

Putting the planet into your portfolio: Sustainable investing in the United States



Why do we do this?

Sustainability continues to be an important theme for the investment industry. Events of the past few years have led to some dramatic societal changes while also drawing considerable attention to the investment risks—and opportunities—related to our climate transition, the culture and diversity within businesses, and the impact of strong governance and effective stewardship on financial outcomes for investors.

Sustainable investing (“SI”), in our view, is central to successful long-term investment outcomes and a key part of our [beliefs](#) and [investment approach](#). This reflects, we believe, good risk management and supports a robust investment industry. For us, the principles underlying SI form the cornerstone of a successful long-term strategy. In addition, SI considerations can help build resilient portfolios and materially improve risk and/or return-potential for our portfolios over the medium to long term.

In addition, inclusion and diversity is a critical consideration in any investment decision. Greater diversity typically begets diversity of thought (cognitive diversity) and wider perspectives. Crucially, greater diversity also makes teams more representative of the people on whose behalf they are making decisions. Our leading [research](#) indicates that teams with more diversity typically

make better decisions and produce better long-term outcomes. We have integrated diversity, equity and inclusion (DEI) across our manager research processes and portfolio management considerations, engaging with asset managers to further progress and share best practice.

As a fiduciary, we have a responsibility to act in the best interest of our clients. Fundamentally this means seeking attractive risk-adjusted returns as applied to their individual investment contexts, which includes considering all material risks (current and future). Within our discretionary mandates, we embed sustainable investing practices in every step of the process when building, maintaining, and monitoring delegated client portfolios. Our asset research and portfolio management teams utilize state of the art modeling and risk analysis to build portfolios designed to withstand many of the sustainability challenges investors face relating to climate and other environmental, social, and governance (ESG) factors. We recommend managers used in our portfolios that have achieved a strong rating by our manager research team, which is informed by the strength of ESG integration in their processes. Once in place, we monitor our funds and portfolios with detailed carbon and sustainable investing reports to ensure risks are identified and our goals and targets are being met.

We summarize this purpose as ‘investing today for a more sustainable tomorrow’.

How are we different? It's all in our purpose

We seek to deliver better outcomes for savers. Better outcomes can mean better long-term returns with well-managed risk along the way. To achieve this, we continue to innovate and focus on the forward-looking risks and opportunities. This includes the risks and opportunities associated with sustainability. Sometimes achieving better outcomes will also mean improving the quality of the savings system so that savers' confidence in that system increases and they are willing to save more. It may also mean investing in a way that has a positive impact on the world that savers live in and will retire into.

We recognize our duty to multiple current and future stakeholders – clients, employees, shareholders, wider society and the planet – as these are all interconnected. Better outcomes require changes – from us as individuals, as a firm and as an industry.

Sustainable investing is embedded in our overall process from top-down macro themes and analysis to bottom-up research on the sustainable investing capabilities and processes of the managers and funds that we use in our outsourced chief investment officer portfolios and recommend to our clients. ESG risks and a sustainable framework is utilized through all facets of the portfolio construction process. Managers' ESG process and capabilities are embedded in the overall evaluation for all of our covered managers. In addition, we have been incorporating culture and DEI explicitly into our investment process since 2018 and have [published research](#) showing a link between investment team diversity and outperformance.

We actively source and engage with managers to push the industry forward, and are members of the Diversity Project, the Institutional Investment Diversity Cooperative and the Investment Diversity Advisory Council. For example, one of our key initiatives for 2022, in collaboration with the Diversity Project and the Asset Owners Diversity Charter, was to build out an extensive

industry-standard questionnaire on I&D and implement this in our proprietary database. We have introduced DEI objectives within our manager research and portfolio management processes. For example, 90% diversity data transparency and DEI engagement for all rated strategies, monitored via our portfolio-level DEI tools. This is contributing to our target of a 20% increase in the number of diverse strategies rated by us over 3 years.

We were the first U.S. OCIO manager to publicly commit to [net zero](#) for all OCIO portfolios when we took the pledge in early 2021. We use [Federated Hermes](#) stewardship services on behalf of our delegated portfolios on a number of sustainability issues, including climate change. We have a long history of leadership in this area, including pioneering research and extensive industry collaboration. The [Thinking Ahead Institute](#), a leading think tank responsible for cutting edge research and thought leadership, is a good example of this, alongside the [Willis Research Network](#), a leading provider of climate modeling, and WTW's Climate Research Hub, recently bolstered by the acquisition of Acclimatise and Willis Towers Watson Climate Quantified™ to better access portfolio risks.

How do we do this?

- **We look to embed SI throughout our investment process**, from setting a mission and belief framework, through risk management, portfolio construction and manager selection, to implementation and monitoring.
- **We view SI as an integral input to the decisions we make**, not a separate or disconnected consideration and is subject to continual improvement to respond to fast changing regulation and best practice.
- **We incorporate jurisdictionally relevant requirements for portfolio investments**, recognizing evolving regulations, guidance and standards. As a result, the governance of our SI processes is monitored on an ongoing basis as a priority focus area for our business.
- **We can implement a Beliefs set and Framework** that aligns with the DEI goals of stakeholders, end-savers, and Sponsors

- Top-level organisational commitment
- Leadership and culture
- Climate risk and resilience as a priority

- Embedded in purpose and beliefs
- Embedded into people, process and portfolios

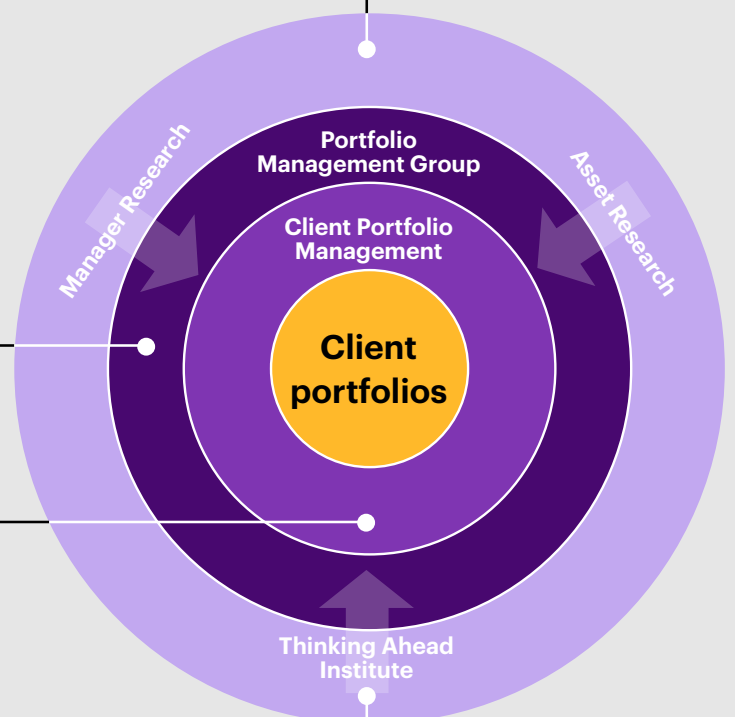
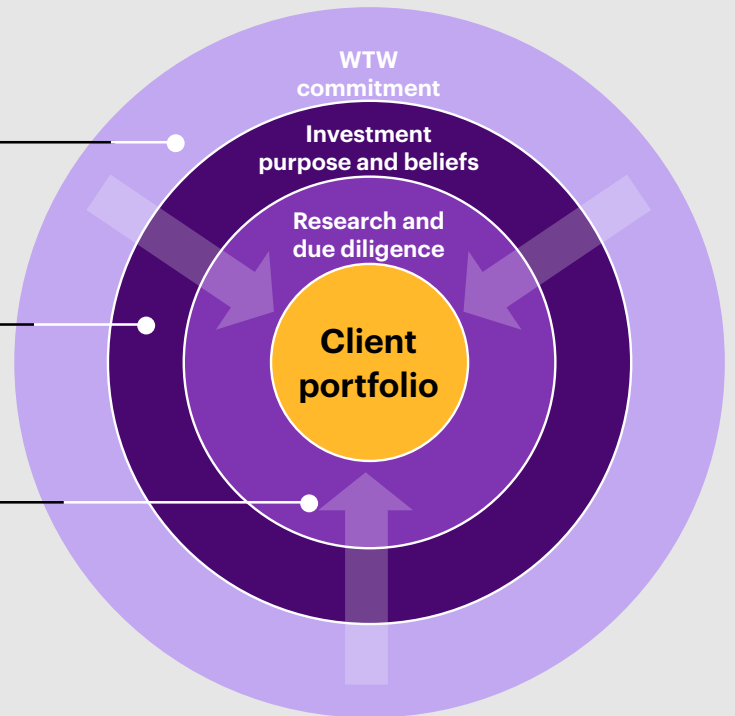
- Long-horizon mindset and skillset
- Integrated ESG
- Effective stewardship

- Consideration of megatrends, macroeconomic insight and scenario analysis
- Sustainable investment embedded in our rating process and ongoing monitoring
- Ongoing review of trends, new opportunities, emerging risks, market developments

- Beliefs -> Policy -> Process -> Portfolio decisions
- Portfolio assessment through multiple lenses, including sustainability

- Client and market context is critical
- Scenario analysis
- Specific mandates and requirements

- Thought leadership and collaboration with wider industry participants seeking to improve outcomes for investors and mobilise capital for a sustainable future



So what have we done?

Over the past decade we have devoted significant resources to bolster analytics and research capabilities

Willis Research Network

WillisTowersWatson 

Spearheading climate analytics through our Climate Resilience Hub and the Willis Research Network



Developing and launching sustainable investing and climate/transition strategies

- Climate Transition Index
- Adaptive Cap Index
- Renewable and Social Funds



Developed comprehensive sustainable investing scorecards to identify risks and opportunities for both traditional and non-traditional asset classes



Committed to a number of global and regional ESG and sustainable investing organizations



Commitment to net zero greenhouse gas emissions by 2050 in our fully discretionary delegated investment portfolios



Our Manager Research teams have developed sustainable investing manager scorecards and integrate managers' sustainable investing capabilities in all formal ratings and evaluations

How we can help you



1) Establish/ Revise Governance

- Training, education, long-term strategy, belief setting and incorporation in the Investment Policy Statement
- Thinking Ahead Institute membership; participation in sustainability working groups



2) Risk Management Plans

- Sustainability risk reviews and robust climate scenario analysis
- Conduct analysis of current physical risk to real assets portfolios using insurance tools
- Assist in peer benchmarking and global best practice comparison



3) Portfolio Construction

- Guidance through the consideration of SI-integrated, themed, and impact strategies
- Developing a Carbon Journey Plan



4) Implementation

- We have worked with managers to create their own specialty designed ESG and SI Funds¹
- Manager selection with ESG and stewardship incorporated, and stewardship overlay provider advice (Federated Hermes EOS)



5) Measure and Assess SI Factors and Performance

- Advice and assistance on reporting – implementation reports, stewardship codes, Task Force on Climate Related Financial Disclosures, Principles for Responsible Investing, etc.
- Sustainable Investing monitoring scorecards to assess manager and portfolio sustainability credentials, tracking progress over time across key climate/environmental, social and governance metrics
- Diversity, Equity, and Inclusion (DEI) monitoring scorecards examining the diversity of asset managers across ownership and investment team via WTW's proprietary diversity tools
- Manager specific SI ratings/reports and Scorecards to review and understand your managers' approach to ESG via our dedicated research assessments on integration and stewardship
- Managers and third-party engagement

1. Funds not sponsored by WTW

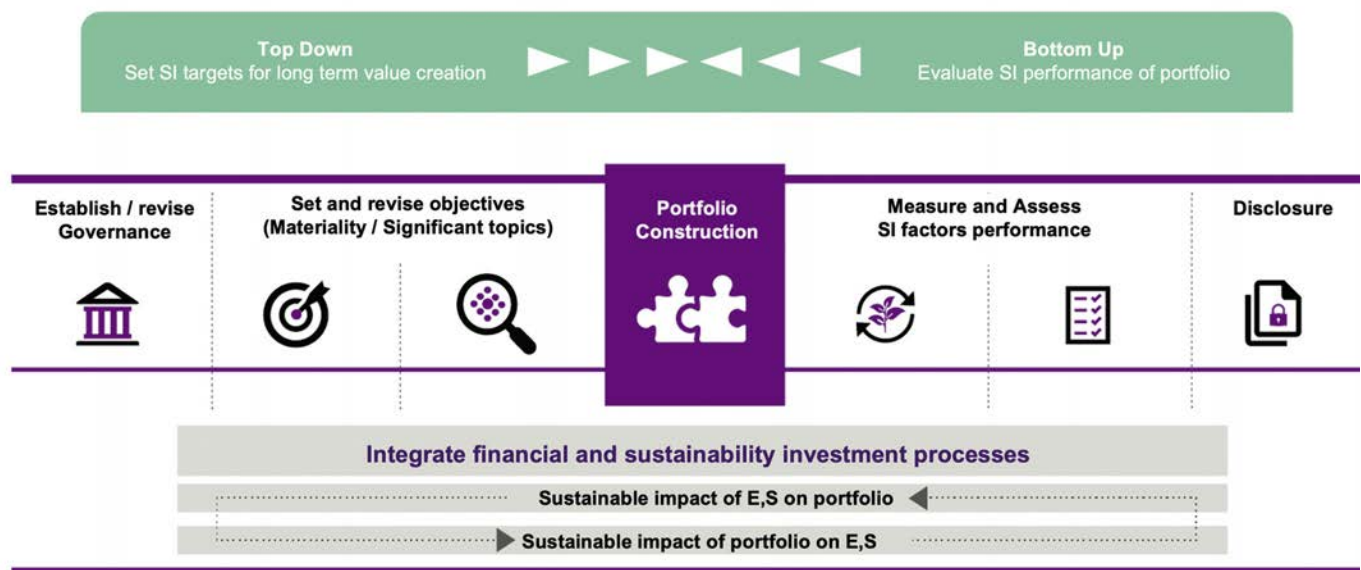
Looking Ahead

The Department of Labor's (DOL's) ruling in late 2022 clarifying that ESG strategy can be used in fiduciary decisions is widely viewed as more accommodative to the use of sustainable investing and ESG funds in ERISA governed plans. These amendments, which became effective on January 30, 2023, change certain amendments to the Investment Duties regulation adopted in 2020 and are part of the Biden administration's push to advance public policy on climate change.

The ruling comes as the U.S. Securities and Exchange Commission (SEC) finalizes rules that expand the types of information available to asset managers. The combined weight of these could usher in a new era for sustainable investing with improved transparency and metrics allowing for greater and more detailed analysis and the ability to better assess risks and opportunities.

Summary

In short, we partner with you to assess your strategy and bring clarity and experience to your sustainable investment journey. Whether that's defined benefit or defined contribution, we offer a range of solutions, small or large in the investment cycle.



Beyond ESG integration to sustainable investment outcomes

> recognising that long term value creation can occur alongside benefit to the environment and society

Working in partnership with:



Thinking Ahead Institute
An innovation network founded by WTW



Willis Research Network
Willis Towers Watson 

Eager to learn more?
Please contact us.

Monique Mathys-Graaff
Monique.Mathys-Graaff@wtwco.com

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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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