange (Ireland) Ltd are part of the wider Willis Towers Watson Group, and actual or potential conflicts arising from those relationships have been considered as part of this statement.

What conflicts could arise? A conflict of interest may arise where competing obligations or motivations may damage the interests of a client. In identifying the conflicts of interest that may arise when providing services to clients, we will take into account the following:

Client versus client conflict – where we may be unable to act in the best interests of one client without adversely affecting the interests of another client.

Firm versus client conflict (including client/third party conflicts) – our own corporate interests conflict with a duty we have to a client, in certain instances where that ability to act in the best interest of the client is impacted by our relationship with a third party.

Intra-group conflict – where the interests of a WTW corporate entity, director, employee or fund thereof conflict with the interests of another WTW corporate entity, director, employee or fund thereof.

Individual versus client conflict – an employee's personal interest does or could conflict with a duty we have to a client.

How are conflicts managed?

We are required to maintain and operate effective organisational and administrative arrangements with a view to taking all appropriate steps to prevent conflicts of interest from constituting or giving rise to a risk of damage to the interests of its clients. We have a strong culture of managing conflicts of interests in Willis Towers Watson and this is supported by a number of processes and policies. We provide all staff with training on awareness and understanding of how conflicts could arise within our business. There are a number of group-wide policies and procedures designed to ensure that every employee in the business is personally responsible for highlighting and managing conflicts of interest. These policies ensure that once a conflict has been identified, it is managed in a way that gives reasonable assurance that there is no material risk of damage to the interests of clients. Steps taken by Willis Towers Watson to manage actual and potential conflicts include the following:

a. Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients.
b. The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict.
c. The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities.
d. Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest.
e. Reporting lines which limit or prevent any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities.

f. As required by the Willis Towers Watson Code of Conduct, all employees are required to identify and disclose any personal associations that may give rise to an actual or perceived conflict of interest.

g. Internal guidance and training on the identification of possible issues of conflict as they arise.

h. Escalation procedures which ensure that issues identified are referred to and considered at the appropriate level within Willis Towers Watson; and

i. Other relevant policies and procedures, including the personal account dealing requirements in the Code of Conduct, the Gifts & Hospitality Policy and the AntiBribery and Corruption Policy.

Disclosure

Conflicts and potential conflicts of interest are reviewed regularly and where it is not possible to manage an actual or potential conflict satisfactorily, we will disclose this to you.

Regulatory status disclosure

Towers Watson Limited (trading as Willis Towers Watson) (Head Office: Watson House, London Road, Reigate, Surrey, RH2 9PQ) is authorised and regulated in the United Kingdom by the Financial Conduct Authority (FCA Register Firm Reference Number 432886, refer to the FCA register for further details) and incorporated in England and Wales with Company Number 05379716.

Towers Watson Investment Management Limited ("TWIM") of 51 Lime Street, London, EC3M 7DQ, is authorised and regulated in the United Kingdom by the Financial Conduct Authority (FCA Register Firm Reference Number 446740, refer to the FCA register for further details) and incorporated in England and Wales with Company Number 05534464.

TWIM is the appointed investment manager of Towers Watson Investment Management (Ireland) Limited's range of funds. The management company is Towers Watson Investment Management (Ireland) Limited, which is authorised and regulated by the Central Bank of Ireland and registered in Ireland. The registered office is Willis Towers Watson House, Elm Park Business Campus, Merrion Road, Dublin 4, Ireland and its company registration number is 528835.

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 organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

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