



Multi-Asset Growth

What is multi-asset growth?

Most investors are aiming to maximise investment returns, whilst minimising the risk taken to achieve those returns. Constructing a well-diversified portfolio is viewed as the most effective way to achieve this. We've seen this first hand by working with the very large institutional asset owners that have been investing in this way for many decades; combining a strong decision-making process with scale and resources in order to achieve excellent investment outcomes. To be successful, you need to access a wide range of investments; some of the world's most sophisticated investors invest less than half of their capital in the traditional asset classes - listed equity and credit markets. Diversity from these traditional asset classes is particularly important in current market conditions.

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To achieve this level of diversity requires a huge amount of resources and expertise – many institutional investors face significant challenges in building their own robust multi-asset portfolio, these are outlined below.

Figure 1. Challenges faced by many institutional investors in building their own robust multi-asset portfolio

Your challenge	Our solution
<p>Time and expertise</p> <p>The number and frequency of investment decisions required to build and maintain a multi-asset portfolio are often too great for a Trustee board without significant internal resources to manage.</p> <p>Further, making complex institutional investment decisions is a challenging field in itself. It requires on-going commitment to react to changing external factors.</p> 	<p>Our dedicated team of researchers and portfolio managers have extensive experience of managing multi-asset portfolios. This allows us to consider and access a wider range of investment opportunities than a Trustee board could.</p> <p>We have applied techniques such as pre and post voting and pre mortem analysis to improve decision making processes.</p>
<p>Value for money</p> <p>Individual asset owners rarely have the scale to drive down costs meaningfully nor the influence to tailor the design of asset management products. Often this means they have to accept the off-the-shelf solutions and end up overpaying for returns that could be delivered more cheaply.</p> 	<p>We focus on identifying investment opportunities for our investors, and working with talented managers to create products to capture them. Our innovation means we can help our investors access better investment returns and our scale means we can drive down costs for our investors. Our average fee saving is 30-50%.¹</p>
<p>Financial outcomes</p> <p>Many traditional ways of multi-asset investing have yielded disappointing outcomes for pension schemes. Looking forward, returns from equities and bonds are widely expected to be lower than the recent past, meaning investors will need to work harder to identify and access better returns.</p> 	<p>We access the broadest opportunity set possible, meaning that we can look in places that others can't for great investment ideas. We avoid the crowded trades and instead invest in assets that are more difficult to access, and receive a premium for doing so. Our 'best ideas' investment approach has outperformed the median Diversified Growth Fund by 70% over the last 5 years.²</p>

¹Source: Willis Towers Watson, June 2019.

²Source: eVestment, Bloomberg, MSCI and Willis Towers Watson, 30 September 2019. Performance is in GBP. Accurate as of 4 November 2019.



Our approach to multi-asset investing is to apply an asset owner philosophy and use our considerable resources to give all investors access to the benefits of a truly diversified portfolio through our pooled multi-asset solutions. Our approach brings three key benefits:

Better returns through innovation

- Innovation is at the heart of our research - we seek and create solutions – we have created over 130 new products to provide access to better ideas at lower cost
- We have long-term relationships with managers which provides access to new ideas and enables us to source scarce assets
- Voted highest for 'Quality of Research' by asset managers³

Better risk management

- We focus on underlying return and risk exposures rather than asset class labels, enabling us to uncover opportunities that others would dismiss
- We identify global investment themes and implement in the best way to target better outcomes
- Our approach balances dynamic asset allocation decisions with investment time horizons

Cost reduction

- We use scale to drive costs down, without compromising on quality
- Managing costs at all levels of investing through our managed accounts platform drives down the operational and transactional costs associated with investing
- We provide complete transparency on fees, so investors know exactly what they're paying, and to whom

³2016 Portfolio Institutional Consultant Survey.

Scale

US\$140 billion
assets under management



30-50% savings
on manager fees

Access

Relationships with
Over 8,000
managers worldwide



Over 130
New products created

Resources

80+
researchers



Source: Willis Towers Watson, June 2019.



Thinking like a \$140 billion asset owner brings real portfolio benefits for our investors

What we do differently

Multi-asset investing is not a new phenomenon; it has existed in various guises from balanced managed portfolios through to their more recent incarnation, diversified growth funds. These solutions typically offer a lower governance approach to accessing a broadly diversified portfolio of assets. Diversified growth funds are a broad church, employing a range of techniques to generate returns, with varying results. In particular, the diversification they provide is typically accessed via listed assets, resulting in exposures that remain heavily correlated with equity markets.

Our differentiators:

We are completely independent from any investment manager, so we can access the best investments through the best managers.

✔ **Specialist implementation:** Many diversified growth fund managers use their in-house investment capabilities to implement the allocations to different asset classes; it is rare to find skilled teams across the whole investment spectrum in a single firm. Our independence and vast manager research resource means that we can access highly skilled investment managers in specialist areas across all asset classes.

✔ **Unconstrained breadth:** Many diversified growth funds offer daily liquidity, partly to cater for defined contribution pension schemes – this daily liquidity is not important to most investors and can lead to the exclusion of many alternative investments and their portfolio benefits. Illiquid assets represent an attractive return source in a lower-for-longer environment. Material inclusion of a broader range of alternative investments should make our multi-asset solutions more robust in challenging market conditions.

✔ **Genuine diversification:** often, the majority of returns generated by diversified growth funds are from equity and credit market returns. Investors should not overpay for this market return. We believe in seeking differentiated exposures and paying fees commensurate with the benefits they bring.

✔ **We're dynamic, not tactical:** In addition to our significant global research resources, which hunt down great investment ideas for our portfolios, we have an experienced portfolio management team that has worked together successfully for many years. We act decisively to introduce new ideas to our portfolios and apply ongoing dynamic portfolio management to reflect changing market conditions.

✔ **Integrated sustainable investment:** This is embedded in our portfolios and is covered in a separate section on page 7.



Our solutions

We offer two types of solution to suit an investor's cost and liquidity preferences:

Best ideas approach

A 'best ideas' portfolio offering exposure to the widest range of investment strategies, including direct exposure to private equity, real estate and infrastructure. Not only does this improve the diversity of the portfolio but we believe it also increases the likelihood of achieving equity like returns with lower risk. We think this is particularly true in the current market environment where it is increasingly difficult to generate strong returns from mainstream equity and credit markets.

This approach is suitable for investors who:

- Want to maximise their investment efficiency
- Have a long-term horizon incorporating responsible investment
- Are able to invest some of their assets in less liquid strategies
- Believe that active management will add value

Diversified approach

This approach aims for cost-effective diversification by making extensive use of Willis Towers Watson's innovative research into passive and smart beta (i.e., ways to get cheaper and more liquid exposure to some traditionally actively managed strategies) opportunities across multiple asset classes and markets. As well as enhancing the way we invest in equity and credit markets, our commitment to research and innovation has enabled the identification of truly diversifying strategies, such as merger arbitrage, mortgage prepayments and reinsurance.

Many of the diversifying strategies we use have historically only been accessible via hedge funds and whilst they have low correlation to equities and credit, they also came with material fees and restrictive liquidity. Our approach accesses these strategies at a significantly lower cost and with better liquidity terms than these active alternatives.

This approach is suitable for investors who:

- Have a strong focus on cost management
- Do not want to make significant use of active management
- Need regular liquidity
- Want to capture sustainable investment themes

Attractive long-term returns with less than half the risk of equities

Best ideas illustrative portfolio

Figure 2. Illustrative best ideas portfolio

Example strategies:

Liquid alternatives

- Long-short credit
- Long-short equity
- Macro
- Merger arbitrage
- Momentum
- Insurance linked securities
- Value premium

Equities

- Global equity
- Emerging equity

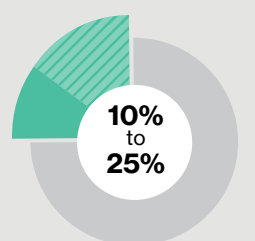
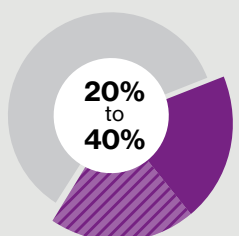
Private markets

- Private equity
- Illiquid credit
- Opportunistic real estate
- Infrastructure
- Venture capital

Credit

- Specialist emerging market mandates
- Securitised credit
- Sovereign credit

Typical range:



Liquid alternatives

Unbundling the return drivers from hedge funds. By structuring new solutions and negotiating hard on fees, investors can maximise the return generated by manager skill and/or capture alternative forms of market returns in a far more economical way. These assets are uncorrelated with traditional markets and expected to bring meaningful diversity to the portfolio.

Equities

High active share and concentrated portfolios tend to improve outcomes. Multiple, complementary managers increase the likelihood of success. And we have persuaded managers to create bespoke cost-effective products. All overlaid with a dedicated stewardship manager.

Private markets

Deliver higher returns by considering illiquid assets through return/risk mind-set rather than typical asset class labels, run more concentrated portfolios while maintaining true diversity benefits, and drive down costs via scale. This approach should help drive superior returns in difficult market conditions.

Credit

Accessing the full alternative credit universe including securitised credit and less liquid opportunities that are difficult for most investors to access, and which have higher return potential. Selective exposures are designed to have a low correlation to other growth assets. A high cash yield provides a strong cushion against any downward movements in prices.

Competition for capital model, each investment needs to justify its place in the portfolio relative to existing and new ideas. No single manager, investment or theme dominates the risk profile. Dynamic portfolio management to capture opportunities and manage risks.

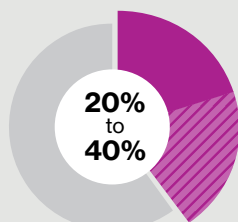
Diversified approach illustrative portfolio

Figure 3. Illustrative core diversified portfolio

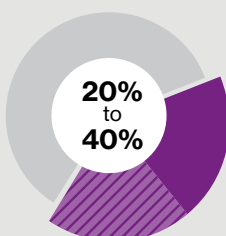
Example strategies:

- Liquid Alternatives**
 - Alternative beta – core
 - Alternative beta – specialist
 - Diversifying markets

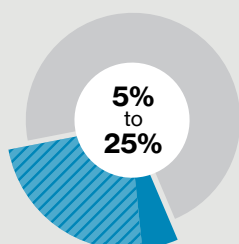
Typical range:



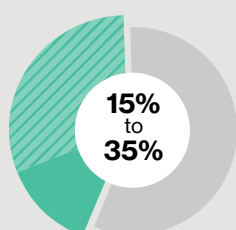
- Equities**
 - Global equity
 - Smart beta global equity



- Real assets**
 - Listed infrastructure
 - Smart beta real estate



- Credit**
 - High yield
 - Securitised credit
 - Emerging market debt
 - Sovereign credit



Liquid Alternatives

Returns driven by factors such as market participant behaviour and the need for insurance (examples of these strategies include reinsurance, merger arbitrage, volatility and momentum investing). Low correlation to equities and credit.

Equities

'Smarter' passive equity management through systematic implementation of factors (size, value, momentum, quality and low volatility). Environmental, Social and Governance (ESG) overlays applied to remove companies that fail to meet acceptable sustainability standards.

Real assets

Listed exposure to real estate and infrastructure using bespoke indices developed in conjunction with specialist asset managers to provide better diversification and 'pure' access to those assets.

Credit

Broad exposure to corporate, consumer and government debt, highly diversified by geography, sector, credit rating. Selective use of active management, where appropriate.

Dynamic portfolio management: Acting decisively and swiftly to introduce new exposures (and remove others), repositioning the portfolio based on medium-term (3-5 years) market views to take advantage of opportunities and manage risks.



Sustainable investing

Our multi asset solutions are a complete reflection of our investment expertise: building portfolios comprising of our best thinking in return generation and risk management. We therefore rely on the breadth of our specialised investment teams to integrate ESG/Sustainable Investment (SI) factors into each stage of our decision making process.

Sustainable investment is about finance-driven, long-term strategies that integrate ESG factors and effective stewardship.

We believe ESG factors can have a material influence on risk and return:

1. **ESG integration:** Higher ESG scoring companies tend to provide moderately better risk-adjusted returns over the long-term
2. **Effective stewardship:** company engagement appears to have a positive impact on returns
3. **Long-horizon investing:** there is strong evidence of a sizeable net long-term premium of between 0.5% pa and 1.5% pa depending on investor size and governance arrangements⁴



We integrate sustainability throughout our entire investment process:

1. **Manager research:** Our manager research team integrates the assessment of a manager's approach to ESG/SI integration and stewardship within the overall view of the manager's ability to continually deliver on their investment strategy.
2. **Asset research:** Our asset research team form market and economic views which we incorporate into our portfolios, this work includes the construction of long-term investment themes. We believe these themes will create additional returns due to the transition of capital from, for example, fossil fuel based energy to renewable energy.
3. **Thinking Ahead Institute:** Collaborates with wider industry participants to address shortcomings in the investment industry and improve outcomes for investors.
4. **Portfolio management:** Portfolio managers look to build diversified exposures to these themes in our multi-asset growth solutions. They engage with all of our research teams to review and understand this work on a regular basis, ensuring our portfolios integrate ESG/SI effectively.

Some examples

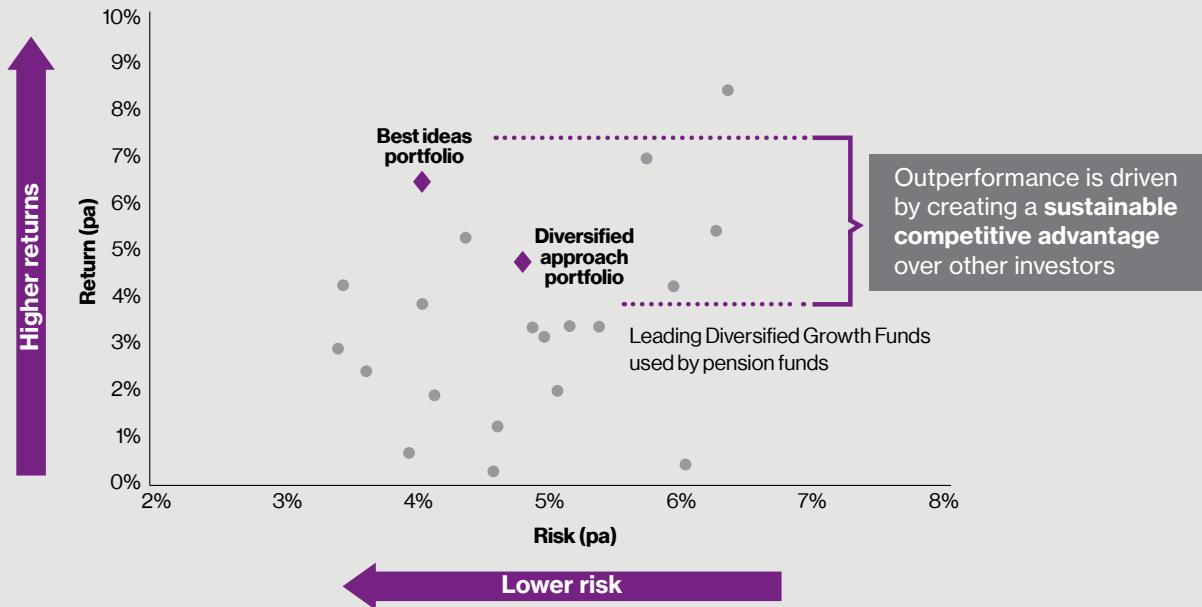
1. **Engagement** – we employ Hermes EOS to carry out public policy engagement and provide guidance on proxy voting issues.
2. **Manager research** – we engage with managers to improve their shortfalls in ESG and stewardship. Managers are given 12 months to enact changes, if they fail to respond we review our rating.
3. **Climate change** – we have invested in a number of projects that have a positive impact on the environment: renewable energy infrastructure, advanced greenhouses, energy-from-waste projects and bespoke equity indices that explicitly include ESG factors in their allocations.

We believe incorporating sustainability into our investment process improves risk-adjusted returns.

⁴Source: Thinking Ahead Institute: *The search for a long-term premium*, May 2019.

Delivering investors' aims: High returns with low risk

Figure 4. Five years risk vs return (to end September 2019)




Past and simulated performance are not reliable indicators of future investment performance

Source: eVestment, Bloomberg, MSCI and Willis Towers Watson, 30 September 2019. Performance is in GBP. Accurate as of 4 November 2019. Towers Watson Partners Fund performance is shown for Series 1 of the Towers Watson Partners LP until 1 January 2015 and for GBP A Shares of the Towers Watson Partners Fund from 1 January 2015 onwards, net of fees. Sourced from BNY Mellon Fund Services (Ireland) Limited. Towers Watson Core Diversified Fund performance is shown for A Share Series (GBP) from its inception on 2 June 2015 to 31 October 2015, net of 25 bps management fees. From 1 November 2015, performance shown is for Y Share Series (GBP), net of 20 bps management fees. Sourced from BNY Mellon Fund Services (Ireland) Limited. Prior to its inception, performance represents an equal weighted composite of total return seeking performance of Willis Towers Watson's UK Delegated investment Services (DIS) Core clients. Inception of Core DIS composite is 1 January 2013. MSCI AC World = MSCI All Country World index. The external Diversified Growth Funds are included if they are part of the eVestment Diversified Growth Fund universe, have more than 3 years of performance available (in GBP) and have assets more than £1 billion.


We are helping

83 investors


improve their portfolio diversity




Over **60%** of the portfolios are implemented using **bespoke mandates**




Our private markets investments **outperformed global equities by 3.8% pa** over the last 5 years



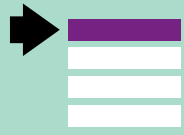
Successfully delivered returns in line with **CPI+5%** with **less than half the risk of global equities** over the last 5 and 10 years




Investments with **over 80%** of our preferred investment managers



Risk adjusted returns in the **top quartile** of the Diversified Growth Fund universe



Trusted to manage over **US\$3 billion** of assets for our investors



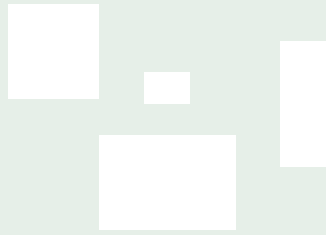
Source: Willis Towers Watson and managers, 30 September 2019.

Further information

For more information on multi-asset growth please contact your Willis Towers Watson contact or:

Katie Sims

Head of Multi-Asset Growth Solutions
katie.sims@willistowerswatson.com



About Willis Towers Watson

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Willis Towers Watson
51 Lime Street
London
EC3M 7DQ

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