

Willis Towers Watson

Quick facts

CEO John Haley	
Regions	Business segments
Great Britain	Investment, Risk and Reinsurance
International	Exchange Solutions
North America	Corporate Risk and Broking
Western Europe	Human Capital and Benefits
 <p>We've been putting clients first</p> <p>since 1828</p>	<p>A deep history dating back to 1828</p>

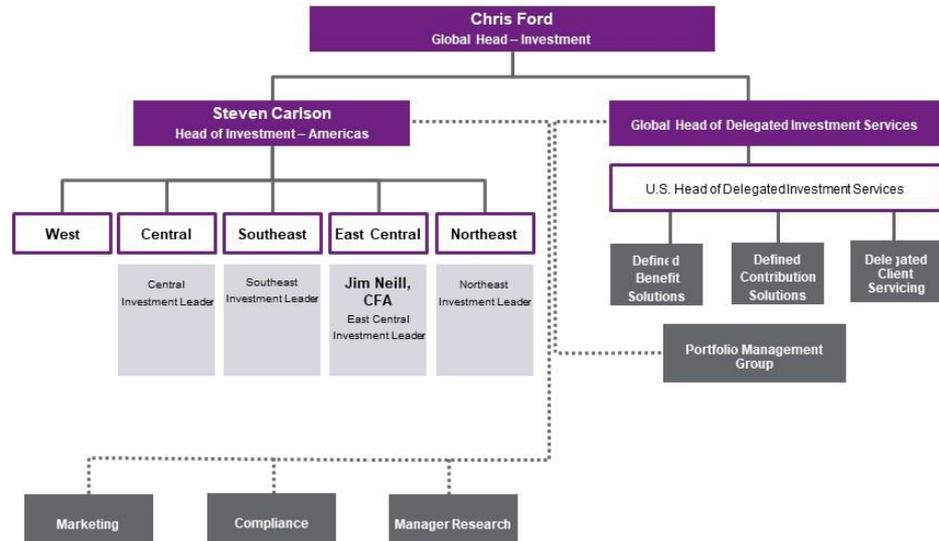
Willis Towers Watson | Investment Business

\$2.6T in assets with over **1,200** clients, globally

In the U.S., over **175** clients

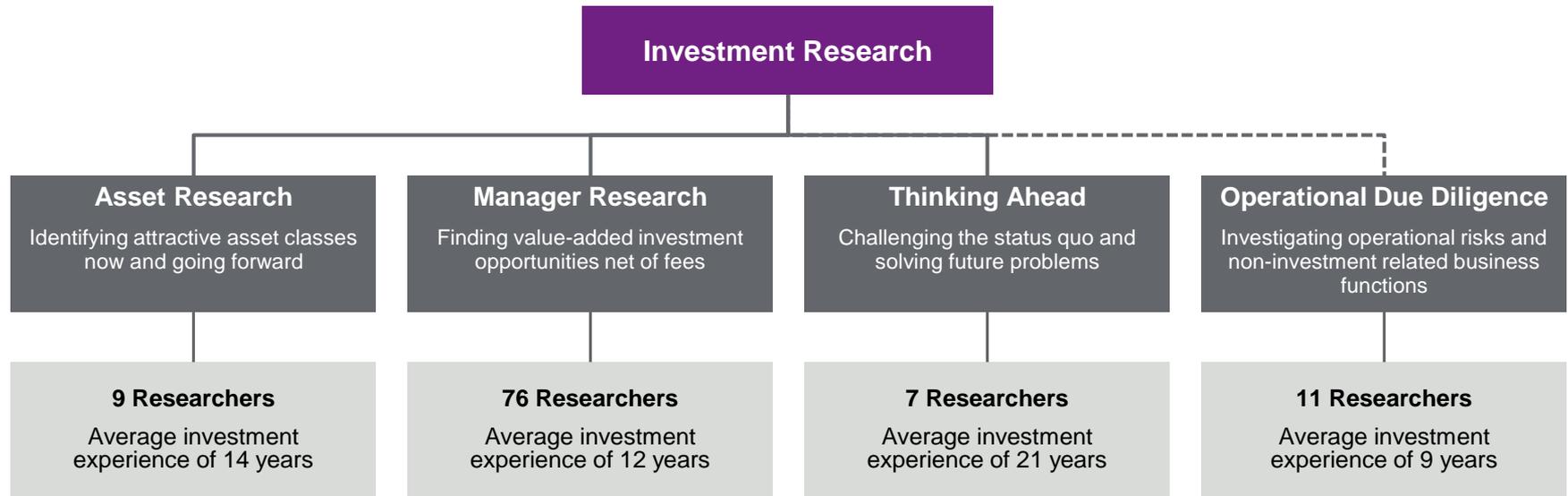
Over **40%** of plans advised are over \$1B

Average client size is **\$3.4B**



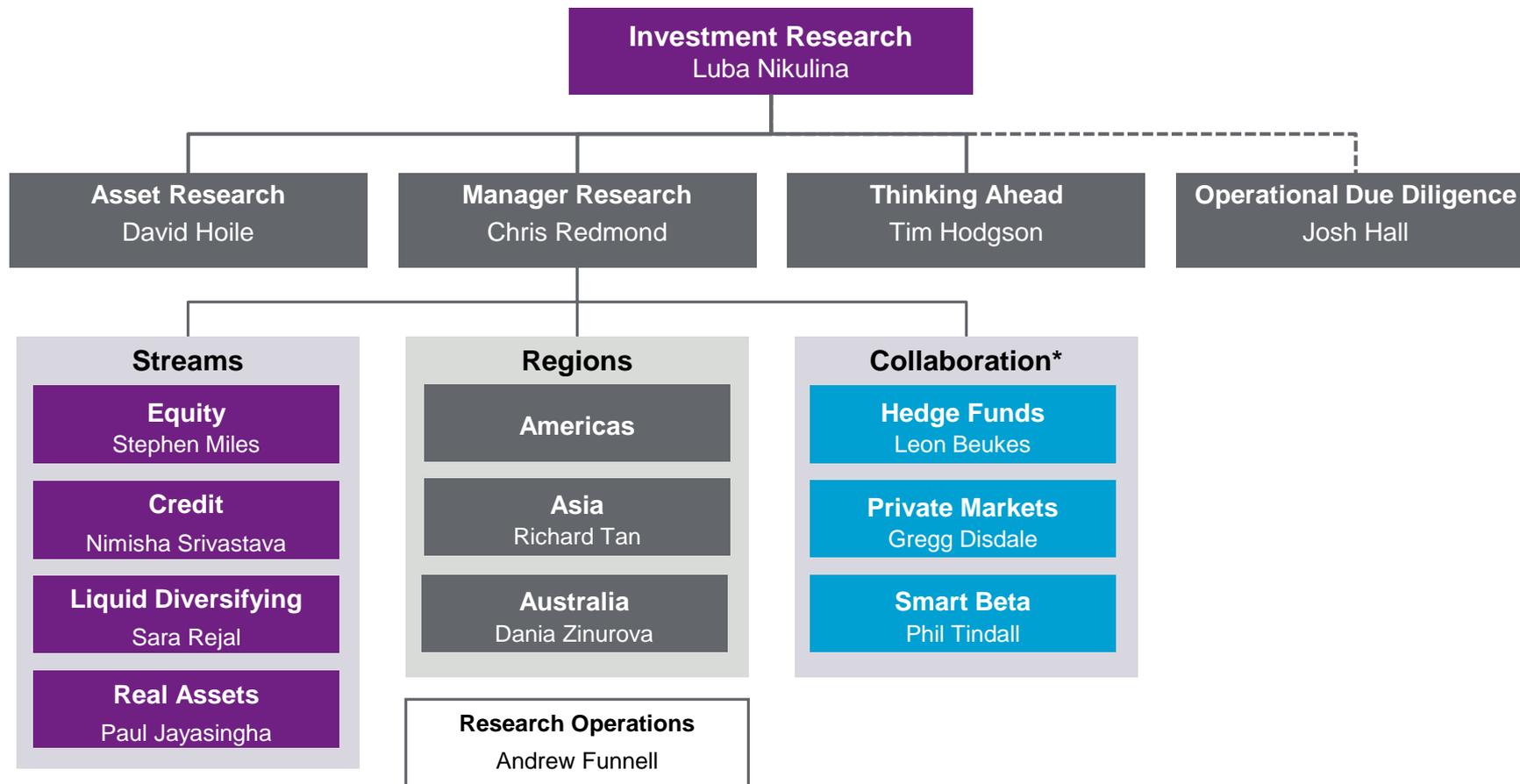
Data as of December 31, 2018

Investment Research group structure



As of June 30, 2019

Investment Research leadership structure



Data as of December 31, 2018

*Coordination and prioritization of relevant investment opportunities across the research teams to assist portfolio construction.

Willis Towers Watson's ability to source great ideas

Depth and breadth of resources

Size of Manager Research team
Breadth from Asset research and Thinking Ahead

Attractive Client Base

Assets under advice approximately \$2.6 trillion,
\$132 billion in assets under management*
Experience with large, sophisticated institutional
investors

Reputation for Innovation

Work with managers to create new products
Ability to work on coinvestment and direct deals

*As of June 30, 2019

Defined benefit trends

OCIO/Delegated	We have seen an increase in interest and implementation of OCIO with defined benefit plans. Plan sponsors have recognized that while governance is a limiting factor to what they can implement in the plan, additional governance can be purchased through delegation
Dynamic Asset Allocation Strategies	Plans are realizing that there are no “one size fits all” strategies or “silver bullets” and thoughtful planning and risk management is key. This can take the form of a long-term glide path, but could also incorporate more short term actions that are a function of predetermined market characteristics, like spread levels, slope of the term structure and others
Diversity in Portfolio Construction	While diversity across asset classes has been common, there is an increased focus on diversity across risk premia and integrating return seeking assets, plan characteristics, and design of the liability hedge
Return Seeking Portfolio	Plans are relying less on equities for future returns, with an eye toward broader return-seeking buckets and an increased interest in passive strategies where they make sense
LDI/Interest Rate Management	Increasing pressure on higher funded status and maintenance when it is achieved which is leading toward better ways to track plan performance relative to liabilities
Continued Liability Defeasance/De-risking	Plan sponsors can promote their objectives in very significant ways through a proper analysis and execution of lump sums and annuity purchases
Preparation for Annuitization	For plan sponsors who are looking to settle out their liabilities, there are many steps that can be taken to make the annuitization process more cost-effective.
Tail Hedging Strategies	In addition to the role diversity plays in improving outcomes, we believe explicit tail hedging strategies will play an important role in increasing the ending value of plan assets. As pension systems have matured, and are now often cash flow negative, managing volatility, especially downside volatility is a powerful and necessary objective.

Defined contribution investment hot topics

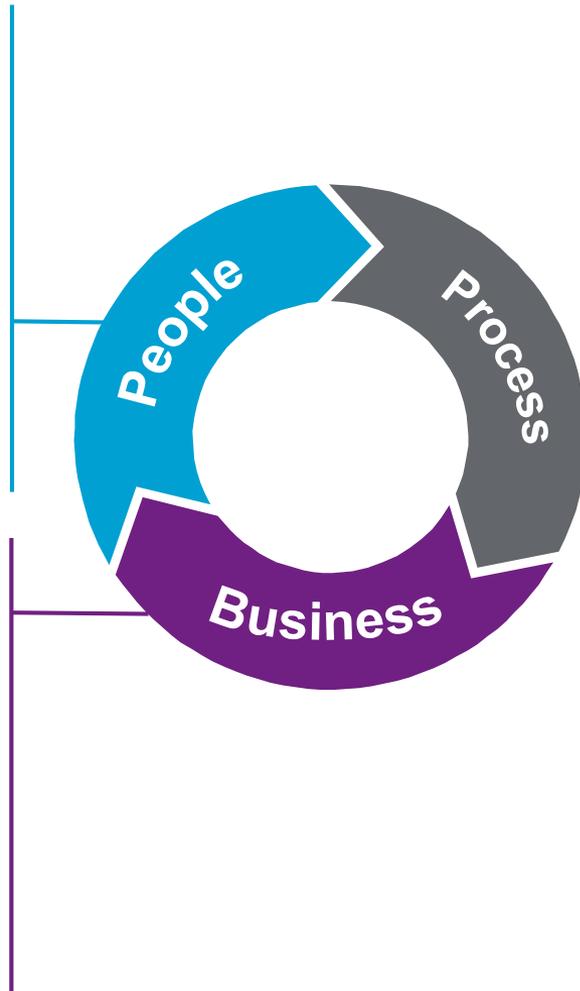
<p>Evolving the Qualified Default Investment Alternative (QDIA)</p>	<ul style="list-style-type: none"> ▪ The Pension Protection Act (PPA) began focus on auto-enrollment and directed savings to QDIAs as core building blocks driving asset inflows ▪ Sponsors reassessing QDIA due to being highest area of asset accumulation, determinant of successful endpoints and key focus of regulators ▪ Increased focus on evaluating Target Date Fund (TDF) option, including demographics-based review, influenced by the DOL's tips released in 2013 ▪ Sponsors seeing the value in unbundling key decision points (glide path, portfolio construction and implementation) to design a tailored series to plan needs and in considering hybrid QDIA approaches
<p>Reviewing Investment Beliefs</p>	<ul style="list-style-type: none"> ▪ As defined contribution plans continue to grow in size and importance, the defined contribution industry has evolved and become more complex ▪ Sponsors have addressed this by developing a set of investment beliefs which can help a Committee manage that complexity by evaluating shared beliefs in key areas
<p>Lifetime Income Solutions (LIS)</p>	<ul style="list-style-type: none"> ▪ Lifetime income solutions are receiving increased attention as participants grow more concerned about their ability to maintain a reasonable level of income in retirement ▪ Demand has been met with increased product development and vendor marketing as well as guidance from the DOL on fiduciary responsibility and carve-outs for lifetime income features ▪ The increased attention is driven by increased life expectancy, uncertain viability of traditional fixed income sources (DB, social security), and participant retirement planning challenges ▪ To date, no product has gained sufficient traction as sponsors seek additional education and guidance. Sponsors appear concerned about fiduciary responsibility, complexity, portability, and costs. Given limitations and issues with various products, a more optimal solution may be a "tool kit" approach offering a menu of complementary in-plan and out-of-plan products
<p>Managed Accounts (MAs)</p>	<ul style="list-style-type: none"> ▪ Managed Accounts have been gaining traction as an opt-in service but have not made headway as the Qualified Default Investment Alternative (QDIA) ▪ Sponsors have noted a number of concerns with the current model that may be drivers of the lack of QDIA adoption including costs, participant engagement, fiduciary considerations, as well as external disruptive forces including robo advisors, recordkeeper services, and regulatory/legal updates ▪ The challenges in the current model have been recognized by providers and evolutions in the managed account industry continue to improve the value for fee proposition

Defined contribution investment hot topics

Revisiting DC Structures	<ul style="list-style-type: none">▪ In the current DC environment where fees are at the forefront, Sponsors have continued to see material flows into passive investments▪ When considering the role of active managers, many Sponsors are focusing on clarity of choice, streamlining through either standalone mandates or custom white-labeled funds▪ For those Sponsors considering innovative approaches, broader investment opportunity sets are often evaluated such as extended asset classes, smart-beta products for those looking for a balance between active and passive, or higher active share mandates -particularly within custom funds
Diversifying Fixed Income	<ul style="list-style-type: none">▪ Revisiting fixed income options and historical anchoring to Bloomberg Barclays Aggregate as the “standard” benchmark▪ Sponsors evaluating more diversified approaches including expanding latitude in exposures such as duration and sectors, as well as “disaggregating the Agg” given the largely U.S. government/U.S. MBS exposure provided by the benchmark
Alternatives in DC	<ul style="list-style-type: none">▪ Heightened interest in institutionalization of DC plans and exploring broadened opportunity set▪ Managers are launching DC-friendly products and some large sponsors have implemented alternative exposures in their plans▪ Investment community continues to explore how best to implement these ideas within DC plans though overall adoption rates remain low
DC Outsourcing	<ul style="list-style-type: none">▪ Sponsors recognizing the complexity, expense, and time commitment of DC plan management which requires a holistic approach across an organization▪ Many sponsors are seeking a fiduciary partner as a way to increase operational efficiencies, improve retirement readiness, manage regulatory and fiduciary risks and advance their workforce planning and management▪ Sponsors are evaluating the increased services that an outsourced partner can provide and in many cases seeing that these services may be obtained at a lower total cost given the scale and breadth of the delegated partner

Qualities we look for in managers

- Firm's ability to successfully utilize staff's talent
 - Staff experience
 - Incentive compensation programs
 - Responsibilities of staff
 - Turnover
 - Succession plan
 - Strong recruitment and training programs
 - Team cohesion
 - Motivated staff
-
- Organizational quality
 - Ownership
 - Growth goals
 - Client/asset growth and losses
 - Client servicing
 - Leadership culture
 - Alignment of client, employee and shareholder interests
 - Strong compliance culture
 - Good use of technology



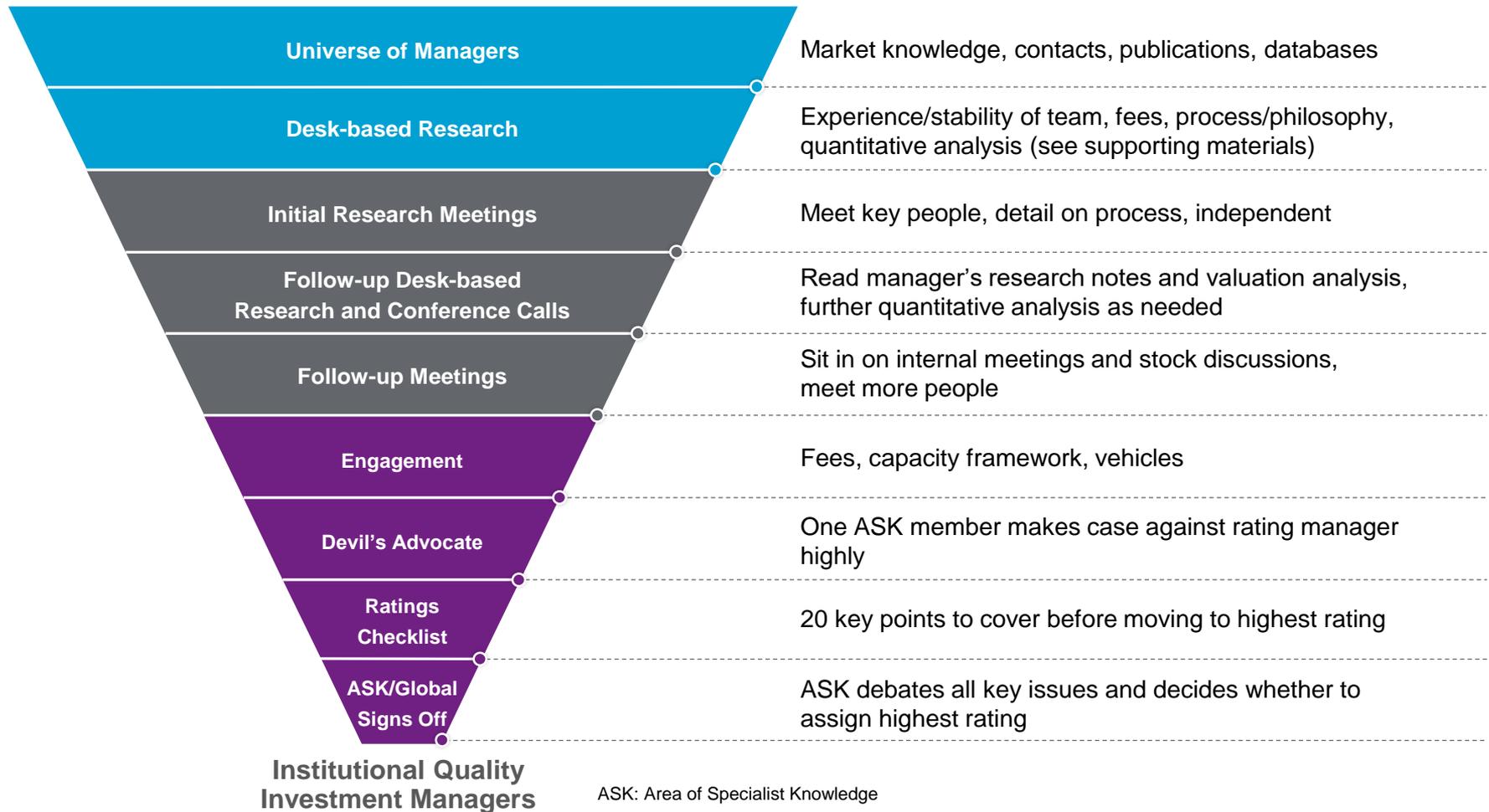
- Investment style and philosophy
- decision making process and implementation
- Consistency of investment process
- Research process
- Clear portfolio construction discipline
- Transparent accountability
- Clear understanding of risk
- Efficient implementation process
- Performance and attribution

Philosophy

Success factors



Manager research ratings process



Manager research assessment method

Assessment method

The foundation of Willis Towers Watson's manager research is a structured approach to objectively assess investment strategies, both in discovery and maintenance research. Strategies are assessed against the success factors that Willis Towers Watson believes successful asset managers consistently possess and assigned a score of High, Medium or Low. A subset of these strategies are identified as our very highest conviction strategies and assigned a Preferred rating.

Assessment definitions

Preferred	The Preferred rating denotes our very highest conviction strategies. Preferred strategies are those which we believe are among the best in class and are positioned to add significant value on a risk adjusted basis net of all costs. When appropriate, a directional down arrow (↓) is applied to indicate a potential future change of the rating and is used where there is an event that could have a material impact on the assessment or where we need time to assess the impact.
High	A High score indicates that the strategy's characteristics are positively differentiated compared to peers. These products are good candidates for consideration.
Medium	A Medium score indicates that the strategy's characteristics appear reasonable but are not significantly differentiated from peers. Investors should confirm their comfort with this strategy's characteristics.
Low	A Low score indicates that the strategy's characteristics are negatively differentiated compared to peers. Investors should challenge their acceptance of this strategy's characteristics.

Manager culture

Improvement	<ul style="list-style-type: none"> In 2018 an evaluation of culture became a requirement for all newly rated investment strategies, and Willis Towers Watson released a public paper on the topic, Measuring Culture in Asset Managers.
Complementary	<ul style="list-style-type: none"> This analysis is complementary to our research as it often provides evidence of factors that are likely to directly impact the sustainability of a skilled investment manager's investment process. Discussions are typically conducted with senior management (CEO/CIO) of a firm and PM teams.
Benefits	<ul style="list-style-type: none"> These discussions deepen our understanding of the business and its quality. The response of the asset manager has been positive and has led to enhancements to various aspects of culture.

Investment due diligence: Where does culture fit in? ¹



XYZ Manager		Strong	
<p>Summary</p> <p>Translating the company's employee and value proposition (from Roger Uvin's framework) into measurable categories for assessment. Framework is product specific as large asset managers may have varying sub-cultures across the firm.</p> <p>These are just some of the main points to consider when assessing a manager culture, there may be other factors to consider - as we beta test this more ideas may come out of this. This framework as it stands can more formalize and streamline our assessment of a manager's culture and its impact on future potential of the product.</p>	<p>EVP – Intrinsic Incentives</p> <ul style="list-style-type: none"> Clarity of responsibilities/accountability: Transparent performance targets, clear roles Teamwork: Appears to be genuinely collaborative, no compensation for having more ideas in the portfolios, fairly flat and lean team Development opportunities: Upward opportunity is to be a PM (limited in number) Recognition (formal & informal): Mock portfolio awards, alpha fest for idea generators, semi-annual parties with a strong indicator in more equity Meaningful work with purpose and impact: Clear focus of firm, low turnover suggests employees enjoy the work 	<p>CVP – General Excellence</p> <ul style="list-style-type: none"> Client service/relationship management: Relatively recent (3 years) to allow PMs to spend more time on fund management Product management: Appears conservative and measured in launching products Integrity & ethical orientation: Appears strong, some misalignment on soft dollars usage Thought leadership/forward thinking: Do not seem willing to be at the forefront of pushing for industry change (for example soft dollars or ESG) 	
<p>Leadership</p> <ul style="list-style-type: none"> Empowerment/motivation: With a credo of delivering equity for performance and no employee turnover on the investment side, extremely strong sense of motivated employees Performance principles/values: Clear and objective values and focus on performance Diversity: There is less diversity than we would prefer with only one woman on the investment team although a second will be joining Fairness/empathy/engagement: Very objective view of leading the organization and encouragement of idea generation Adaptability to change: Seem to view prior experiences and fixing them as the solution, without thinking about avoiding process 	<p>EVP – Extrinsic Incentives</p> <ul style="list-style-type: none"> Compensation design & communication: Extremely transparent comp formula open to firm Appropriateness pay for performance: Equity distribution for outperformance, objective Promotion/career path: Upward opportunity is to be a PM (limited in number) Performance management: Different definitions of success by two founders, do think of outperformance for client portfolios but don't seem as thoughtful in a time period where they are underperforming 	<p>CVP – Performance Expectations</p> <ul style="list-style-type: none"> Track record: Recent underperformance though believe in their process that long term will outperform. Don't believe there is a flaw Capability and IP: Robust hiring process, but does not seem scalable (one year trial period), potential to have gaps for a long period of time as they wait for the perfect fit Talent recruitment process: Extremely robust, about time consuming with profiling, one year trial period Alignment (reward, ownership structure, co-investment): Equity, all owners Capacity management: Very conscious would turn away capital if it's not in clients' best interest 	
<p>Key: ■ Positive ■ Neutral ■ Negative</p>			

¹ Willis Towers Watson investment process: [Engage with Asset Managers to Source Best Ideas](#)