UK Stewardship Code

WTW annual report for 1 Jan 2022 to 31 Dec 2022

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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 January 2022 to 31st December 2022.

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:

1. **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.

2. **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 – please refer to Principles 7 and 12 for further details.

In addition, we note our regular 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 Investing 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 Investing Policy and Code meets the objectives of the SRD II's Engagement Policy as they work towards the same goals.

This UK Stewardship Code report, which is produced annually in line with signatory requirements, is subject to internal review (including the Global Leadership Team Sustainable Investing Sub Committee, Compliance and Legal teams) and approved by the respective entity Boards.

Further information and key policy documents

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

- Sustainable Investing Policy
- Climate 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

Foreword

WTW's Investments business continues to highlight the power of effective stewardship, as we have done for many years. We recognise the role that we play in the investment industry, and we endeavour to meaningfully contribute to progress in this space.

We pay particular attention to work undertaken in 2022 and are pleased to share what we see as our notable contributions to a more sustainable industry and future for us all.

We are delighted to have maintained our UK Stewardship Code signatory status in both 2021 and 2022. This year's report will reflect all our Investments business activities — across research, fiduciary management and advisory — and address all the principles the Code covers, along with detailed context, activities and outcomes reporting.

In 2022, climate remained an area of particular focus. We made our public net zero pledge in 2021, and this gave the framework for us to deliver against in 2022 and beyond. This saw us publicly reporting on our progress towards net zero, as well as supporting clients navigate the world of climate change, whether that be providing training, data and analysis, helping them with their own regulatory requirements, or indeed helping them with commitments of their own.

We published a case study covering WTW's application of the Net Zero Investment Framework online, which we hope illustrates a practical approach to the net zero challenge which can help others in their journey also.

We also introduced a new public Climate Policy, alongside updating our existing Sustainable Investing Policy. When it came to engaging with asset managers, climate remained the topic on which we engaged with them most.

Our relationships with asset managers remain strong and in 2022 we introduced new minimum standards, which focus on managers' own engagement and stewardship activities. In 2022 we also ramped up our assessment of managers in relation to diversity, equity and inclusion (DEI), as we strive to work towards a more equitable industry for us all.

Our report details the efforts and data we have been collecting on that front in more depth. We also worked on a new global paper in 2022 which was published this year: *Diversity in the asset management industry: on the right track, but at the wrong pace*.

Alongside this we continue to reflect inwards. For example, in 2022 we developed our sustainable investing governance structures. We are constantly assessing what we do and how we do it, to make sure we are offering clients the highest possible quality of service.

As we cover our investment activities globally, stewardship at WTW spreads far and wide across a broad range of environmental, social and governance factors. We have therefore put together an Executive Summary to highlight our stewardship activities in 2022, but for further details, context and case studies we refer you to our full report.

Therein we also have dedicated spotlight pages to key areas: our climate activities, our work with EOS at Federated Hermes, the Thinking Ahead Institute, our focus on DEI, and the forward-thinking work of one of our biggest fiduciary clients, LifeSight.

We hope you enjoy reading WTW's 2022 UK Stewardship Code Report.

Craig Baker
Global Chief Investment Officer

2022 Highlights

Enhancing our internal governance

Governance of our sustainable investing activities is continually enhanced to meet the growing client and regulatory requirements:

- Introduced a new Sustainability Commercial Committee
- Introduced a new Sustainability Regulations and Monitoring Committee
- Updated Sustainable Investing Policy, with expanded standalone Climate Policy
- A core team of c.10 FTE sustainability specialists covering content, communications, analytics, research, and climate
- Network of over 60 SI champions representing all regions
- A Climate and Resilience Hub of over 100 climate specialists

Making progress towards net zero

In 2022, we developed our Climate Dashboard – showing the impact of climate change on the portfolio, and the impact of the portfolio on climate change. We also:

- Published our first net zero progress report via our 2022 Sustainable Investment report
- Wrote a public case study outlining how we have implemented the Net Zero Investment Framework (NZIF) at WTW
- Published the Thinking Ahead Institute's *Pay Now or Pay Later* paper, which provides analysis to drive increased action on climate
- Helped one of our biggest fiduciary clients, LifeSight, to implement their net zero and broader sustainability goals
- Introduced minimum standards for our asset managers to meet on climate engagement and reporting

Engagement with asset managers

Engaging with asset managers is one of our key stewardship activities geared towards positive change.
In 2022, we:

- Researched over 300 sustainability focused products across all asset classes
- Approved 12 new strategies with our highest rating for use in client portfolios
- Conducted engagements with over 200 managers on over 600 products on sustainability and stewardship
- Rejected or downgraded 25 strategies based significantly on sustainability concerns
- Introduced minimum standards on climate, modern slavery and engagement reporting for all our asset managers

LifeSight

LifeSight is WTW's DC Master Trust, with ambitious sustainability goals. In 2022, LifeSight:

- Reported on its carbon journey plan, documenting its progress across five key climate metrics
- Published its position statement on deforestation, in support of the Race to Zero Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation by 2025
- Started to introduce Tumelo to engage members on important voting issues

Conducted engagements with over 200 managers on over 600 products on sustainability and stewardship

2022 Highlights

EOS at Federated Hermes (EOS)

Our work with stewardship specialists EOS highlight — and is a critical part of — our commitment to effective stewardship. In 2022, EOS:

- Engaged with 1,138 companies on 4,250 issues and objectives
- Made voting recommendations on 134,188 resolutions at 13,814 meetings, including recommending votes against 24,461 resolutions
- Established 12 engagement themes for 2023-25
- Engaged companies across key topics — including Sainsbury's on the living wage in the wake of the cost-of-living crisis, Amazon on tax transparency, and BHP on addressing sexual harassment in Australia's mining industry
- Participated in many collaborations including Climate Action 100+, Principles for Responsible Investment (PRI), and UN Guiding Principles Reporting Framework

Engaged with

1,138

companies on

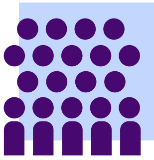
4,250

issues and objectives

The Thinking Ahead Institute (TAI)

Our work with the TAI supports the development and socialisation of our work on sustainability.
In 2022, TAI:

- Was selected by the Principles for Responsible Investment (PRI) to research and assess the appropriate level of resources that institutional investors should be prepared to dedicate to stewardship within their organisations
- Organised 10 events, published 13 papers, and released 21 investment insights and 6 podcast episodes
- Organised the Investment Organisation of Tomorrow summit to bring members together to address sustainability impact and universal owner principles

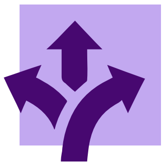


Diversity, equity and inclusion (DEI)

As part of our engagement with asset managers on DEI, our manager research team:

- Created DEI action plans for all 485 Preferred strategies
- Collected diversity data on over 400 firms and 1750 products
- Received a 95% response rate from managers
- Set an objective to increase the number of diverse managers rated every three years by 20%

We also worked to produce our new global investments paper: *Diversity in the asset management industry: on the right track, but at the wrong pace*



Market-wide engagement and collaborations

We believe in giving the industry a stronger voice through market engagement, collaboration and advocacy. In 2022, we:

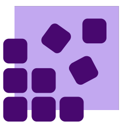
- Managed our discretionary portfolios in line with the NZAMI commitments and contributed to several GFANZ workstreams
- Contributed to 7 guides, consultation responses and engagements through participation in the ICSWG and led the update of the ICSWG Engagement Reporting Guide
- Provided guidance and input to 5 PRI papers, surveys and questionnaires, and continued as a member of the PRI Stewardship Advisory Committee
- Active participation in 2 IIGCC working groups as well as sister groups in Asia and Australasia
- Inputted into the Diversity Project Pathway programme, focused on developing female portfolio managers
- Were involved in several cross-industry initiatives via our Climate and Resilience Hub

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'. Sustainable investing (SI) is, in our view, central to successful long-term investment outcomes.

SI describes long-term, finance-driven strategies that integrate Environmental, Social and Governance (ESG) factors, effective stewardship and management of sustainability impacts. This reflects good risk management and supports a robust investment industry. 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.

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 this.

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 investing 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 SI is central to successful long-term investor outcomes.

- SI 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 regular 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 SI 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 sustainability impacts 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 a strong 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.

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. We believe that effective stewardship contributes to better investment outcomes.

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). Our beliefs continue to provide 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, a group of colleagues from various regions worked to review and revise our set of SI Beliefs for client engagement. The bank of SI Beliefs statements we developed can be used in various ways based on the client need, though it is largely designed to be used as one of the initial steps to take in helping clients test, formulate, or refine their SI beliefs, policies and ambition. The SI Beliefs bank contains over 100 questions, organised according to theme – including general sustainability, but also specific topics such as climate, diversity, equity and inclusion (DEI) and stewardship. Client consultants have the SI Beliefs bank available to them, which they can then use to form a customised, client-specific questionnaire.

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 2022, the United Nations' Principles for Responsible Investment (PRI) appointed TAI to research and assess the appropriate level of resources that institutional investors should be prepared to dedicate to stewardship within their organisations. This project aims to encourage positive behavioural change and increasing stewardship resources equal to the rise in systemic risks. Read more here. The TAI also expanded its organisational culture research into the areas of cognitive diversity and collective decision making and how these can be harnessed by so-called Superteams to create value. In addition, it conducted research into the Future of Work that investigated hybrid-work models and the drivers of social capital and productivity.

We continue to emphasise the importance of stewardship among our teams. In 2022, we further refined our governance structure following our growth in 2021 (see Principle 2).

Substantial activities enabled by our purpose, beliefs and culture

Our purpose, beliefs and culture support our SI and stewardship priorities across a range of activities. Many examples are contained throughout this report. While it is hard to isolate single areas, our three most substantial activities during the year – linking most obviously back to our purpose, beliefs and culture – continue to be:

1. Climate risk management
2. Collaborative initiatives
3. Asset manager engagement

Outcomes

We continue to support our clients, competently addressing technical client questions and requests using our experience, expertise and tools. This has included helping our clients meet growing regulatory and reporting requirements (particularly relevant in 2022 as the Taskforce on Climate-related Financial Disclosures (TCFD) came into force for many of our UK pension scheme clients). With reference to our three key areas of activity in 2022:

1. **Climate risk management:** 2022 was about continuing – and, importantly, documenting – our progress following our net zero commitments. We developed our Climate Dashboard, published our Climate Policy, and wrote a public case study outlining how we have implemented the Net Zero Investment Framework (NZIF). Throughout the year, we helped clients with their TCFD reporting, worked with managers to obtain high quality climate data, and made significant allocations to strategies in areas including renewable infrastructure, climate high yield and forestry. We also helped one of our biggest fiduciary clients to implement their net zero goals. See our Spotlight page on net zero for more information.

2. **Collaborative initiatives:** Over 2022, we have contributed to various industry guides, consultations and engagements. This has been a key part of our effort to advance industry standards, as well as wider participation. See Principle 10 for more detail and specific examples, as well as our Spotlight page on EOS at Federated Hermes – who we have engaged as an expert stewardship overlay provider.

3. **Asset manager engagement:** We engaged with over 200 managers and over 600 products on the topics of sustainability and stewardship in 2022. Asset manager engagement continues to be a vital part of our stewardship activity. We researched over 300 sustainability-themed strategies across all asset classes, rejecting or downgrading 25 strategies based on sustainability concerns. See our Spotlight page on WTW engagement with asset managers for more details, and Principles 7, 9 and 11 for case studies.

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 2022.

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

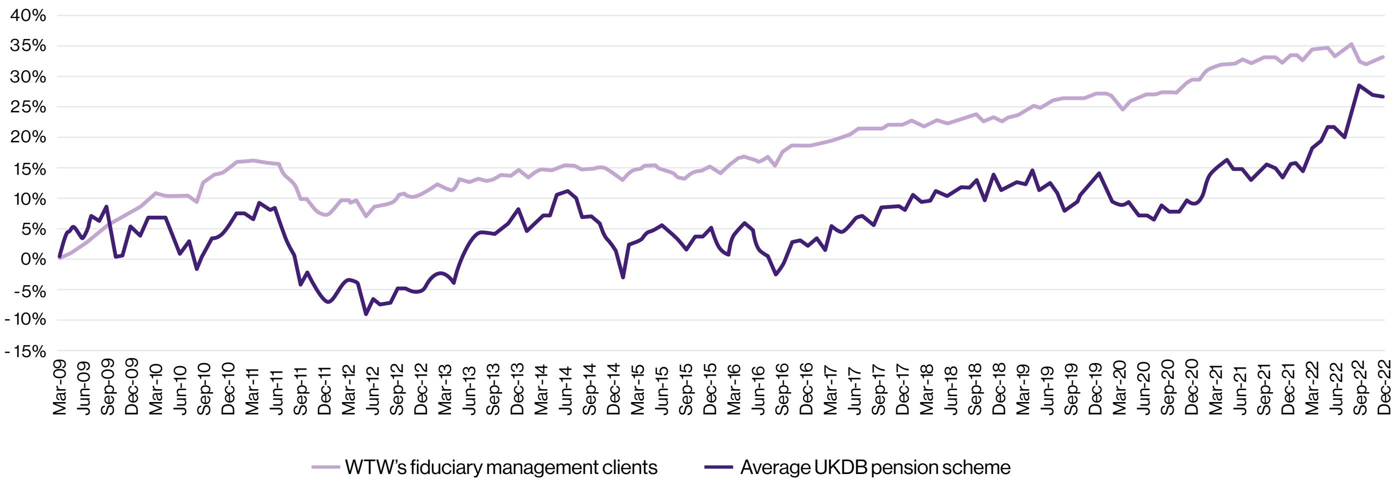
We look to collect and respond to client feedback on an ongoing basis, and some further detail of this is included later in this report. The headline results from our annual UK client satisfaction survey for 2022 are:

- 100% of clients described the relationship and the quality of advice and communication from their WTW team as excellent, very good or good.
- 98% described the overall experience of working with WTW over the past 12 months as excellent, very good or good

Source: WTW as at December 2022. The UK Client Survey reflects the views of 143 respondents across delegated and advisory services.

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. On the following page is a chart which shows the change in funding level over time (to 31 December 2022) comparing WTW's fiduciary management clients and the average UK Defined Benefit scheme.

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	33.6%	2.9%	11.7
Average UK DB Scheme	27.1%	7.6%	3.6

Note: Data sourced from the PPF7800 Index (Pension Protection Fund) and Willis Towers Watson (WTW) as of December 2022. 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

In respect of our manager research and ratings, we can look to the following annualised model outperformance over the ten years to 31 December 2021 (the most recent data available as at time of publication):

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

1.5%
in equities

0.9%
in bonds

4.2%
in private markets

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.

Spotlight on: Diversity, equity and inclusion

Diversity, equity and inclusion (DEI) remains a significant industry challenge and we recognise that we have a role to play in it. In 2022, we continued to prioritise DEI – our aim is to encourage diverse teams to deliver the best possible outcomes for our clients, and to support representation in the investment industry. How have we been doing this?

In our research

In 2022 we worked heavily on our new global investments paper, *Diversity in the asset management industry: on the right track, but at the wrong pace*, which was published this year. It follows up on our 2020 white paper which made the public call to action for greater diversity in the asset management industry. In this paper, we take the temperature across several dimensions of DEI and probe the pace of change, as well as checking in on our previous call to action. We have noted some highlights from our research here on the right.

Alongside this, our Thinking Ahead Institute (TAI) continues to focus on DEI and culture as part of its annual research agenda. From organisational transformation to the future of work to the power of teams, focusing on people remains at the heart of TAI. In 2022 TAI launched its Power of Teams project, amongst its members. It also published its white paper in its series on the power of culture, Culture – the organisational superpower.

With our asset managers

DEI remained one of the key pillars of our engagement with the asset manager industry in 2022, alongside sustainable investing (SI) and culture. We believe that asset managers should better reflect society and the diversity characteristics of institutional savers on whose behalf they operate. We therefore put a significant emphasis on the importance of DEI data transparency with all our managers.

On the right track, but at the wrong pace – highlights from WTW's latest global DEI paper

Fundamentally, we believe that greater diversity leads to better investment outcomes. Our analysis continues to support this, with investment teams in the top quartile of gender diversity outperforming the bottom quartile by 45bps per annum in terms of net excess return.

We outline the policies and practices of 407 asset management firms globally, varying by size, asset class focus and region.

- We find that many managers are beginning to meet the minimum standards in DEI, although some laggards remain
- 80% of managers have a formal DEI policy
- Senior leadership is accountable for DEI at 83% of managers
- 93% of managers have provided at least partial diversity data

We also consider the industry at large, highlighting that until more best practices are adopted, we would not expect to see a large enough, or quick enough change in the overall diversity in the industry, suggesting we may be going too slow today.

We continued to make significant progress in 2022, particularly regarding diversity data collection and engagement with managers:

- We now have a robust quantitative and qualitative multi-dimensional data collection process
- Last year we noted that we were leveraging our collaboration with the Diversity Project and the Asset Owners Diversity Charter to build out an extensive industry-standard questionnaire; this is now the foundation for our DEI questionnaire which we use to collect data
- The team collected such data on over 400 firms and 1750 products, including all our Preferred rated strategies
- We created qualitative DEI action plans for all 485 Preferred strategies; this not only records our intensive engagement programme but keeps both the managers and WTW accountable
- We had a 95%+ response rate from managers following intensive engagement from our researchers on the importance of DEI data transparency
- We reached out to over 65 diverse-owned (as defined by WTW) managers to add them to our research pipeline
- We set an objective to increase the number of diverse managers rated every three years by 20%
- Our manager research and portfolio management teams have introduced aligned DEI objectives within their processes

In 2022 we also engaged heavily with US managers at our Manager Ideas Exchange (MiX) event in New York. We used this as an effective way to show managers what we are looking for from them in terms of DEI. Following the event, managers have come back to us with the steps they have taken to improve their practices. We are pleased that our message is being spread wide and acted on.

To truly understand the current state of play, we will continue to 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.

Thought leadership

We continued to use our position to further industry thinking and encourage others to see DEI as importantly as we do. In 2022 we provided feedback to the Securities and Exchange Commission (SEC) on their DEI recommendations for the asset management industry, as well as providing feedback on the PRI DEI questionnaire for institutional investors. In both examples we inputted our approach and areas of best practice.

We continued to actively participate in industry initiatives focusing on DEI. This includes the Institutional Investing Diversity Cooperative (IIDC), Investment Diversity Advisory Council (IDAC; which we joined in 2022) and The Diversity Project. We are also signatories to the Asset Owner Diversity Charter.

In 2022 WTW was also a core input to the inaugural Diversity Project Pathway programme, which focuses on developing female portfolio managers in our industry.

Our own firm

DEI is an important factor in how we assess other firms, therefore it is just as imperative that we look inwards and assess ourselves as well. We:

- Run Diversity Dashboards on all WTW's funds
- Run our Investment Committee diversity analysis on our own investment teams
- Received more diversity data and have seen an increase in diverse managers across our funds from 2021 to 2022
- Continue to measure key DEI characteristics within our funds with key progress markers from 2022 being:
  - A 13% decrease in managers not providing data compared to 2021
  - A 22% increase in diverse managers across portfolios compared to 2021 (recognising this will partially be linked to greater data transparency)
- Within our Investment business, have a number of key social objectives as part of our Purpose Scorecard; these cover things like colleague volunteering, CSR, charitable giving and targeting certain attrition levels

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

Activities and outcomes

Governance structures
Our sustainable investing (SI) structure is designed to maintain and enhance consistency of content and client delivery across the globe. It aligns to our purpose and values (see Principle 1), promoting collaboration, connectedness and a shared vision. In 2022, we reviewed and refined our governance structure, following on from the growth of our SI team in 2021, continuing our pursuit of effective coordination and cohesiveness in our investment processes and activities. Moreover, we want to ensure we remain at the forefront in delivering high quality stewardship and support for our clients.

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 relevant requirements for portfolio investments, recognising current and evolving regulations, guidance and standards, such as the Taskforce on Climate-related Financial Disclosures (TCFD) and the EU Sustainable Finance Disclosure Regulation (SFDR) applicable to our European business. As a result, the governance of our SI processes is monitored on an ongoing basis as a priority focus area for our business.

We understand the importance of governance and structure in consistency of SI content and client delivery. The Thinking Ahead Institute (TAI), a global not-for-profit innovation and research membership organisation set up by WTW, was selected by the Principles for Responsible Investment (PRI) to research and assess the appropriate level of resources that institutional investors should be prepared to dedicate to stewardship within their organisations.
Read here for more.

Key changes to our governance structure in 2022:

Replaced our SI Steering Group with a Global Leadership Team (GLT) Sustainability Sub-Committee that reports into our Investment Global Leadership Team (GLT). Membership includes our Global Chief Investment Officer (CIO), Chief Operating Officer (COO), Head of SI, Head of Strategic Projects, and Head of Sustainability Solutions (role introduced in 2021).	As of 2022, this group has more senior representation covering all aspects of our business. Its role is to set business-level objectives to drive the achievement of our Sustainability Strategy. The GLT Sustainability Sub-Committee will also oversee implementation, governance and resourcing to achieve our overarching business and investment sustainability objectives.
Introduced a new Sustainability Commercial Committee that reports into the GLT Sustainability Sub-Committee. Membership includes our Global CIO and Head of Sustainability Solutions.	This group aims to ensure we meet our clients' sustainability needs. Its role is to integrate our sustainability strategic priorities into existing business and client management activities.
Replaced our Sustainability Regulations Working Group with a new Sustainability Regulations and Monitoring Committee. This is led by our COO.	This group is responsible for monitoring our SI performance and processes. Its role is to consider all existing and likely future regulatory requirements as they relate to sustainability, allocate responsibility for compliance across relevant business functions, and ensure this is embedded in the thinking of other relevant committees.
We have retained our SI Standards Committee in its current form but it reports into the Sustainability regulations and monitoring committee. Membership includes our Head of SI and Head of Stewardship.	This committee is responsible for setting the processes in place within the investment content team to meet all SI content-related regulatory requirements. It owns key SI policies as they relate to investment content, and in particular the processes required to meet our portfolio net zero pledge.

Figure 1: **Managing SI performance**

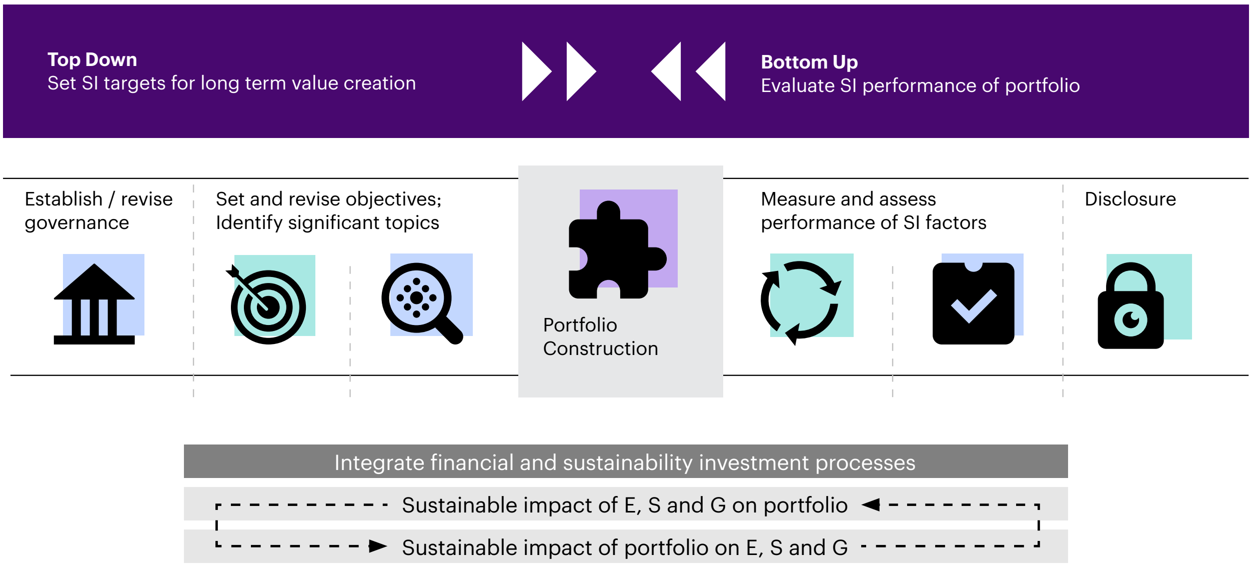


Figure 2: **Our SI process**

Top Down SI process management		Portfolio construction	Bottom Up SI process management	
Establish and revise governance	Set and revise objectives; identify significant topics		Measure and assess SI performance	Disclosure
The SI governance and policies set out the practices and processes for investment management, reporting and decision-making. This ensures accountability for the investment decisions made in relation to the integration of SI across portfolios	Here, we set out the investment strategies and related sustainability objectives to ensure integration with overall portfolio targets (risk and return). Identification of sustainability objectives which are most significant for optimal performance is crucial to ensure that over the longer term we: • Reduce portfolio level risks and negative sustainability outcomes; and • Increase portfolio level exposures to sustainable solutions and positive sustainability outcomes For example, climate is a significant topic of focus	Portfolio construction-related actions ensure matching the sustainability-related objectives (top down) and the sustainability performance of the portfolio (bottom up).	Measurement relies on disclosures from managers, based on their analysis of disclosures from corporates and underlying holdings. It may be in the form of metrics, indicators or values. We are working through the challenges around information quality and data availability, including via the use of surveys, proxy data, and verified actual data. The data and information are used to apply an additional assessment as to whether or not the SI factor has a positive or negative effect on the overall portfolio's sustainability performance. An assessment includes: • Analytics of SI measures, or combination of measures / metrics / indicator sets; • Externally provided information to benchmark performance; and • Science-based thresholds or societal norms to determine the performance relative to an environmental boundary or societal norm	Various forms of regulated and voluntary disclosures are required for investments. These are required across all the elements in this table and can vary substantially across regions and investment types.

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 Standards Committee. 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.

We believe our SI governance is effective in supporting and delivering our stewardship efforts as described above, and as evidenced through the activities and outcomes in this report. We regularly review our SI governance, looking to make improvements where possible over time, as demonstrated by the evolutions we've made in 2022.

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 60 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.

Several colleagues have completed the CFA Institute's ESG investing certification, and individuals from WTW were also involved in creating the syllabus for the CFA UK Certificate in Climate and Investing, with two colleagues participating in the pilot programme. A Senior Director of WTW's Climate and Resilience Hub (CRH) acts at the vice chair of the CFA's UK panel on the first Certificate of Climate Investing.

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. We have 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) is the focal point for our firm-wide climate expertise and capabilities, pooling knowledge from across WTW's businesses and collaborations to deliver climate and resilience solutions in response to a range of regulatory, investor, consumer, employee and operating needs. The CRH comprises of over 100 colleagues with deep climate expertise, which WTW Investments is able to draw upon regularly.

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 Spotlight page on TAI for more information). 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 supports our innovation, research and commercialisation capabilities, with a specific focus on ESG & Sustainability, among other topics. In 2022, the I&A team formed an ESG Working Group with a mandate to review and synthesise the broader ESG work being carried out across the firm. This would create a central hub of our ESG-related services and solutions, ensuring consistency in our offering and quality client delivery. The I&A focus on ESG also ensures that representatives with specific areas of expertise come together to help us scale new solutions and respond to client needs.

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.

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. During 2022, we held a meeting to give many of our WTW delegated clients the opportunity to engage with EOS to challenge their work and communicate key priorities. During the meeting, EOS shared engagement case studies; there was a deep dive discussion around climate engagement (as this is a particular area of focus for our clients); and EOS also explained how their voting approach has evolved. Questions from our clients included EOS's approach to companies that are not responsive and EOS's work on biodiversity. We had positive feedback from clients attending – they were reassured that EOS was addressing these financially material ESG risks.

EOS's 2022 Annual Review summarises their approach, activities and outcomes over the course of 2022.

Performance objectives
Given that we look to embed SI and effective stewardship within 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 governance committees highlighted above and the team of full-time SI specialists.

Highlights from EOS over 2022 – see our Spotlight page on EOS for more

Engaged with **1,138** companies on **4,250** issues and objectives

Made voting recommendations on **134,188** resolutions at **13,814** meetings, including recommended votes against **24,461** resolutions

33 consultation responses or proactive equivalent.

75 discussions with relevant regulators and stakeholders.

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.

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 integrated across 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 code 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 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 licences, 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 and procedures, staffing and reporting required for each legal entity.

Please refer to our 2021 Stewardship Code report for the general steps we take to manage actual and potential conflicts.

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

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 relevant UK FCA provisions as well as the Markets in Financial Instruments Directive (MiFID) as transposed into UK law. See our Conflicts of Interest disclosure statement in the appendix. Please note that only our UK and EU Investments business are subject to this regulatory requirement.

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 identify and 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 on a periodic basis, and as and when new regulations are published (e.g. SFDR amendments to MIFID provisions which introduced new requirements on identifying conflicts of interest arising from clients' sustainability preferences) as well as when new business projects are introduced.

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 2022 examples on this page).

We completed 138 ODD reviews in 2022. 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 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.

2022 examples:
Engaging with a Singapore-based private equity firm

- At the time WTW began its ODD review, the firm was outsourcing its CCO role and had two employees named as "Compliance Officers" — neither of which had any compliance experience. Additionally, one of the Compliance Officers was the ex-partner of the CEO, which created a conflict of interest. WTW engaged with the firm to hire a full-time CCO with the relevant qualifications and experience, and who would not be conflicted as a related party with the CEO/ investment decision maker. The ODD process was placed on hold while the firm sought a CCO. Several months later, an appointment was made; WTW held several video calls with the appointed person, who exhibited the necessary skill and qualification.
- To further enhance the Firm's Compliance policies, WTW engaged with the firm to implement additional training. We engaged with the firm to update its personal account dealing policy to require all employees preclear personal trades and report brokerage statements to Compliance on a quarterly basis. Lastly, WTW engaged with the firm to require employees receive preclearance from Compliance for political donations. If left unaddressed, a combination of these factors would have left the firm susceptible to detrimental market abuse practices such as conflict of interest, insider trading and front running trades. Subsequent to the firm making all of the recommended changes, the manager received a Pass rating from ODD in May of 2022.

Engaging with a global equity fund

- The firm's Executive Committee (which also serves as the Valuation Committee), consists of the CIO, Head Trader, COO/CFO, and the outsourced finance consultant. The Executive Committee is responsible for overseeing and coordinating the approval and implementation of decisions with respect to portfolio pricing, level designations, valuation methods, and values of assets or liabilities and other instruments, as described in these procedures. At the start of ODD's review, the firm's Valuation Policy did not state what the Valuation Committee's quorum was and how voting was conducted. As such, investment personnel may be able to approve valuations without the approval of compliance, operations, or the administrator. A conflict of interest was present as there is a risk of valuations being valued above fair value as investment personnel have more incentive to overstate valuations. Following ODD's engagement, the revised Valuation Policy states that a quorum consists of 3 members where the CCO/CFO is always present, and decisions regarding valuation need to be unanimous, which effectively gives the CCO/CFO a veto.

Engagement and voting

We continue to 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 EOS compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by EOS senior management on a regular basis.

2022 examples:

- Re-assigning an EOS engager to take the lead on a company engagement, due to a previous relationship with the Chief Legal Officer.
- Escalating a vote to the internal Escalation Group, due to EOS having a number of clients within the company's wider group, and ensuring discretion between EOS and the clients.
- Discussing the recommendation of a vote for re-electing a company chair. EOS's vote policy suggested to recommend voting against the re-election of a company chair (due to the tenure exceeding nine years and concerns over shareholder rights). However, the investment team at Federated Hermes felt differently. Following discussions, and the investment team's engagement with the company suggesting that sufficient plans were in place, it was agreed to support the chair's re-election. It was also agreed to recommend voting against the remuneration policy due to the substantial increase in the annual bonus as a percentage of base salary.

Case study: Asset manager conflict of interest

This case study sets out how a large asset manager we use handled a potential conflict of interest with respect to a key vote and engagement during 2022.

Background

In 2022, the manager, together with ShareAction, other asset owners and asset managers, co-filed a shareholder resolution calling on a UK supermarket to become a living-wage accredited employer by its AGM in 2023.

Why was this an issue?

The company is a client of the asset manager. The decision to file a shareholder resolution at the company's 2022 AGM therefore had potential to raise internal concerns.

Resolution

Following the manager's established internal processes, they provided detailed information to their senior management, including the CEO, about the history of their engagement with the company (which began in 2016), the dates of meetings, the individuals they had met with, and the topics discussed, including the progress made. This background fed into the manager's robust rationale for escalating their engagement with the company by co-filing a shareholder resolution (with ShareAction).

Having sought the requisite internal approvals and informed the key stakeholders, the manager proceeded with filing the shareholder resolution.

By managing such conflicts of interest internally and maintaining overall transparency in terms of communicating their actions and the rationales underpinning them, they make sure that such conflicts do not interfere with the consistent application of their governance policies and stewardship escalation activities.

WTW solutions

We manage potential conflicts of interest by ensuring transparency across our interactions with clients. As we begin initial discussions with clients, we explain our own Towers Watson Investment Management (TWIM) and/or Towers Watson Limited (TWL) solutions to the client ensuring 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 recommend or select solutions when they meet our clients' needs and are in their best interests. We also maintain and update when necessary a conflicts of interest schedule where this relationship with TWIM and/or TWL and the respective controls are clearly documented.

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 manager research group 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

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.

WTW is independent of any asset manager and we do not receive compensation from asset managers in relation to their inclusion in our internal funds.

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.

Asset manager remuneration

WTW does not receive any compensation from asset managers specifically in relation to our recommendation of their products. We do not receive soft commissions from third-party managers. 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. Any revenue received from third parties in relation to MiX conferences or similar services rendered is in accordance with WTW's Inducement Policy (based on UK and EU inducement-related regulatory provisions) and rendered only where such services are designed to enhance the quality of the relevant service to our clients and does not impair compliance with our duty to act in accordance with the best interests of our clients.

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.

Recent publications from this team include:

- Global Markets Monthly, which examines what asset markets are pricing-in and our economic outlook
- Their Global Investment Outlook makes the observation that economies are out of balance and the path back to balance is likely to be volatile – identifying the key responses to portfolio strategy and allocating capital as: diversification, downside risk hedging strategies and seeking alpha.

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 Spotlight page on TAI 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 People, Change and Planet hubs.

TAI is currently researching systemic risk in a follow-up to their paper *The wrong type of snow*. This forthcoming work will include a revised definition of risk, and systemic risk management – including ways of influencing systemic risk.

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 2022 this research centred on:

- The power of teams
- The future of work
- Investment for tomorrow

Manager research
Our manager research team, whose work is described in greater detail elsewhere in this report (including in response to Principles 7 and 9 and in our Spotlight page on WTW engagement with asset managers), 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 2022 examples:

- Sustainability in private equity
- Hedge funds: The industry strikes back
- 5 inclusion and diversity questions for asset managers
- Net Zero Investment Framework case study
- The Ukraine crisis and what it might mean for ESG and sustainable investing

In 2022, we worked on our new global investments paper, *Diversity in the asset management industry: on the right track, but at the wrong pace*, which was published this year. In this paper, we take the temperature across several dimensions of DEI and probe the pace of change, as well as checking in on our previous call to action.

Climate and Resilience Hub (CRH)
As mentioned in Principle 1, WTW have over 100 in-house climate specialists, with a focus on emerging research and analysis on the climate agenda.

Our response to key market-wide topics in 2022
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 continue to see climate as a systemic and global challenge. 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.

See our Spotlight page on Net Zero for a list of our 2022 climate activities.

Applying the Net Zero Investment Framework (NZIF)

In our 2022 case study, we share learnings on our application of the NZIF, including:

- Setting and monitoring progress against top-down/strategic climate goals using a Carbon Journey Plan
- The use of portfolio alignment metrics in interrogating progress of portfolio emissions towards net zero goals and setting of alignment targets
- WTW's framework for climate performance measurement via climate dashboards
- Using a proprietary Climate Transition Value at Risk (CTVaR) metric that we believe best encapsulates a financial assessment of the true risk being run in portfolios

Alongside this, we continue to:

- 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. CTVaR)
- 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 and covenant)
- Contribute to a significant number of collaborative initiatives directly or indirectly related to climate change — see Principle 10 for further information

The LDI crisis

In September 2022, the UK Government delivered its Growth Plan. Intended to drive economic opportunity, the plan instead saw an unprecedented rise in gilt yields, which strained UK pension funds' liability-driven investment (LDI) programmes. Pension funds suddenly needed to meet collateral calls that trustees were not prepared for, and that the LDI system could not handle.

As the Bank of England (BoE) explained in its Financial Stability Report in December 2022: "It should be recognised that the scale and speed of repricing in September far exceeded historical moves, and therefore exceeded price moves that were likely to have been part of risk management practices or regulatory stress tests." Funds who were unable to post sufficient collateral saw their interest rate hedges closed out and were then exposed to future interest rate movements.

To help stabilise gilt prices, the BoE initiated a bond-buying exercise between 28 September and 14 October.

WTW's response

Policymakers have an obligation to ensure the resilience of the financial system. For example, the role of the Bank of England's Financial Policy Committee is "to identify, monitor, and take action against risks that threaten the resilience of the UK financial system as a whole". Ultimately, financial systems require confidence to function.

We sought to pro-actively engage with the BoE. Our aim was to ensure that they were aware of the likely impact of gilt yields moves on UK pension schemes and how they would respond.

A timeline of our engagement with the BoE was as follows:

- We originally approached the BoE in March 2020 during the onset of Covid and the "dash for cash" that saw ILG yields spike
- We proactively approached the same contacts after the Mini-Budget in 2022
- Further discussion on 28 September, noting that almost all pension funds would have exhausted their collateral by the end of the week in the absence of action and suggested some potential remedies
- Two subsequent catch-ups until the expiry of temporary BoE support on 14 October to provide feedback on progress made by the industry and BoE measures
- Subsequent ongoing dialogue as further regulation is considered

Re-active engagement with The Pensions Regulator and Financial Conduct Authority:

- Almost daily in lead up to 14 October deadline
- Subsequent ongoing dialogue as further regulation is considered

During the crisis investment managers needed to seek additional collateral from clients and clients required advice on where to source this collateral. Given the urgency of the situation, we streamlined the process by having firm-to-firm discussions rather than multiple individual discussions with clients, consultants and LDI managers. In this way, we were able to coordinate as efficiently as possible to support various stakeholders.

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.

In 2022, we:

- Continued our membership of the Net Zero Investments Consultant Initiative (NZICI) which included contributing to NZICI's reporting framework
- Participated in various GFANZ workstreams, as well as seconded a WTW colleague to GFANZ
- Contributed to the IIGCC's Paris Aligned Investment Initiative and contributed to the IIGGC's sister initiatives in Asia and Australasia
- Led the update of the Investment Consultants Sustainability Working Group's (ICSWG) Engagement Reporting Guide, which we were involved in creating in 2021
- Contributed to the focus group discussions around the Principles for Responsible Investment's (PRI) future strategy and mission
- Please see Principle 10 for more details on our collaborative initiatives

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 2022, EOS's work in this area ranged from outlining policy expectations and corporate governance best practice at a delegation meeting in Japan (as a member of the Asian Corporate Governance Association), to using the cumulative voting system to recommend support for the election of an independent director at a large organisation in Brazil, to co-signing a letter co-ordinated by Farm Animal Investment Risk and Return (FAIRR), calling on the Food and Agricultural Organization of the United Nations (FAO) to produce a global roadmap towards a sustainable global food system by 2050. Please refer to EOS's Annual Review for examples of public policy consultations across 2022.

EOS has continued to prioritise climate as a core engagement area and, in its 2022 stewardship activity, looked to address key systemic risks, including the war in Ukraine and the cost of living crisis.

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.

Climate outcomes in 2022

- We have helped our clients with their own net zero goals and to establish processes around them
- We have assisted clients in navigating the evolving world of climate regulation, such as TCFD in the UK
- We have maintained climate as our top theme for engaging with asset managers
- We have worked closely with EOS on climate as a top environmental theme
- For more examples please see our Spotlight on Net Zero, the Outcomes section of Principle 9 and Principle 10

The LDI crisis

- We established consistent engagement with BoE, including ongoing dialogue as regulations evolve.
- We streamlined the process of investment managers seeking additional collateral from clients (with clients requiring advice on where to source this collateral) by having firm-to-firm discussions rather than multiple individual discussions with clients, consultants and LDI managers.

EOS

EOS regularly engages with a wide range of stakeholders, including government authorities, trade bodies, investors and non-governmental organisations, to best identify and respond to market-wide and systemic risks. EOS also gives clients the option to provide their input for consideration on the development of EOS's forward-looking Engagement Plan, which outlines key systemic risk priorities for engagement. See the Spotlight page on EOS for more information.

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.

As noted previously, 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

WTW is targeting net zero greenhouse gas emissions for all its fully discretionary delegated investment portfolios, as well as in its own business operations.

This means that we:

- Believe climate to be one of the most important issues facing investors and businesses
- Recognise the financial impacts of climate change on investment portfolios, together with the threats posed to people and planet
- Understand our role, influence and responsibility in the investment system
- Will aim to use our position to play a meaningful role in stewarding a whole economy transition to a net zero and resilient future

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.

So what have we been doing?

Throughout 2022 we have been busy taking steps to meet our net zero commitment and progress it in line with our beliefs stated above. Our 2022 UK Stewardship Code Report has many examples of work we have been doing to do so. Here are just a few of them:

- Publicly reporting on our net zero progress via our 2022 Sustainable Investment Report
- Putting a significant focus on data and metrics, both internally and from our external sources
- Researching and implementing best practice asset-class net zero methodologies to integrate into our own processes

- Publishing a standalone Climate Policy for our Investments business, to complement our Sustainable Investing Policy
- Helping other investors with their own net zero pledges and climate related goals
- Assisting clients navigate the evolving world of climate regulation, including TCFD requirements in the UK
- Using our new Climate Dashboard to display net zero datapoints and progress at portfolio level
- Maintaining climate as our top theme for engaging with asset managers
- Working with EOS at Federated Hermes closely on climate as a top environmental engagement theme
- Utilising internal resources via the expertise in our Climate and Resilience Hub
- Playing active roles in collaborative initiatives to further progress across the industry
- Continuing to engage with policymaker, regulatory and governmental consultations around climate

Let's work together

To be most effective in managing climate risk and stewarding the transition to net zero, we need to collaborate with others. We are proud to be part of several collaborative climate-focused initiatives and we continue to play an active role in them.

Here are just a few of the things we were involved in over 2022:

- Contributing to the creation of the Net Zero Investment Consultants Initiative (NZICI) reporting framework for signatories
- Submitting our interim progress report to the Net Zero Asset Managers Initiative (NZAMI) and having our targets approved
- Participating in various Glasgow Financial Alliance for Net Zero (GFANZ) workstreams, as well as seconding a WTW colleague to GFANZ
- Contributing to the Institutional Investors Group on Climate Change (IIGCC)'s Paris Aligned Investment Initiative, and contributing to the IIGCC's sister initiatives in Asia and Australasia

This year, we:

Wrote a public case study outlining how we have implemented the Net Zero Investment Framework (NZIF) here at WTW

Published the Thinking Ahead Institute's *Pay Now or Pay Later paper*, which provides analysis to drive increased action on climate

Helped one of our biggest fiduciary clients, LifeSight, to implement their net zero and broader sustainability goals

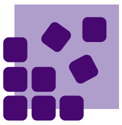
Introduced minimum standards for our asset managers to meet on climate engagement and reporting

Published our Climate Policy, to complement our existing Sustainable Investing Policy

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 and outcomes

General policies and procedures
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
WTW has an Enterprise Risk Management (ERM) framework in place that supports the identification, assessment, management and monitoring of risks that could affect WTW's ability to provide reliable services to its clients and meet business objectives. WTW identifies significant risks through risk management processes, overseen by appropriate governance forums that promote a positive risk management culture.

Management reviews its top risks periodically through a risk dashboard to assess the critical controls and processes in place and determine if the remaining risk exposures are within the company's risk appetite. Risk reporting occurs at many levels across WTW and is governed by a hierarchy of governance committees. When areas of known risks need improvement or new risks are identified, management is responsible for evaluating and implementing appropriate measures to manage and monitor those risks. This can include revising control procedures, implementing controls and executing additional control procedures.

WTW operates a three lines of defence model that distinguishes among three groups (or lines) involved in risk management. The First Line of Defence is the business and/or functions responsible for adopting and maintaining systems and Control Activities to manage the risk to their business. The Second Line of Defence, including ERM and Compliance, is responsible for designing the risk management processes used by the First Line to manage risks and monitoring the implementation of these processes. The Third Line of Defence, including Internal Audit, is responsible for providing independent assurance to the Board over control and risk management practices.

Quality assurance programme
WTW operates an internal quality management system known as WTW Excellence. It is the responsibility of line managers to ensure that quality is maintained by their colleagues in a manner that is consistent with the principles upon which WTW Excellence is based.

WTW Excellence is operated through a global network of Excellence Leaders, allocated within each line of business, who in turn have responsibility for a network of Excellence Champions within those businesses. Each WTW Segment has a Segment Excellence Director and operation of the Excellence process is coordinated by a Global Excellence Director.

- The Investments business has a set of internal Excellence quality standards with which all colleagues must comply. Policies and guidance for colleagues are published in the Excellence area of the WTW's intranet and drawn to their attention in a wide variety of ways such as intranet headlines, emails, training programmes and internal audits

- This process requires all work to be appropriately planned, managed and thoroughly reviewed
- All work must undergo a Standard Work Review (SWR), which typically consists of three elements (technical review, consulting review and editorial review), each of which must be documented, including the relevant reviewer's name and the date that the review took place

Regulatory compliance oversight
WTW Investments is subject to a 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.

Our Compliance team have also set up an internal Investments Compliance webpage, as a single location to contain all 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. This was maintained in 2022.

Sustainable investing (SI) and Stewardship specific examples

Senior oversight
Within WTW Investments we have established a clear oversight structure with accountabilities and responsibilities as outlined in Principle 2. In particular, our Global Chief Investment Officer (Global CIO), Chief Operating Officer (COO), Head of Strategic Projects, 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:

- Sustainable Investing Policy document, which is reviewed and updated at least annually, and is overseen by the Global Leadership Team (GLT) Sustainability Sub-Committee
- Principles for Responsible Investment (PRI) Transparency Report, which is completed 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, Head of SI and respective entity Boards

Working with clients on their policies and processes
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 of WTW
In WTW Investments, independent intermediaries regularly review our SI and stewardship capabilities. We believe this provides a robust additional oversight process. Across 2022, we had a total of 22 research meetings where we were assessed by these intermediaries. In addition, we completed annual research questionnaires / due diligence questionnaires and 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, LCP and Isio in respect of our ESG activities, initiatives and processes.

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

EOS at Federated Hermes (EOS)

We use EOS case studies in our reporting, comfortable that they have been reviewed for technical and editorial quality. In respect of our work with EOS, we would highlight the following in respect of review and assurance:

- 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
- EOS has adapted its Engagement Plan so that there's a detailed, confidential version for clients but also a public version outlining EOS's high-level approach to stewardship – helping to provide clarity on clients' intention, direction and impact of stewardship for trustees and beneficiaries
- EOS's client-only meetings, held twice a year, include a session on obtaining input for their Engagement Plan, so that clients can feed into the direction of their engagement. EOS also has client representatives who act as a voice for the wider client base, providing further assurance that their activities support clients' effective stewardship
- 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
- 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

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 2022 which we believe reflect these processes of continual improvement:

- The governance of our SI processes is monitored on an ongoing basis as a priority focus area, enabling us to recognise current and evolving regulations, guidance and standards in our portfolio investments. In 2022, we reviewed and refined our governance structure, introducing a GLT Sustainability Sub-Committee, Sustainability Commercial Committee and a Sustainability Regulations and Monitoring Committee (see Principle 2)
- In 2022 our voting analysis tool was further developed to enable a more detailed voting oversight process for underlying managers used within our multi-manager funds. This included: updating the voting categories including new mappings to ISS vote categorisation; enhancing our ability to search and report voting by category; adding additional granularity by category and by management/shareholder proponent; and adding additional error checking
- 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. In 2022, we conducted a thorough review of the questionnaire and assessed which areas we needed to develop or build in to ensure we were capturing sufficient data from our managers. We updated it to reflect evolving client and regulatory needs. This included the addition of an SFDR questionnaire and enhancements to our net zero questionnaire
- In 2022, we also introduced minimum standards on engagement reporting for all our asset managers (see Principle 9)
- A challenge to our stewardship reporting for clients is getting consistent, high quality information from asset managers. We have found that industry standard guides can be very helpful here. During 2022 we continued to implement these and contribute to their development:
  - For voting, in 2022 we used the PLSA voting template as a way of asking managers consistent questions around the voting process. Via a representative from ICSWG we also contributed to the FCA's Vote Reporting Group
  - Previously we co-led work on the ICSWG Engagement Reporting Guide to improve reporting of engagement activity. In 2022 we rolled out this guide, including engaging successfully with certain asset managers to improve responses. We led a project within ICSWG to update certain aspects of the guide, with an updated published in November
  - We are members of the Institutional Limited Partners Association (ILPA) ESG Data Convergence Initiative, where GPs (the private equity managers) and LPs (investors of private equity funds) have partnered 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 engagement with GPs has led to many joining the initiative in 2022, and as part of the initiative GPs submit data to ILPA which improves the breadth and quality of the benchmarking data available on the platform
- Finally, we reviewed and updated our SI and Climate policies, which are publicly available documents accessible via our website

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$163 billion in delegated assets under management (as at 31 December 2022)
- Over 1,300 institutional clients (as of 2020)
- Over 900 colleagues in 21 countries across the globe (as at 31 December 2022)

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 providing detailed training on specific topics, identifying thematic investment opportunities, demonstrating how sustainable investing (SI) and stewardship can be integrated with strategic advice and portfolio construction work, as well as talking in depth about SI policies and the engagement activity of 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.

Any SI and stewardship recommendations which we subsequently make are tailored to individual clients based on their beliefs, objectives and governance budget. Where our recommendation is not fully aligned, or where there are additional challenges in implementation, we present a range of options to the client. This is typically set out as the actions that need or could be taken in order to achieve minimum compliance, good or strong practice. As such, we tend to frame the path of integration as a number of steps or parts of a process that need to be achieved over a period of time rather than something that can be completed in one go. Such an approach looks to steer and encourage clients towards better practice, as their views or beliefs may develop over time, and the plan may need to be adjusted accordingly.

We collect feedback from clients in a number of ways: direct feedback provided by clients to their advisors, independent client reviews, and an annual satisfaction survey. We use this feedback as an input to direct our activities around sustainable investing 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 to help catalyse changes in behaviour and our global investment content teams, advisory teams and Retirement business produce research and blogs designed to inform both colleagues and clients of developments in those topics.

Case study: Peer benchmarking assessment

In 2022, we assessed a pension fund across six SI principles which we had established in collaboration with the client, based on their SI priorities and ambition. These principles included stewardship. The assessment was made up of a comparative analysis, evaluating the fund against key peers, as well as deep dives into each SI principle, with relevant case study examples and insights. We also provided recommendations for the fund to consider in achieving its SI objectives.

Recognising that SI is a fast-moving field, subject to ongoing scrutiny and development, this kind of exercise can support clients in working towards and keeping up with leading practice. It is an opportunity to demonstrate where clients can improve in respect of their stewardship – from collaboration to engagement to lending a voice on systemic issues.

In 2022, some of the key topic's clients engaged with were:

- The first wave of Taskforce on Climate-related Financial Disclosures (TCFD) reporting and Department for Work and Pensions (DWP) climate regulations in the UK
- Seeking to properly manage the risks and opportunities associated with climate change
- Developing robust monitoring across a broad range of SI factors which consider a balanced SI assessment of investments and asset managers
- Implications of the Russian invasion of Ukraine on sustainability
- The rising recognition of biodiversity and the incoming Taskforce on Nature-related Financial Disclosures (TNFD) requirements

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 where applicable. 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 environmentally focused managers or specific climate strategies.

We recognise that training / education is an ongoing process that continues throughout the relationship with each client, as beliefs, market products, regulation, latest thinking around sustainability continues to evolve. For example, in 2022 we worked with several clients on meeting their current TCFD reporting requirements, whilst recognising other clients' TCFD requirements may develop in different ways as the regulation evolves. We therefore pay close attention to the regulators guidance to ensure we can pass on the key takeaways to clients and that, combined with our advice, we can be well-placed to help clients navigate such regulatory developments.

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-, medium 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 a client's organisation 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 in the appointment of 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 in developing policies that align their portfolios with a net zero pathway
- Helping clients understand why and how to prioritise real world emissions reductions
- Supporting clients with climate reporting, including target setting, metric selection and the rationale for these

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 the prioritisation of climate change as a critical and systemic issue, 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.

Example portfolio actions that we sometimes 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)
- 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

The portfolio management team has the job of bringing together all 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 Global Portfolio Management Group (GPMG), which is responsible for setting model portfolios for delegated clients globally.

Please refer to our Spotlight page on LifeSight for a detailed example of how we have worked with one of our large fiduciary clients to integrate best practice within sustainable investing.

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:

1. Sustainability scorecards

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 sustainability scorecards. These draw 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.

2. Internal sustainable investing reports

We undertake detailed assessments of the sustainability practices of managers in the context of each highly rated strategy we use in our delegated portfolios. These assessments are summarised in our annual sustainable investing reports, which are tailored to the asset class and strategy in question, covering ESG integration and investor stewardship (engagement and voting (where applicable)). 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 investing reports.

On a regular basis, we conduct sustainability deep-dives that look across all key sustainability considerations for our portfolios, and through that process we identify priority actions which may include engagement and escalation, further data interrogation and analysis, and changes to capital allocation decisions.

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. Please refer to our Spotlight page on WTW engagement with asset managers for detail on this.

3. Climate Dashboard

In adherence to our reporting responsibilities and commitments, we have developed a Climate Dashboard which displays an enhanced set of climate data and metrics. Our reporting aims to follow a balanced scorecard approach, assessing metrics from baseline to targets, both in shorter-term periods and against long term goals.

Figures 1 and 2 below show a climate dashboard for an example 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.

The dashboard is complemented by our carbon journey planning methodology. The role of the carbon journey plan is to provide a top-down framework setting out a pathway of emissions consistent with a portfolio's long-term net zero goals, in line with the Paris Agreement and assists us in setting portfolio decarbonisation pathways. You can find more detail about this in our Climate Policy.

Figure 3 shows an indicative carbon journey plan and illustrates a hypothetical carbon budget for each year for the portfolio.

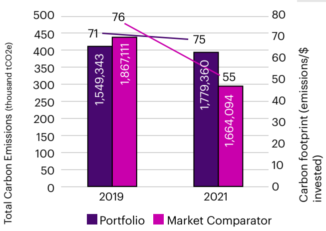
Figure 1: **Climate Dashboard**

Category	Use case	Current metric	Notes
Impact of climate change on the portfolio	Transition Risk	Climate Transition Value at Risk	A proprietary metric from WTW's Climate Transition Analytics team that provides a granular financial assessment of climate transition risk in portfolios
	Physical Risk	Proportion of portfolio exposed to significant physical risks	Quantifying physical risk is a major focus, led by our Climate Quantified programme and our leadership of the Coalition for Climate Resilient Investment.
Impact of the portfolio on climate change	Decarbonisation	Financed emissions — emissions / $ invested	We assess total emissions and carbon footprint, also looking to exclude the impact of market movements to focus on actual underlying decarbonisation.
	Alignment	% assets Paris aligned	We draw on multiple lenses here, including Science Based Targets Initiative (SBTi), Transition Pathway Initiative, Climate Action 100+.
	Mobilising transition finance	Exposure to climate solutions	Aligned to EU Taxonomy and IIGCC methodologies.

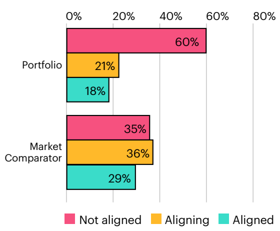
Figure 2: **Example portfolio**

Impact of portfolio on climate change

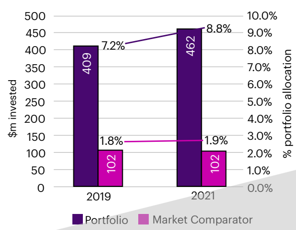
Carbon footprint



Alignment



Climate solutions



Note that Climate Transition value at Risk (CTVaR) can be used as an alignment metric as well, however we have chosen to chow CTVaR as our transition risk metric

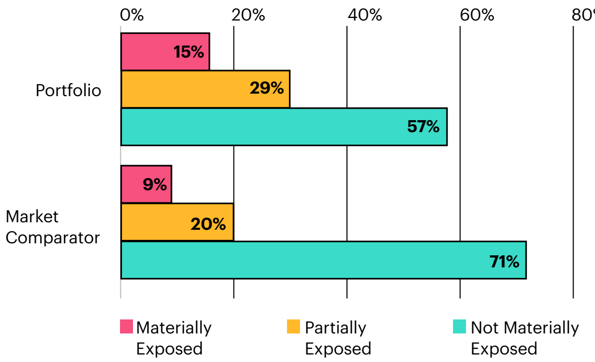
For illustrative purposes only

Impact of climate change on portfolio

Transition risks

2021 — Portfolio	Comparator
-3.5%	**-2.7%**

Physical risks

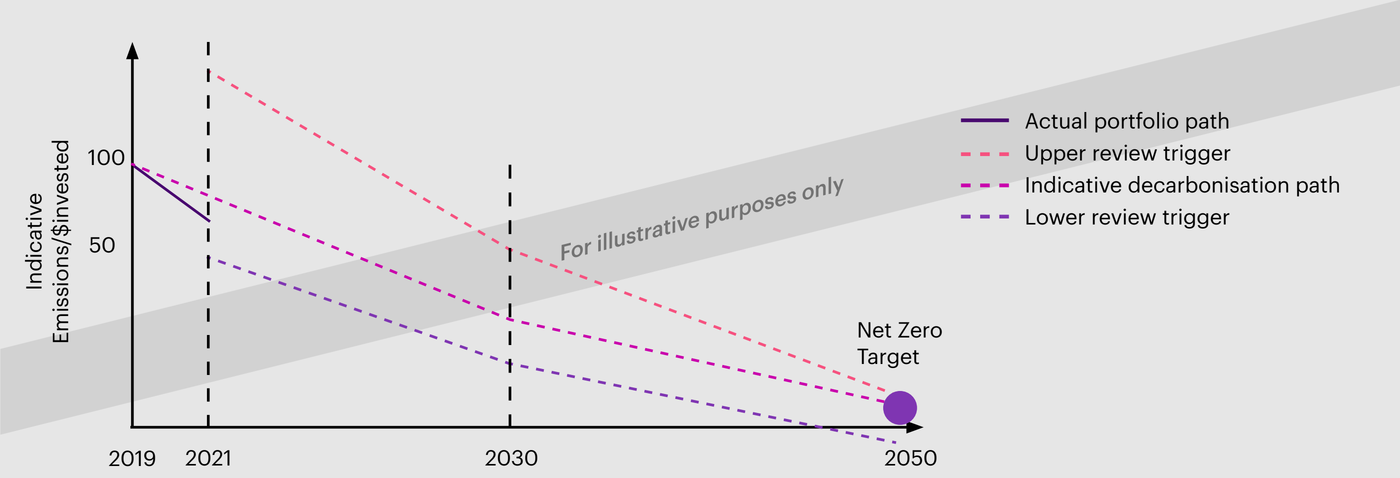


Portfolio coverage key

- Actual holding
- Proxied data
- No data

Source: WTW

Figure 3: **Emissions/$invested example journey plan**



Source: WTW

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 is a template report illustrating how we do this through the internal sustainable investing reports mentioned above.

Environmental, Social and Governance (ESG) integration

Resources and integration
ESG integration: ESG analysis
Firm-level ESG resources: 21
Proprietary ESG scoring methodology: Yes
Impact measurement: X# strategies (US$ Xm AUM)

Portfolio influence
ESG portfolio influence: ESG information
Exclusions applied: Tobacco, controversial weapons, UNGC, thermal coal, nuclear energy, others
ESG risk exposure: Higher than they would like

Stewardship

Policies
Stewardship policy: Disclosed publicly
Voting policy: Custom voting policy disclosed publicly / No voteable securities held
Conflicts of interest: Policy in place
Modern slavery: Statement in place
Engagement transparency: Regular reporting of all engagement activity publicly
Voting transparency: Summary activity, complete voting history and the rationale for votes against management, or for management when the matter is contentious, are all disclosed.

Engagement
Initiatives supported: PRI, UNGC, TCFD, CA100+, GRESB, UK Stewardship Code, others
Collaborative initiatives: Participation
Engagement potential: X# securities in the portfolio (X# with >5% firm ownership)
Engagement activity: Frequent company/security engagement

Voting
Voting: Undertaken by corporate governance specialists
Proxy voting providers: 0% firm-level / 10% strategy-level votes cast independently to proxy recommendation
Securities lending: Not undertaken

Weakness   Strength

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. During 2022 we improved the output of this tool to make it easier for our clients to review it.

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 co-led the development of the ICSWG Engagement Reporting Guide which is a guide for asset managers designed to support the consistent collection of engagement data, as well as leading its subsequent update in 2022.

Figure 4: **Sustainable Investing Assessment Manager — Product**

Firm engagement stats
Number of issuers engaged: 2,425
Number of engagements: 2,698
Top topics: 1) General governance, 2) Social

Strategy engagement stats
Number of issuers engaged: 2,425
Number of engagements: 2,698
Top topics: 1) General governance, 2) Social

Most significant engagements

Company: XYZ
Topic: Social (including Modern Slavery)
Ownership: 10.1% by firm, 5.7% by product

We have engaged with XYZ 16 times since 2015. Our most recent concerns were around the transparency of the company's workforce structure and the fact that employment practices have not kept pace with the sheer size of its workforce. The vast majority of our engagements with the company have been on the topic of labour standards within its warehouses.

Company: ABC
Topic: Other
Ownership: 8.5% by firm, 1.6% by product

We escalated our engagement with ABC this year having noted limited progress on addressing our concerns related to board composition and audit independence, via a series of meetings with the lead independent director. We will be reflecting our concerns in our AGM voting.

Firm voting stats
Vote exercised: 99% of 67,438 eligible votes
Votes cast: 9% against, 0% abstained, 70% for remuneration, 50% for climate
Top topics voted against/ abstained: 1) Board of Directors, 2) Remuneration

Strategy voting stats
Votes exercised: 100% of 1,413 eligible votes
Votes cast: 8% against, 0% abstained, 67% for remuneration, 90% for climate
Top topics voted against/ abstained: 1) Corporate structure, 2) Remuneration

Most significant votes

Company: DEF
Topic: General governance
Ownership: 10.1% by firm, 5.7% by product
Vote cast: Against (Proxy was against, Company was for)

We voted against the re-election of the chair of the board (and two further directors) given concerns over board independence, over-boarding and adequate diversity.

Company: PQR
Topic: General governance
Ownership: 8.5% by firm, 1.6% by product
Vote cast: Against (Proxy was against, Company was for)

We escalated our engagement activity through a series of votes against management, including the re-election of the chair of the board, the chair of the audit committee and the chair of the nominations committee.

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 guidance.

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 the Code, 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 Global 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 2022:

- Clients continue to express their preferences around the presentation of climate metrics and data. We included our Climate Dashboard in our reporting toolkit to ensure key climate metrics and commentary were displayed in a simple and straightforward way, and ensured all client consultants were educated and comfortable with the content too
- We held a webinar for many of our WTW delegated clients with EOS, giving them the opportunity to engage with EOS to challenge their work and communicate key priorities. During the meeting EOS shared engagement case studies, discussed climate engagement as a particular area of focus for our clients and explained how their voting approach has evolved. We had positive feedback from the clients attending
- The introduction of TCFD reporting from 2022 onwards has meant that impacted clients need appropriate resources and knowledge in the space. We have therefore increased the training of our client teams to complement this, including setting up a TCFD-specific working group, regular drop-in sessions for client teams to ask questions, and central, accessible content for colleagues to be well-placed to assist their clients

Here we have also described some examples of actions our advisory clients have taken in 2022 using advice based on our understanding of their views and needs:

Case study 1: working with a client on their voting and engagement approach

We have worked with the board of a large UK pension scheme to develop their approach to stewardship. This included advising on and agreeing a set of voting policies and preferences on a number of key topics identified (across environmental, social and governance factors).

Outcome:
This voting policy was then shared with all of the scheme's investment managers and we now conduct detailed voting monitoring of each manager, assessing against the priorities and policies agreed by the Trustees, as well as the recommendations of the associated proxy voting advisers. The Trustees then raise any concerning cases of misalignment with the manager.

Case study 2: conducting climate scenario analysis

We have worked with the board of a UK pension scheme to consider the resilience of the scheme under a number of different climate scenarios. We focussed a large part of our analysis on the strength of the sponsor's covenant, an energy company, which was likely its biggest exposure to climate risks and opportunities.

Outcome:
We worked with the scheme's covenant advisor to consider the impact on the covenant under several climate scenarios. This is now a key part of the client's monitoring going forward and a focus of the regular updates provided by the sponsor.

Case study 3: assessing climate risk and opportunity management

As part of monitoring a scheme's exposure to climate risks and opportunities, it was noted that a particular investment had a high exposure to climate transition risks, a low exposure to opportunities and a manager with below average stewardship capabilities.

Outcome:
We have since worked with the trustees on the variety of other products within the market with more positive SI characteristics and more engaged investment managers. The trustees are in the process of moving the assets to an investment product which seeks to minimise exposure to climate transition risk and also maximise exposure to those companies expected to benefit from the move to a decarbonised economy.

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

We undertake Independent Client First reviews where a senior associate from WTW's investment team (who does not work on the client account) 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 and provided to both the client team and the UK Head of Clients 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 Client Leadership Team to discuss their clients.

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.

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. A member of the Client Leadership Team sits on the Board of the UK PMG.

c. Annual assessment of our performance related to objectives set by the client

Each client undertakes an annual review of our performance relative to objectives set by them. Clients typically take a balanced scorecard approach, incorporating both qualitative and quantitative assessment measures. This typically covers and assessment of how we work with the client to manage their investment strategy, keep them abreast of regulatory changes and help them meet their regulatory requirements as trustees. In addition, clients will usually assess how we work with them (e.g. is our reporting delivered on time, is our communication with the trustee clear and informative, have we provided adequate training etc) and an assessment of how we work with other advisors and stakeholders in helping the client achieve its goals. Some clients will also undertake a more formal quantitative assessment of portfolio performance relative to journey plan, although this is reported on to our clients regularly throughout the year.

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, and in undertaking wider assessment of the industry. You can read more about this in Principle 5.

WTW's ESG In Sight campaign

In 2022, WTW launched a firm-wide global digital campaign, ESG In Sight, aimed at engaging with and educating clients on sustainability. Within the Investments business, our colleagues put together a series of engaging and informative videos on two areas of focus for our clients:

- Aligning organisational goals with sustainability goals
- Understanding why and what actions to take towards a net zero pathway

The campaign is available online and has been shared with several clients globally.

In the UK, we undertook Independent Client First interviews with 56 clients over 2022, sometimes with multiple individuals. Clients asked us for:

- More interaction outside of meetings. We have:
  - Encouraged regular catch ups before formal meetings
  - Involved the wider team in such discussions
  - Demonstrated the benefits of such interactions during the LDI crisis in 2022
- Assistance in discussions with sponsors. We took steps to:
  - Write papers/join calls to set out the Trustee position
  - Focus on positioning such that the sponsor can see how it might also benefit
- Value for money. We have ensured we:
  - Provided annual assessments of the work undertaken, and the associated outcomes
  - Looked to develop the strategic consultant objectives exercise to be more meaningful
  - Evidenced it through the time/effort/speed of response to the LDI crisis
- Innovation that is appropriate for them. We have:
  - Taken appropriate solutions
  - Demonstrated why solutions we have are not suitable for certain clients
  - Used specialist resource to demonstrate depth of research

We undertook an annual survey with our UK clients and the headline results are:

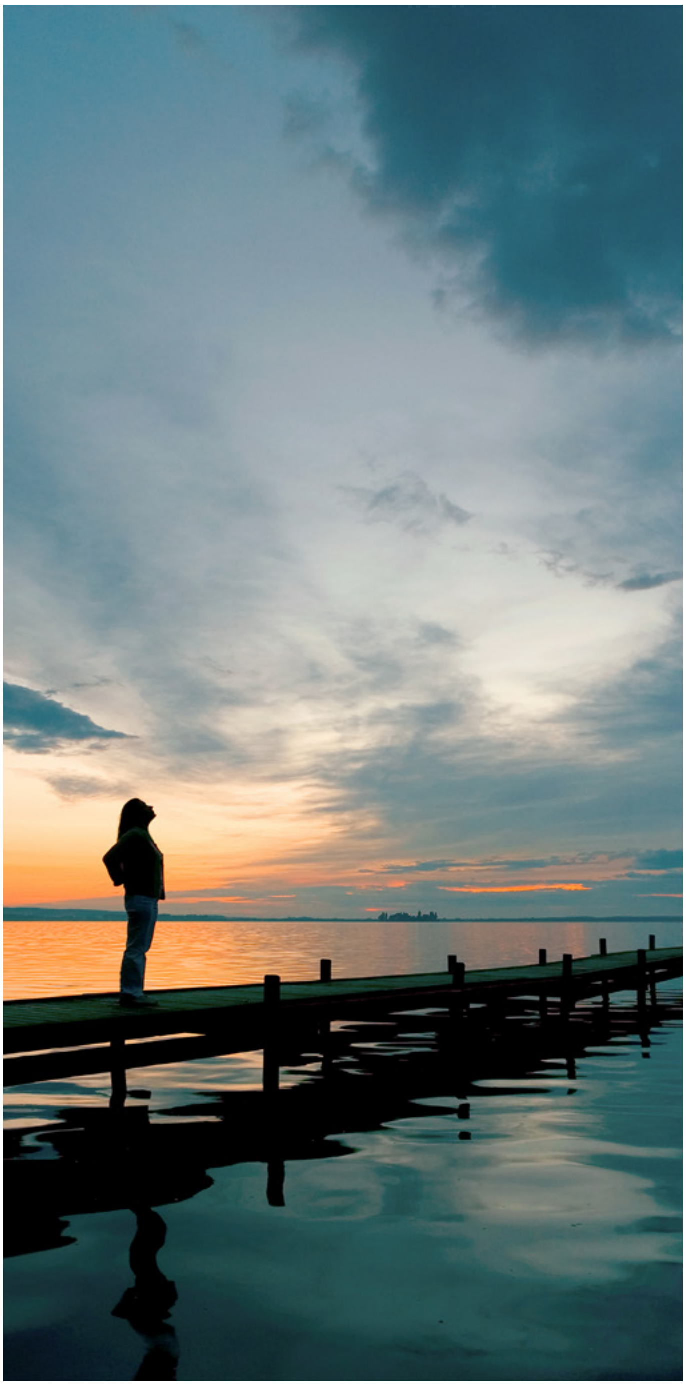
- **100%** of clients described the relationship and the **quality of advice and communication** from their WTW team as **excellent, very good or good**
- **98%** described the overall experience of **working with WTW** over the past 12 months as **excellent, very good or good**

Source: WTW as at December 2022. The UK Client Survey reflects the views of 143 respondents across delegated and advisory services.

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

World Benchmarking Alliance Financial System Benchmark – 2022 results

In 2022 the World Benchmarking Alliance released the results for its Financial System Benchmark, which measures and ranks the 400 most influential financial institutions on their contribution to a just and sustainable economy. WTW were in the top quartile of overall results and the highest scoring of the five investment consultants assessed in the survey.



Spotlight on: LifeSight

LifeSight is WTW's master trust – a defined contribution (DC) multi-employer pension trust that offers employers high-quality, low-risk pension provision. An independent trustee board looks after the interests of members, who have access to LifeSight's leading-edge technology platform and administration services. LifeSight was the first master trust to be authorised in February 2019 by the Pensions Regulator in the UK.

LifeSight has ambitious sustainability goals, reflected in its beliefs and policies – which are documented publicly in LifeSight's Statement of Investment Principles (SIP). Given the long-term horizon of DC arrangements, stewardship is particularly important for LifeSight.

Sustainability beliefs:

- Sustainable investing (SI) is critical to maximising risk-adjusted returns and, therefore, delivering the best possible pension outcomes for members
- An investment's financial success can be influenced by a wide range of factors including ESG issues and stewardship. That's why these are important aspects of sustainable financial risk management – to protect and enhance the value of investments and, in turn, improve long-term member financial outcomes
- Science points to potentially catastrophic risks and impacts if global warming continues its current trajectory. Without substantial collective action, humanity risks missing the point where we can avoid runaway climate change, irreversibly damaging the world's people and economies, as well as the natural systems that sustain us
- These challenges present material financial risks (which are long-term, uncertain, systemic, undiversifiable and unhedgeable) and opportunities, which necessitate specific risk management, opportunity identification and collective action

Voting and engagement:

- In general, LifeSight prefers not to use divestment or exclusion as part of its responsible investment approach (recognising that there will be exceptions – for example, where material ESG risks are considered unlikely to be addressed effectively through engagement)
- LifeSight is committed to use its scale and position as a leading Master Trust, as well as the broader scale and influence of WTW as Founder, to engage with regulators and collaborative initiatives. LifeSight aims to improve how markets operate and tackle specific global challenges such as climate change, contributing to a sustainable future for society and the planet – clearly in the financial interests of its members
- Delegates are expected to integrate ESG factors appropriately as part of their investment processes, to adhere to the principles of applicable local stewardship codes, and to document how they are considering and addressing ESG issues
- LifeSight regularly monitors the stewardship activities of its delegates with a focus on the most impactful areas and issues of particular importance, such as climate change

Find more information in LifeSight's SIP and Implementation Statement.

Highlights across 2022

- Consistent with WTW's goals, LifeSight has committed to net zero emissions by 2050 latest, with a 50% reduction by 2030. Showing its progress on its sustainability and net zero goals, LifeSight reported on its carbon journey in 2022. LifeSight outlined its pathway to net zero emissions and documented its progress across five key climate metrics; carbon emissions, alignment, climate solutions, transition risks, and physical risks – the first client to use the WTW climate dashboard
- LifeSight published its position statement on deforestation, which is publicly available. LifeSight is supportive of the Race to Zero Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation by 2025 and aims to address this important issue through the collective influence of its specialist professional partners

LifeSight has specifically challenged its partners to vote and engage in ways that will help achieve deforestation goals – LifeSight will continue to monitor and engage with them regarding progress on this and other important ESG issues.

- LifeSight started to introduce Tumelo as a tool to engage members on important voting issues
- LifeSight has developed a stewardship policy covering voting and broader asset manager, issuer and system level engagement. Reflecting its beliefs, the policy focuses on climate change, including deforestation and biodiversity, as LifeSight recognises the systemic challenge of an orderly transition to net zero

Leading the way

LifeSight is a WTW product that we not only offer the market – we also use it for our own members. As such, it captures our best ideas and latest thinking, which includes SI and stewardship as key principles. This is reflected in LifeSight's beliefs and policies, as well as its ambition to be leading edge in addressing key sustainability issues and driving engagement for the benefit of the wider investment community.

Principle 7: Stewardship, investment and ESG integration

Sustainable investing 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

We believe sustainability factors including ESG, stewardship, long termism, climate and sustainability impacts can all have a material influence on investment risk and returns. As such we look to embed sustainability and ESG 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.

Stewardship

We believe that effective stewardship is a critical aspect of sustainable investing (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 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:

1. finding the best asset management organisations capable of delivering superior outcomes to our clients; and
2. 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. Please see our Spotlight page on WTW engagement with asset managers for information on how we do this.

We highlight stewardship as an area where the industry needs to improve. Engaging with underlying businesses, issuers and operating assets, beyond just quarterly results, financial models and valuations, but on their strategy, culture, leadership, innovation, and sustainability is an opportunity for the asset management community to demonstrate actual value creation to society.

Each year we identify common issues across groups of asset managers and engage with them in different ways, such as running group events and publishing papers. In 2022 we held our Manager Ideas Exchange (MiX) event in the United States, where we were able to engage with managers on how we could deliver better outcomes for savers and address the key systemic challenges facing our industry.

While different firms vary in their approaches, their leadership usually plays the critical role in defining the purpose, motivating the employees and creating the ability to continuously improve. Hence, our engagement process involves interaction with the most senior leaders of the firms with which we partner.

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.

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 created 12 such new solutions in 2022.

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 (see Principle 8), share and encourage best practices, and advocate for greater and more effective stewardship at an industry level (see Principle 10).

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 and the Spotlight page on EOS for some case studies of their activity on this front in 2022.

c. Voting

Voting on equity shares is an important and visible engagement tool. See our comments under Principle 12 for our approach in this area.

d. Public policy, advocacy and collaboration

We believe that collaborative engagement and advocacy are important to give the investment industry a stronger voice and improve investment outcomes for all participants.

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. Please refer to our Spotlight page on EOS and Principle 4 for examples of activity EOS has performed on our behalf throughout 2022.

Systematic ESG Integration

We believe that integrating SI throughout the 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

1. 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.

2. Long term themes

Our asset research team analyse long-term global trends and have developed detailed long-term themes which we 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 major themes, pose the greatest risk and opportunities to financial investors and countries.

Our 2023 Global Investment Outlook observes that economies are out of balance and the path back to balance is likely to be volatile – identifying the key responses to portfolio strategy and allocating capital as: diversification, downside risk hedging strategies and seeking alpha.

b. Portfolio management

Our portfolio construction process focusses on maximising portfolio quality, as evaluated through a number of 'lenses', including sustainability. Please see our comments in Principle 6 for more detail.

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.

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. A template of our assessment of a specific strategy is shown in Principle 6.

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 diversity, equity and inclusion (DEI) principles. We discuss this in Principle 1 and in the Spotlight page on DEI.

In order to better assess the quality of sustainable investing 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.

1. 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 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 General Partner (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 Limited Partners (LPs) have come together to align on a standardized set of ESG metrics and mechanism for comparative reporting. We encourage 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".

2. 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.

3. 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).

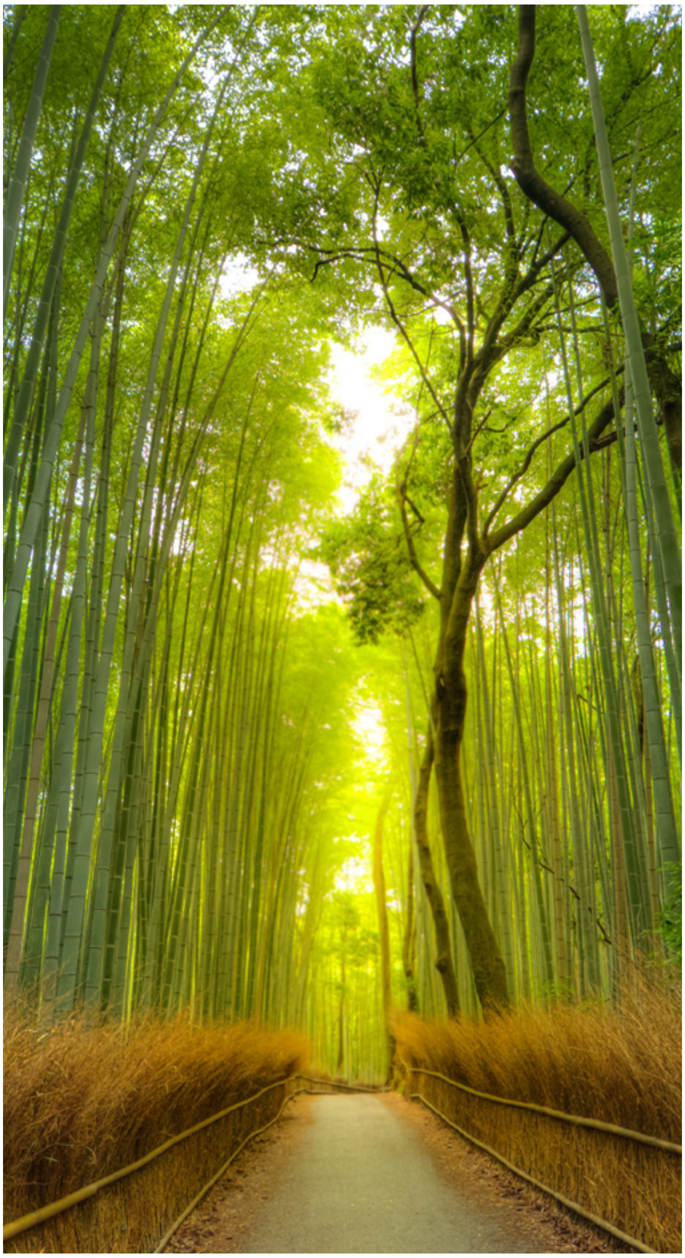
We are strong advocates on the use of third parties such as GRESB for independent ESG auditing and measurement, as well as advocating for independent members of investment committees where appropriate and relevant.

We formally monitor our strategies via regular meetings with managers, as well as through our proprietary WTW sustainable investing 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 and an investment in biodiversity.

4. 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.



Activities and outcomes

Across all asset classes, we researched over 300 sustainability-themed strategies in 2022. 12 of these were ultimately approved with our highest rating and recommended to our clients. Over 2022, we made significant allocations to strategies in areas such as renewable infrastructure, climate high yield and forestry.

In 2022, we engaged with over 200 managers and over 600 products on the topics of sustainability and stewardship. We also held seats on 65 real asset fund advisory committees to help formalise our ongoing stewardship of those funds, as well as sitting on 39 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.

We are also sensitive to asset manager size in setting realistic demands. But still there were some asset manager examples during 2022 where we felt progress was too slow, our minimum standards would not be met or where we decided the gap between current practice versus best practice was unlikely to be closed through engagement. 25 managers were downgraded or rejected (after significant research engagement / due diligence) for these reasons in 2022.

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. Further detail is provided for Principle 9, as well as information on the overall performance of our top-rated managers and delegated portfolios outlined in Principle 1.

In 2022, we introduced minimum engagement standards for all managers as well as the development of our annual manager SI questionnaire. This reflects not only the importance we place on stewardship, but the evolving client and regulatory demands.

Please refer to our Spotlight page on WTW engagement with asset managers and Principle 9 for more details.

A key focus in 2022 was engaging with the industry on DEI. It is considered for each new strategy we rate. In 2022 we continued to make significant progress in this area — please refer to our Spotlight page on DEI for details and outcomes from our work in 2022. You can read more about our collaborative efforts in the DEI space in Principle 10.

We now highlight key activities and outcomes from across each of our different manager research teams in 2022:

Public equity

- With the aim of ensuring that climate risks are assessed and managed, in 2022 we researched over a dozen sustainability-focused public equity strategies
- We awarded our highest rating, Preferred, to two sustainable investing strategies
- WTW's clients invested around $1 billion of capital in a new climate solution we developed in 2022 in partnership with an index provider, leveraging the work of WTW's Climate Transition Analytics team
- WTW's net zero commitment has 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

Private equity

- In 2022 we researched over 200 private equity strategies with a climate or environmental focus
- In the private equity space, engagements have focused on disclosure of climate related data. We continued to review potential third-party service providers that focus on improving quality of emissions reporting. Many of the GPs that we work with are small firms that do not have the resource inhouse to do carbon accounting, so we shared contact details and feedback for a number of providers with GPs

- As part of the ILPA ESG Data Convergence initiative, we have continued to encourage all our GPs to participate in the initiative. Its 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 engagements with GPs have led to many joining the initiative in 2022, and as part of the initiative GPs submit data to ILPA which improves the breadth and quality of the benchmarking data available on the platform

Sustainability in private equity

In this white paper, we shed light on how sustainability practices of private equity managers are evaluated using our assessment framework. In addition, this paper can be a useful resource for private equity managers who have only recently embarked on their own sustainability journey and are now looking for guidance. We did this not only because we believe the influence of the private equity industry, which has enjoyed tremendous growth in the past decades, can be channelled into addressing systemic challenges facing global communities. We are also a firm believer that properly incorporating ESG considerations ultimately delivers strong financial returns for investors, in a long-term sustainable manner.

This paper was published on the WTW website, shared with the GPs that we work with and we have shared the paper following introductory calls with a number of GPs that we don't work with.

Credit
This has been a year focussed on engaging with credit managers and finding new solutions to move our clients towards our net zero objectives.

Across the year our credit team:

- Rated a SFDR Article 9 infrastructure manager which had 3 climate specific KPIs written into the mandate design and included a sustainability linked management fee
- Rated a climate US high yield manager
- Launched a structured engagement plan with preferred managers to ensure certain sustainability standards were met

Real assets and infrastructure
On the basis of the data we collect on managers / products through our detailed ESG and DEI questionnaires, we have been able to hold comprehensive engagement sessions with our managers over the past year to explain the results of our assessment and agree with them action plans for the forthcoming year. Actions inevitably vary by manager / product as a result but have a common theme of data collection and then using it review their own fund investment policies and strategies as well as improvements in the way they assess and price risk. That includes factors across environmental, social and governance factors as well as through understanding how they will improve their inclusion and diversity and consequently how decisions are made. We have been strong advocates for many years on the benefits of using ESG in decision making as we believe by so doing the risks to future return generation are better understood and mitigated. The actions we agree with managers reflect areas we would like to see improvement across ESG but we are mindful, in particular, in risks associated with climatic change resulting from global temperature increases and hence have focused on areas with this in mind.

In considering new investments, we have considered these ESG factors as part of our investment underwriting and actively seek compelling investments from managers who already understand what is required and already think in a way that aligns with the net zero agenda as well as more broadly across ESG and DEI.

Throughout our engagement with managers in 2022, we have also been encouraging them to submit data to GRESB, as well as the Carbon Risk Real Estate Monitor (CRREM) project.

Liquid diversifiers including hedge funds
The team has been researching and engaging with new strategies. One example has been one SFDR Article 8 fund focusing on catastrophe bonds which provide pay-outs to impacted entities following large natural disasters. Another example is a strategy focussing on weather and sustainability-linked risks through offering risk transfer solutions to entities, such as renewable energy producers and green infrastructure developers.

Herein we give two examples of our engagement with asset managers which we believe highlight how our processes have helped our clients gain access to skilful managers and attractive investment opportunities:

Case study 1: Engagement with asset manager – US equity manager

Background
WTW has 15 clients invested with this US equity manager. However, we have had concerns over the quality of ESG integration within the manager's process and been engaging with the manager during 2022 to push for improvement.

Engagement
Through our initial discussions the manager noted that their ESG policies were still a work in process, and they were concerned about "greenwashing" their responses. We had multiple discussions with several members of the organization and investment team aimed at defining our expectations around SI/ESG integration.

Outcome
The manager has formed an ESG/DEI committee led by the two Small Cap Growth portfolio managers. The committee has crafted formal ESG/DEI policies for the entire organization. These policies were highly aligned with our best thinking on ESG integration.

Investment case study discussions have brought further evidence of good stewardship. For example, in our most recent due diligence meeting, the manager provided proactive views on an industrial company's efforts on offering solutions to a net zero transition.

Case study 2: Engagement with asset manager – commercial real estate lender

Background
There had been a lack of ESG development at the firm in comparison to market peers, impairing our client's willingness to commit capital. WTW has invested with the firm's European Lending product since 2019, the first vintage of the fund.

The manager had previously made commitments to achieving SFDR Article 8 status for the fund based on demand from clients and to improving ESG standards in the portfolio. However, progress on this commitment and other ESG progress points was slow and based upon WTW's expectations of managers and clients demands recommitment into the fund and future vintages of the fund was at risk.

Engagement
To ensure that there was confidence in maintaining capital commitment, WTW engaged with the firm and its head of real estate debt to develop an action plan and timeline for the fund to achieve its ESG commitments. This includes developing an ESG scorecard to aid meeting WTW's sustainable investing minimum standards. These standards are to be introduced in 2023.

A further action point from the scorecard was to facilitate the funds qualifying for SFDR Article 8 in 2023.

Outcome
The manager has now made commitments to develop ESG standards at a faster rate which aligns with WTW and client expectations. SFDR Article 8 status will be achieved and maintained in 2023 and the firm have now provided a timeline for how there will be greater levels of EU taxonomy alignment throughout 2023.

The manager has hired an external ESG consultant to aid in the process and to assist with getting reporting in line with TCFD's climate recommendations and to help with quarterly engagement reporting.

They have also increased ESG integration into the investment process, considering ESG to a higher degree during the underwriting process.

Engagement reporting is still an area that needs improvement and WTW will continue to discuss how they can improve on this and continue to monitor going forward.

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 investing (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 2022 that are illustrative of our ongoing engagements and partnerships.

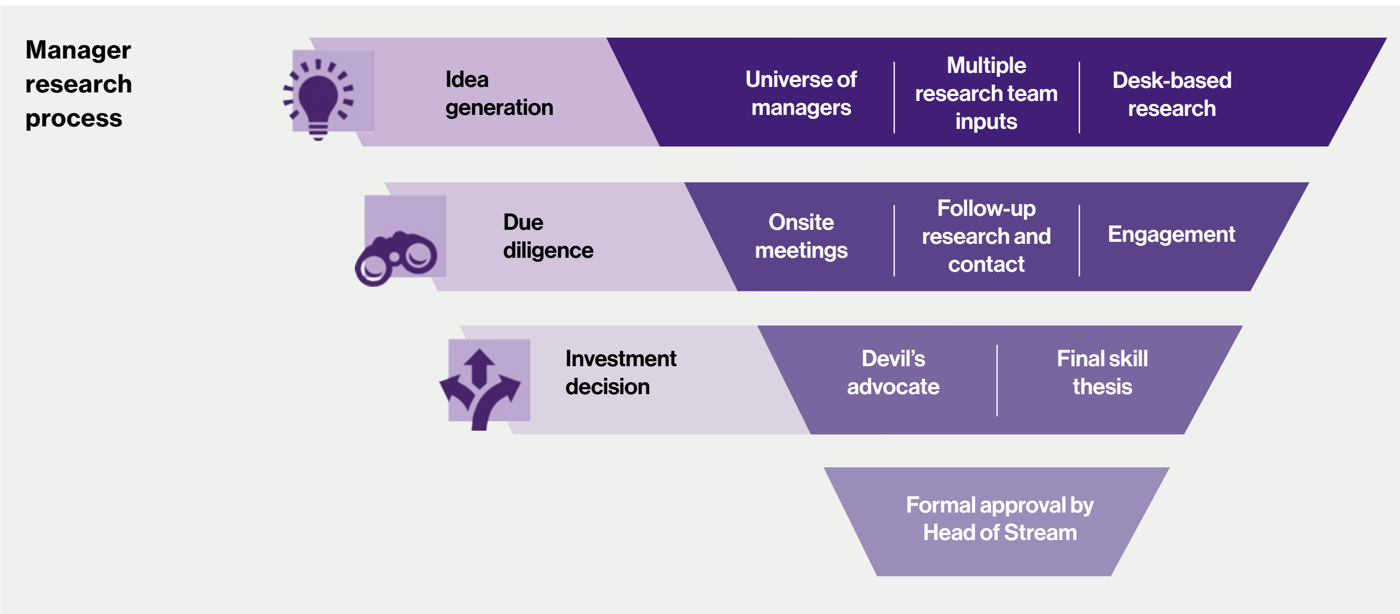
Asset managers

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 12 such products with significant benefits, including lower fees, more appropriate fund structures and better tax transparency throughout 2022
- 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 manger 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 a great fund if they are put together in a well-constucted 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.
ESG integration and stewardship	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 we have described and evidenced the outcomes of our ongoing monitoring and engagement with the asset management industry, where SI and stewardship have been key pillars. Please refer to Principle 7 and our Spotlight page on WTW engagement with asset managers for further detail. In addition, a template of our assessment of a specific strategy is shown in Principle 6.

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 high quality data 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 was a key priority in 2021, and in 2022 we prioritised making use of that data in the best possible way to support clients. 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.

We have also made efforts to expand our SI data sources and one such example is with a focus on real assets. We now subscribe to GRESB and incorporate its data into our ESG assessments, as well as encouraging our managers to submit data to GRESB too.

Stewardship specialists

As highlighted earlier in this report, we have partnered with EOS at Federated Hermes (EOS) for several years. We periodically review to reassess the stewardship provider marketplace against our clients' needs. We last completed this process in 2021 concluding that we would retain EOS as our overlay provider deeming them the best fit for our client's requirements.

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

We believe that EOS have delivered an excellent service during 2022, 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 2022 Annual Review and our Spotlight page on EOS.

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.

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. 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.

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

Engagement with asset managers

Activities

Underlying asset managers have a responsibility to undertake engagement. In this section we set out our oversight of, and engagement with, those asset managers, with further detail on our activities this year.

Please refer to our Spotlight page on WTW engagement with asset managers for more information, including the main goals of our manager research process, our main priorities and examples of things we typically engage with managers on.

Our overall view of a manager's ability to sustain a competitive advantage takes into account the manager's sustainable investing 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.

An important starting point for our manager engagement is the annual sustainable investing (SI) questionnaire that we require all our preferred managers to complete. These questions support the production of our SI reports which address the capabilities, including stewardship, of these asset managers. These are described elsewhere in this report (see Principle 6). The underlying questionnaire and the SI report gives 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 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. In 2022 we conducted a thorough review of the questionnaire and assessed which areas we needed to develop in to ensure we were capturing sufficient data from our managers. We updated it to reflect evolving client and regulatory needs. This included the addition of a Sustainable Finance Disclosure Regulation (SFDR) questionnaire and enhancements to our net zero questionnaire.

Alongside this, we introduced minimum standards for our managers in 2022. This reflects the increasing importance we place on managers to perform their own stewardship activities. The areas of particular focus within the WTW minimum standards are:

- Taskforce on Climate-related Financial Disclosures (TCFD) reporting
- ESG engagement reporting (based around the Investment Consultants Sustainability Working Group (ICSWG) engagement reporting template)
- Exclusion reporting
- Modern slavery and human trafficking policy, reporting and statement

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 of this, as mentioned in Principle 7, was hosting our Managers Ideas Exchange (MiX) conference in 2022 which provided a significant opportunity for engagement with the asset management community. Within that, our approach and expectations to DEI played a significant part of the engagement programme at that conference.

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 65 real asset fund advisory committees to help formalise our ongoing stewardship of those funds, as well as sitting on 39 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

Please see our Spotlight page on WTW engagement with asset managers for highlights of outcomes from our engagement with asset managers this year. In addition, below we focus on some case studies of our engagement with asset managers in 2022 to complement the examples already provided under Principle 7.

Case study 1: Engagement with asset manager – global listed real estate strategy

Background
Inclusion and diversity reporting was very limited at this firm and it was not able to report on key areas, such as the level of diversity among the ownership and investment team at the firm level. This was also the case at the strategy level.

Additionally, WTW is introducing SI minimum standards and the firm would have not passed on these new standards. The specific standard at risk concerned holding a firm wide modern slavery policy.

Engagement
WTW engaged with the manager and agreed on action points for them to take into 2023 to meet these criteria. This included introducing I&D recording and reporting. Specifically this concerned going beyond the minimum of gender and nationality reporting but also including ethnicity.

Outcome
The manager has set out a timeline to release this Inclusion and Diversity report in 2023 on both the firm level and the strategy level. There is still no modern slavery policy at the firm level. However, there has been material progress towards this and WTW will continue to engage with the manager. WTW's engagement score for the firm has improved from a neutral to a strength over the course of 2022.

Case study 2: Engagement with asset manager – global diversified listed infrastructure strategy

Background
Sustainability considerations have become central to investment underwriting and risk management in recent years as investment analysis continuously evolves. Infrastructure as an asset class is facing particular scrutiny given the high proportion of highly carbon-emitting and carbon-intense industries and assets in the universe.

Increased focus from clients and the broader investment community requires more granular and explicit analysis of portfolio investments in the context of sustainability, decarbonisation and carbon journey planning.

Engagement
The smart beta, more systematic nature of this listed infrastructure investment strategy means there is moderate scope to influence company management directly. However, data and company information is increasingly available which is combined with fundamental investment analysis to draw sustainability-linked conclusions and engagement opportunities.

WTW engaged with this manager to scrutinise the sustainability credentials of underlying portfolio companies. The manager was challenged on its portfolio holdings and whether these companies were truly aligned to the energy transition and acting on their decarbonisation agendas.

Outcome
The manager has developed a proprietary climate change investment framework to rigorously address climate-related investment opportunities and risks through a "SAFE" Transition methodology and climate risk analysis. This allows the manager to evaluate companies best placed to navigate the energy transition according to their climate positioning and whether their emissions reduction plans are credible.

This has led to the firm's methodology and climate risk analysis to be integrated into the investment process.

Case study 3: Engagement with asset manager – ongoing engagement with a global equity manager

Background
An asset management boutique rated highly by WTW was early in their journey to incorporate net zero alignment considerations of companies within their investment process to calibrate investment risk/reward and identify candidates of further engagement. The asset manager reached out to WTW to understand WTW's net zero commitment and the implications for itself.

Engagement
WTW engaged regarding its expectations for asset managers used in fiduciary mandates as a result of our commitment and outlined good practice for asset managers when considering and integrating climate information within the investment process.

This included topics such as:
- Reporting requirements on climate metrics of the overall portfolio and its constituents
- Developing a framework for assessing net zero alignment of portfolio companies. We shared resources on existing industry frameworks such as IIGCC Net Zero Alignment framework and Climate Action 100+ Net Zero Benchmark
- Setting milestones for engagements and tracking progress
- Demonstrating effective stewardship on climate laggards, including a process for escalation where companies fail to reach milestones in appropriate timeframes

Through this interaction, the manager also highlighted constraints they face as a small boutique asset management firm with fewer than 20 employees, in terms of cost burden of specialist data providers, resourcing, and time.

Outcomes
The manager has hired an external consultant to help map the firm's carbon footprint and to devise a plan to reduce this in a manner consistent with becoming a net zero aligned manager. It has also partnered with a third party data provider for carbon and climate data to help map their portfolio companies on their net zero alignment journey. The manager is also taking steps to enhance their processes for ESG integration & stewardship efforts.

The manager has kept us updated on progress on areas such as upcoming updates to their annual reporting and it is positive to see the manager's efforts to improve further in this space.

Issuer- and asset-level engagement

Activities

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 showcase 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.

GEFF is a multi-manager, unconstrained global equity strategy that provides investors with access to typically 8 to 12 of our top-rated asset managers. The 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 more 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.

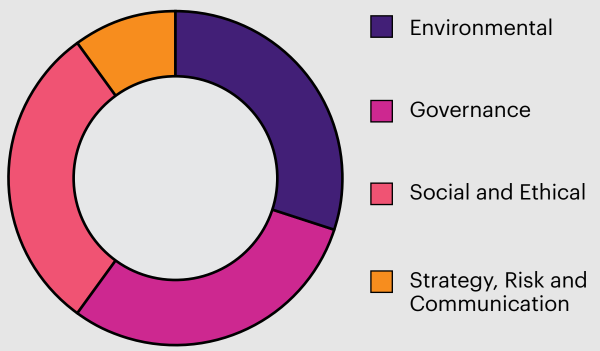
In 2022, EOS engaged 384 issues and objectives with companies held in the GEFF portfolio, covering a range of ESG, strategy, risk and communication issues and objectives.

What about fixed income?

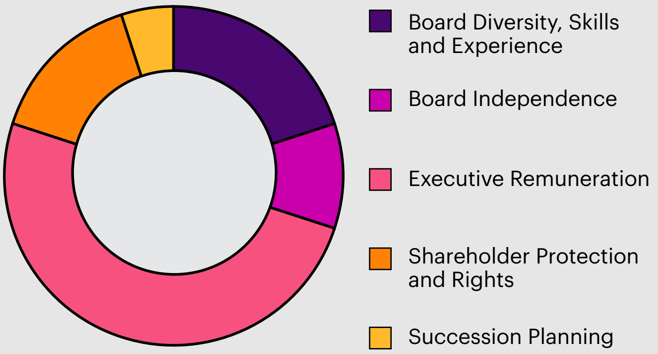
While we have mainly highlighted equity related activity under this Principle, influencing issuers is also a key part of fixed income investing. We describe how we integrate ESG into credit research in Principle 7. Fixed income engagement case studies are provided in this section and Principle 11. Also, in Principle 12, we discuss the general progress of fixed income managers we use in amending document terms across private and public issues during 2022.

Engaging with issuers has become a central expectation for fixed income investing, which has continued and deepened throughout 2022. 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.

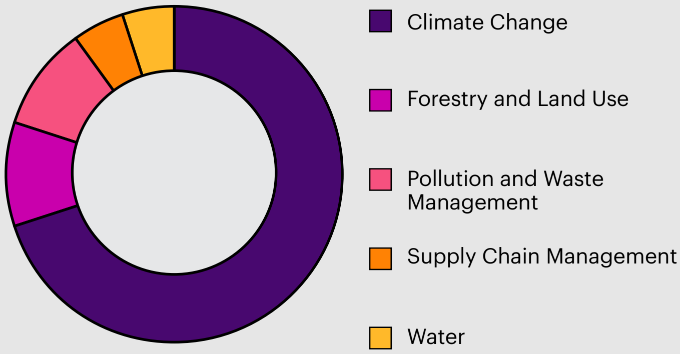
EOS engaged 384 issues and objectives with companies held in GEFF across 2022:



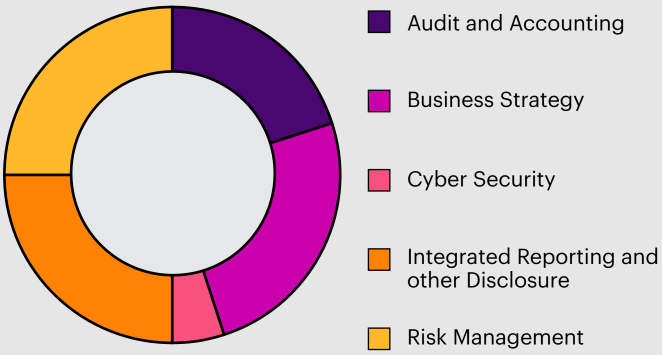
Governance topics featured in 31% of engagements in 2022: 121 Governance engagements



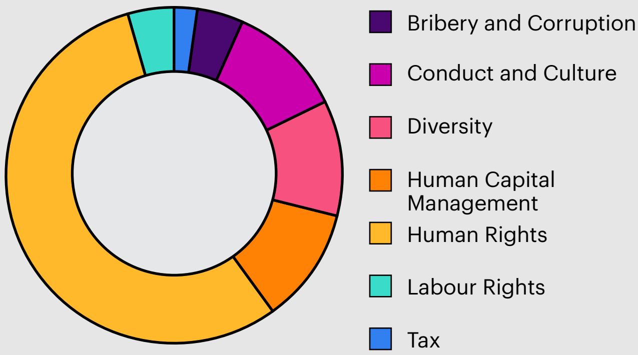
Environmental topics featured in 26% of engagements in 2022: 99 Environmental engagements



Strategy, risk and communication topics featured in 14% of engagements in 2022: 52 Strategy, Risk and Communication engagements



Social and ethical topics featured in 29% of engagements in 2022: 112 Social and Ethical engagements



Source: EOS, December 2022

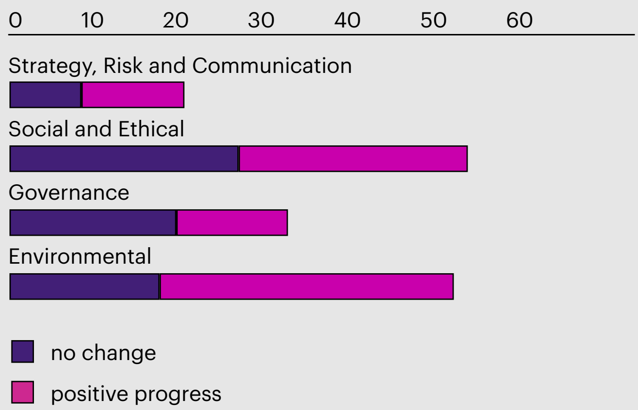
Outcomes

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, December 2022

Here we show the progress that has been made against engagement milestones in 2022. EOS made solid progress in delivering engagement objectives across themes and regions. At least one milestone was moved forward for 53% of objectives during the year. Figure 1 to the right describes this milestone progress:

Figure 1: **Engagements with objectives — progress breakdown**



Source: EOS

Figure 2 shows milestone progress across these themes, in more detail. This evidences climate change and human rights as the two areas where the largest positive progress was made across 2022:

Figure 2: **Engagements with objectives — progress breakdown across themes**

Source: EOS

Below are two company specific case studies showing EOS's engagement outcomes. Both companies are underlying holdings of GEFF. There are further examples of company engagement under Principle 11 and in EOS's 2022 Annual Review.

Asset managers we work with also undertake numerous engagements with the underlying assets they invest in. We have listed some examples on the following pages, as well as under Principles 11 and 12.

Case study 4: EOS engagement with Adidas on the environmental impact of its products

Background and engagement

EOS have engaged with Adidas for several years to focus on the future trajectory of the company's sustainability strategy. They have been challenging the company on the environmental impact of its product range, stressing that ambitious, science-based climate targets need to be central to its 2025 sustainability strategy.

EOS welcomed a public commitment from the company to address climate change but urged it to set a science-based emissions reduction target to demonstrate that its ambitions are in line with the 1.5°C trajectory of the Paris Agreement.

On resource use and circularity, they welcomed some positive steps: an improvement to its CDP water score and achieving 100% cotton sourced through the Better Cotton Initiative, as part of its commitment to steadily increase the use of more sustainable materials in its production, products, and stores. EOS pushed Adidas to go further and to set specific, timebound targets for recycled materials in its products, as well as publishing a plastics footprint.

EOS have travelled to the company headquarters in Germany, met with the company's sustainability team, participated in investor days, and shared EOS's own white paper research with the company.

Outcomes

Adidas achieved certification from the Science-Based Targets initiative in 2021.

The company is now committed to reduce absolute Scope 1, 2 and 3 emissions by 30% by 2030 from a 2017 base year. Within that target, Adidas commits to reduce absolute scope 1 and 2 greenhouse gas emissions by 90% by 2025 from a 2017 base year. Furthermore, the company states that it is working closely with its partners in the global supply chain to reduce energy and material consumption and make greater use of green energy sources.

The company announced the ambition for nine out of 10 of its articles to be more sustainable by 2025.

EOS continue to engage with Adidas on its circularity strategy, including monitoring progress made in significantly increasing the proportion of recycled content used in its products, in-line with its targets. They are encouraged that that company states that it will intensify its communication and marketing for products made from sustainable materials and roll out product takeback programs at a large scale.

Technological and business model innovation is urgently needed to address climate change and environmental impacts of apparel and footwear. EOS will continue to engage on how the company can make transformational changes to reduce its impact.

Case study 5: EOS engagement with DBS on palm oil financing

Background and engagement

EOS's wider engagement with DBS, a Singaporean financial services group, dates back to 2011, and they began engaging with DBS on palm oil financing in January 2019. As Singapore's largest bank, the bank is well positioned to demonstrate leadership in sustainable finance.

EOS urged the bank to demonstrate that its palm oil lending criteria are updated to meet the latest Roundtable on Sustainable Palm Oil (RSPO) standard for all borrowers. The bank acknowledged its awareness of the latest RSPO standard and confirmed its new borrowers were asked to demonstrate alignment with no deforestation, no peat and no exploitation (NDPE) or equivalent. As of February 2020, the bank's palm oil lending policy had not changed but the head of sustainability confirmed it was committed to working with existing customers who refinance their existing loans on achieving RSPO certification.

EOS have communicated with the firm's chief sustainability officer, investor relations team, head of fixed income and executive directors in its institutional banking group.

Outcomes

After some time EOS were pleased to learn that DBS raised its ESG standards for the palm oil sector. The bank raised the mandatory requirements and restrictions that apply to all its lending relationships. It now encourages customers to apply NDPE policy throughout the supply chain. Besides NDPE commitments, the bank also accepts RSPO certification as demonstration of good industry practices. Customers are requested to achieve full RSPO certification via a time-bound action plan that is communicated to DBS.

The bank also pledges not to knowingly finance companies that are involved in high carbon stock forests, planting on peat, or planting without securing both the legal right and community support to use all the land involved.

EOS will monitor DBS' progress in implementing the sustainable palm oil policy for all its lending relationships and clear communication of its progress.

Case study 6: Company engagement by asset manager – climate-related disclosures at a large online travel agent

Background and engagement

One of WTW's preferred managers has been engaging with one of its holdings, a large European online travel agent, primarily on climate related disclosures. The manager wrote to the company in 2020 with respect to poor greenhouse gas emissions disclosure. They were provided a limited amount of data.

In a follow up call in which the issues of poor disclosures and ESG ratings from third party providers were raised, the manager learnt that the company had established an ESG department and were taking the issue seriously.

In a subsequent call, the company took on board the manager's suggestion to offer a way for consumers to easily offset carbon emissions when making a booking. The company also described an initiative they were working on to provide a climate-related rating system.

Whilst the manager was pleased with the progress, they believed the company still had room to improve. They later voted against management and in favour of a shareholder resolution for the company to publish annual climate transition plan.

Outcomes

The company has now introduced a filter in their search mechanism for choosing 'travel sustainable' properties. It also intended to announce targets for sustainable bookings by customers. The firm has published a Climate Action Plan, signed by the CEO, which addresses scope 1, 2 and 3 emissions as well as a net zero commitment.

Case study 7: Company engagement by asset manager – carbon tax exposure at a global restaurant company

Background and engagement
One of our preferred managers is invested in one of the world's largest restaurant companies, with its brands being global leaders in their categories. The manager engaged with the company's management and Chief Sustainability Offer in 2022 to better understand the financial risk of a potential carbon tax as part of its efforts to assess that risk across each its companies. Based on an analysis of the manager's companies, it found the possible exposure to a carbon tax at this company to be potentially significant.

The manager's meeting with the company was productive and reassuring in terms of its efforts to reduce its carbon footprint and the potential impact to earning such a tax could have.

Outcomes
The manager was pleased the company issued science-based targets for emissions, which is something they had pushed for, including a 47% reduction in scopes 1, 2 and 3 emissions by 2030, with projects in place to reduce emissions.

The company is also pursuing projects to reduce methane emissions in its supply chain alongside its largest partners in the dairy industry, as well as working with their top 30 suppliers to educate them on the need for implementing science-based targets.

The manager is confident that these steps, along with the company's sway over franchisees and its centralised procurement system in major markets, give the company a high ability to drive change.

Case study 8: Issuer engagement by asset manager – African credit

Background and outcomes
WTW sees this African credit strategy as having significant impact potential through engaging with its issuer base. The fund has various opportunities to interact with those in positions of power within African financial institutions.

Over 2022 the manager engaged with various central banks across Africa, including those in Zambia, Egypt and Tunisia. These engagement processes included items on ESG, such as in Egypt where the central bank and the manager discussed the need to advance green frameworks within the ministry of finance.

Outcomes
In Zambia there were some reforms to the domestic banking process that will have long term impacts on the stability of finance in the country. Debt procurement practises now sit under the ministry of finance rather than individual ministries, aiming to streamline the process. The central bank has also increased its level of independence from the office of the President, making it much harder for the individual to hire and fire governors and deputies of the institution, making the office more stable and less susceptible to influence and coercion.

In Tunisia the manager has been promoting the economic reforms to the country as proposed by the IMF. The key focus of this was reforming policies around State Owned Enterprises and improving fiscal transparency within the country, affecting the quality of financial services available to the wider population.

The manager has committed to further engagement with underlying central banks and to monitor the progress made over 2022.

Spotlight on: WTW engagement with asset managers

Engaging with asset managers is one of the key stewardship activities we undertake as we endeavour to effect positive change in our industry. We are aware that our size and influence comes with significant responsibility – and we take that responsibility seriously.

The main goals of our asset manager research process are to:

- Finding the best asset management organisations capable of delivering superior outcomes to our clients
- Work together with them to explore ways to better meet clients' evolving needs and industry best practice

Our manager research teams are busy engaging with managers frequently throughout the year; we highlight stewardship as an area when the industry can and should do more.

We also view our relationship with the asset managers we appoint 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.

Because of this we are keen to engage with laggards and help them to improve their practices. We will escalate issues where we do not feel progress is being made. If our engagement and subsequent escalation process does not lead to sufficient progress, we will look to downgrade or reject a strategy and allocate capital to other opportunities. Each year there remain some examples where we feel progress in too slow, minimum standards are unable to be met, or where we decided the gap between current practice versus best practice is unlikely to be closed through engagement.

We continue to see a good level of receptiveness to suggestions for improvements with the vast majority of asset managers making progress in 2022. Our researchers have deep specialist knowledge so are well placed to understand the areas of relevance for each asset class.

The three main priorities that define our asset manager engagement are:

- Sustainable investing (SI), including climate
- Culture
- Diversity, equity and inclusion (DEI)

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.

Focus on climate

Consistent with our net zero commitment, our main topic of engagement during the year continues to be around climate risk management. Asset managers are now fully aware of the importance we place on them to:

1. be able to measure, report and manage climate risk, and
2. use their influence to undertake stewardship that supports a Paris aligned climate transition

One part of our newly introduced minimum standards for managers is the assessment of their mandate-level and firm-level TCFD disclosures. These minimum standards have led to actions being agreed for managers for 2023.

Climate will continue to be a key topic of asset manager engagement in 2023 as we push for more and review the level of progress made.

Engaging with all asset classes

Listed equities are often the focus for engagement, but we also understand the importance of engaging within other asset classes. For example, influencing issuers is a key part of fixed income investing and we view effective stewardship as a critical component of successful private markets investing.

Please refer to Principles 7, 9, 11 and 12 for further details on this.

In 2022, our manager research team:

- Researched over 300 sustainability-themes strategies across all asset classes
- Approved 12 new strategies with our highest rating for use in client portfolios
- Conducted engagements with over 200 managers on over 600 products on sustainability and stewardship
- Rejected or downgraded 25 strategies based on sustainability concerns
- Introduced minimum standards on climate, modern slavery and engagement reporting for all our asset managers
- Updated and developed our annual manager SI questionnaire to reflect evolving client needs and regulatory requirements
- Collaborated with others to design and provide seed capital for 12 bespoke solutions where existing offerings did not meet our clients' needs
- Collected multi-dimensional diversity data on over 400 firms and 1750 products
- Introduced aligned DEI objectives between our manager research and portfolio management teams

We have included several case studies of our engagement with asset managers throughout our 2022 UK Stewardship Report.

Please refer to Principles 7, 9 and 11 for these.

Examples of things we monitor and engage with managers on:

- Their approach to climate reporting and target setting as well as how they consider climate change within their decision making
- Their voting practices
- Their culture and approach to DEI – both at firm level and at mandate level
- Whether they are actively involved with industry collaborative initiatives
- The extent to which they are providing relevant and up to date data across sustainability areas – from DEI to climate
- How they are engaging with the underlying assets and securities they invest in

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

We believe 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 2022.

Net Zero Investment Consultants Initiative (NZICI)
We continue to be members of NZICI, including on its steering committee and having contributed to the confirmation of its reporting framework for signatories in 2022. 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.

Net Zero Asset Managers Initiative (NZAMI)
We are signatories of 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 301 signatories with $59 trillion assets under management (as at December 2022).

We have continued to manage our discretionary portfolios in line with the NZAMI commitments and submitted our interim progress report and target setting during 2022, which was approved by the initiative. We also shared our work and experiences in a net zero surgery as a valuable forum for collaboration and sharing best practices.

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 several GFANZ workstreams. In 2022 we:

- Participated in the portfolio alignment workstream which focused on driving enhancement, convergence and adoption of portfolio alignment metrics across financial institutions
- Participated in the financial institutions workstream which was focused on developing guidance for financial institutions around using sectoral pathways for transition planning and implementation
- Seconded a colleague from our Climate and Resilience Hub (CRH) to GFANZ as the workstream lead for the sectoral pathways and real economy workstreams

Investment Consultants Sustainability Working Group (ICSWG)

WTW co-founded the ICSWG in 2020 and membership of this initiative has grown to nearly 20 organisations in both the UK and US groups. Both groups have established strong links with regulatory and oversight bodies, as well as the asset management and asset owner communities. Members of our team sit on the UK and US ICSWG's Steering Committees and the UK Raise The Bar workstream.

In 2022 we led the update of the ISCWG Engagement Reporting Guide, which we were involved in creating in 2021. Activities involved communicating with Investment Association members to discuss their feedback, exploring potential changes with members of ICSWG and finalising updates to make the guide publicly available on the ICSWG website.

We also provided material input to ShareAction in drafting its Best Practice Engagement Reporting Template. A number of our suggestions were incorporated in ShareAction's work which was published in 2022. This led to greater convergence between the ICSWG Engagement Reporting Guide and the ShareAction guide, which we believe helps the industry in terms of efficiency of asset manager/owner reporting.

During 2022, we also contributed to several more guides, consultation responses and engagements through ICSWG. This included:

- Inputting to the FCA Vote Reporting Group — this remains a work in progress but we expect it to lead to better standardised vote reporting
- Comments submitted to the US Department of Labor and the Securities and Exchange Commission
- ICSWG-US support for the ESG Data Convergence Initiative (EDCI) that was launched jointly by asset owners and managers to provide comparable, decision-useful ESG metrics for private equity
- Consultations on The Taskforce for Nature-related Financial Disclosure (TNFD); International Sustainability Standards Board (ISSB); and UK Department of Work and Pensions (DWP) Climate and Investment Reporting
- Providing material input to ICSWG's response to Make My Money Matter (MMMM)'s guide to tackling deforestation. We believe this provided helpful feedback to MMMM, who published a very thorough guide on the topic

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.

Please refer to our Spotlight page on TAI for more details on the team's research and activities in 2022.

TAI also produced an annual Integrated Report, which is available online, and contains more information about their work.

WTW Research Network

WTW Research Network was founded by WTW and is a well-established, not-for-profit, award-winning collaboration between science and the insurance, finance and risk management sector, going back to 2006. Long-term partnerships with more than 60 research organizations across the world help the Network confront the full spectrum of risks facing our societies.

WTW Research Network had a productive year in scientific collaboration, real-world application and impact across its research themes and geographies throughout 2022. Activities and outcomes are documented in their annual review, which can be found online.

One highlight from 2022 is the Challenge Fund, which is a chance to experiment with new ideas and methods to address topics that may be underrepresented. This year, partners were challenged to come up with ideas for short collaborative research projects focusing on the relationships with technology, and the influence of climate change on human health. This programme is also another opportunity to support early-career scientists.

A good example of the very applied nature of their research is their focus on key industry sectors. Their collaboration with University College London around the project "Towards Zero Carbon Aviation" seeks to provide science-based insights into the most cost-effective and realistic transition towards a net zero-carbon aviation system by 2050 through changes in technology, fuels, operations and changes in consumer behaviour. It also brings together all key stakeholders (aerospace industry, policy makers, insurance, investments) needed to be involved to make this transition possible.

In 2022, the Network helped WTW launched the first airport risk index first airport risk index, co-designed with the University of Cambridge, which can be used for benchmarking and understanding key risk drivers and vulnerabilities, supporting informed decision making for building resilience and business growth.

Principles for Responsible Investment (PRI)

We are a signatory to the PRI, and further information as well as our most recent Transparency Report can be found at www.unpri.org. (recognising that service provider reporting is currently on hold).

Our Head of Stewardship continues to serve as a member of the PRI Stewardship Advisory Committee.

In 2022, we contributed to focus group discussions around the PRI's future strategy and mission. We were also involved in numerous other parts of the PRI including:

- Providing guidance to Climate Action 100+ leadership
- Inputting to the drafting of PRI papers: Transition plan voting and Guidance on filing shareholder proposals with PRI responding to our comments in each case.
- Responding to a PRI Private Equity survey
- Providing suggestions to PRI of how to assess management ESG risk competency
- Providing feedback on the PRI's DEI due diligence questionnaire for institutional investors, inputting our approach and areas of best practice

In 2022 the PRI selected the Thinking Ahead Institute (TAI) to research and assess the appropriate level of resources that institutional investors should be prepared to dedicate to stewardship within their organisation. Please refer to the Spotlight page on TAI for more details on that work.

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 are active participants of the IIGCC, as well as its sister initiatives in Asia (AIGCC) and Australasia (IGCC).

We continue to contribute to the IIGCC's 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. In 2022 we presented to other IGCC members at an IGCC masterclass on our application of the Investor Climate Action Plan (ICAPS) framework.

We are also a member of the working group for net zero stewardship. As part of this we provided significant input to those drafting the IIGCC's Net Zero Stewardship Toolkit. A number of our suggestions were incorporated in this guide which was published in 2022.

Alongside this we responded to an IIGCC paper, Incorporating Derivatives & Hedge Funds into the Net Zero Investment Framework.

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 2022, CCRI and Mott MacDonald launched the Physical Climate Risk Assessment Methodology (PCRAM) — a practical guide for asset owners and investors to accurately understand the exposure of critical infrastructure to climate risks.

They also developed a ground-breaking technology to help countries most exposed to extreme weather events become more client resilient. Jamaica was the first country to complete development of its Systemic Risk Assessment Tool, designed by Oxford University in collaboration with the Jamaican Government, CCRI, and the UK's Foreign Commonwealth and Development Office.

CCRI also took part in WTW's global ESG In Sight digital campaign, discussing ways that asset owners can consider climate risks in their own portfolios.

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. This involves collaborating with other investors and providing constructive feedback and guidance to EOS across multiple topics.

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 Spotlight page on EOS and we would further highlight the EOS 2022 Annual Review. 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.

Stewardship is becoming increasingly complex as topics become more specialist and engagements need to build on existing frameworks or collaborations. In this environment we see significant value from using EOS as a specialist engagement provider.

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

In 2022 we continued our participation in The Diversity Project and in particular, we had a core input into the creation of its inaugural Diversity Project Pathway programme, which focuses on developing female portfolio managers within the investment industry.

Further industry engagement
Alongside being members and contributors to the above listed industry initiatives, WTW also proactively responded to various industry and government consultations and reports worldwide. Some examples of this activity in 2022 include:

- Providing feedback on the Securities and Exchange Commission's (SEC) DEI recommendations for the asset management industry in conjunction with the IIDC
- Our membership of The International Regulatory Strategy Group (IRSG)
- Inputted to an Investment Association (IA) and Pensions and Lifetime Savings Association (PLSA) paper: Investment relationships for sustainable value creation: Alignment between asset owners and investment managers
- Met with Make My Money Matter (MMMM) to discuss their research and guidance. We exchanged observations around what good practice standards should look like in areas related to sustainable investing

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)	Signatory	2021
Members or signatories		
Principles for Responsible Investment (PRI)	Signatory	2011
The Diversity Project	Co-founder	2018
Transition Pathway Initiative (TPI)	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 individually members of various working groups, committees, and boards across industry organisations. Some examples of this include:

- 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 investments in North America is a board member of the Institutional Investing Diversity Cooperative (IIDC)
- One of our Investments Directors in the US is an active member and has attended meetings of the Investment Diversity Advisory Council (IDAC)

Collaborative industry work led by the Climate and Resilience Hub (CRH)

WTW Investments benefits from WTW's in-house climate expertise and resource from the CRH. The CRH are heavily involved with a variety of initiatives, both in the investment industry as well as across other industries.

Below we have listed some of the key initiatives the CRH is involved with in varying capacities, as well as some key activities and outcomes from those initiatives in 2022.

- Member and secretariat of the Climate Financial Risk Forum (CFRF)
- Vice chair of the CFA Institute
- Member of GFANZ Steering Group for its APAC coal phaseout workstream and managed phaseout workstream
- Member of the Global Infrastructure Resilience Index's (GIRI) Expert Advisory Panel
- Chair of the Global Resilience Index Initiative, a multi-partner taskforce seeking to provide reference data on climate and natural hazard risks
- Chair of International Standards Organisations (ISOs) finance committee
- Inaugural member of President Biden's Emergency Plan for Adaptation and Resilience (PREPARE), launched at COP27
- Co-chair of the delivery group of the UK Transition Plan Taskforce (TPT)
- Signatory of the UN Sustainable Blue Economy Finance Principles

Some key outcomes from these initiatives in 2022 include:

- CRH submitted its inaugural disclosure report as a signatory detailing how they support the UN Sustainable Blue Economy Principles
- WTW, through CRH, was selected as one of the first private sector companies to support President Biden's landmark PREPARE initiative
- Became secretariat of the CFRF
- Seconded one of the CRH's senior director's to GFANZ as an Executive Director
- TPT published its Disclosure Framework, the Implementation Guidance, and a Technical Annex for public consultation

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 some examples.

Case study 1: Asset manager collaborative engagement – modern slavery

Background and engagement

An asset manager we work with became signatories of 'Find It, Fix It, Prevent It' in 2022. This initiative is convened and resourced by CCLA and overseen by an advisory committee. It brings together investors, academics and non-governmental organisations to share knowledge, set targets and monitor the progress of its initiative to eradicate modern slavery. The manager had already engaged with a number of its portfolio companies on this topic.

In 2022 the manager engaged with a British luxury fashion brand, putting questions from the collaborative group about modern slavery to the company. They found the responses illuminating.

Outcomes

The company acknowledged that modern slavery has been found in its supply chain. The company was discreet about the details of detection and remediation but reassured the manager that its policies are robust and always supported by NGO input, and that it is indeed incumbent on them to report that slavery was found and describe how it was fixed.

Following the engagement, the manager came away reassured by the emphasis the company places on the issue and the resources they continue to devote to the challenge.

Case study 2: Asset manager collaborative engagement – social impact of AI

Background
A global equity manager we work with engaged with a large technology company to promote strong risk controls around the social risks associated with machine learning.

Engagement
The manager started its engagement with the company in 2019 given it perceived some areas for improvement. In July 2021 the manager collaborated with other investors writing a letter focused on the 2020 Ranking Digital Rights Corporate Accountability Index. Key recommendations included the adoption of a human rights framework for developing and using algorithms and publishing more information on the scope of its human rights impact assessments. As part of the collaborative investor group focused on the human rights risks of facial recognition technology that the manager joined, they met with the head of office responsible for AI in 2022. During the course of the engagement the manager had multiple conversations with company representatives including with their ESG Engagement Director and their Vice President and Deputy General Counsel.

Outcome
Following progress at the company, the manager was comfortable that it had implemented strong policies including an appropriate governance structure, associated impact assessments and product features adjusted to avoid unintended consequences. The manager concluded that the company was a leader in their peer group.

Case study 3: Asset manager collaborative engagement – nutrition

Background
This engagement describes how a large index asset manager we work with leveraged a collaborative initiative to engage a food company.

Engagement and Outcome
Through the Access to Nutrition Initiative (ATNI) the manager co-led an engagement stream, alongside another asset manager, with a large Mexican based global food company. ATNI had noted that the company did not report against an independently developed and governed nutrient profiling model (NPM) but rather used its own internal NPM. The manager believed that employing an NPM which was independently developed, would enable investors to more easily compare similar companies' product portfolios.

Outcome
Following written communications with the company and follow-up meetings, the company stated that it will benchmark its own nutrient profiling system against an independent NPM. The company also indicated that it will undertake a third-party audit of the nutrition aspects reported in its annual report and, for every region in which it operates, identify specific micronutrients, develop a regional specific strategy (e.g. product reformulation) and set a price point which will enable 'accessibility and affordability' for the targeted population. The manager intends to continue its engagement and monitoring of the company.

Spotlight on: Thinking Ahead Institute

The Thinking Ahead Institute (TAI) is a global not-for-profit innovation and research membership organisation set up by WTW in 2015. Together with members it produces intellectual capital and practical tools that promote better investment strategies, better organisational effectiveness and improved societal legitimacy. Its mission is to achieve systemic change across the investment industry, so that the provision of new capital and the stewardship of existing capital adds long-term value to the end saver, wider society and the planet.

2022 marked the 20-year anniversary of the Thinking Ahead Group (WTW executive to the TAI) – 20 years of harnessing the power of collective thought leadership, ground-breaking research and innovations in the areas of culture, sustainability, climate change, value creation, organisational change and ESG.

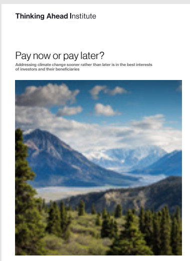
TAI's approach

The Institute's research agenda is driven by its members, and it publishes research papers, releases podcasts, and runs events to circulate knowledge and drive learning in the investment industry. It organises research working groups, seminars and industry body projects, recognising the importance of effective collaboration in stewardship. Further, it works with members to take action through strategic member engagement sessions, workshops and projects using proprietary tools.

Working together

TAI is key to developing and socialising our work on sustainability. It collaborates with industry bodies (e.g. PRI, IA, CFA, CAIA) and 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 influencing the system as a whole.

In 2022, TAI published the *Pay now or pay later* paper – a clear and thoughtful argument on the logic of addressing the climate challenge now.



Thinking Ahead Institute and PRI to create new global standard for stewardship resourcing

The joint TAI/PRI project is global and will include:

- An institutional benchmarking study to better understand current stewardship practices
- Examples of best practice stewardship
- A proposed calculation methodology to estimate the appropriate levels of resources that investors should be prepared to dedicate to stewardship activities for real-world impact

Find out more here.

2022 membership

- **Membership:** 60
  - Asset owners: 33
  - Asset managers: 27
- **Assets under Management:** c. US$16trn

Research themes

- Investment organisations of tomorrow
- Culture, the power of teams & future of work
- Stewardship
- Investment for tomorrow | environment & society

Activities over 2022

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

- The *Investing for Tomorrow (IFT)* working group was set up in 2020 to guide investors' behaviours to become a driving force in transforming the global economy in line with climate targets and societal goals. The IFT **environment** working group covered three topics over 2022: halving emissions by 2030, biodiversity loss and achieving organisational climate goals
- The IFT **society** working group was set up in 2022, and covered inequality, just transition and moving from interest to action on societal issues
- The *Investment Organisation of Tomorrow* (IOOT) working group has been co-creating a change model for investment organisations to keep up with the paradigm shift occurring in our industry. In 2022, the IOOT summit saw members coming together to discuss sustainability impact and universal owner principles
- TAI was selected by the Principles for Responsible Investment (PRI) to research and assess the appropriate level of resources that institutional investors should be prepared to dedicate to stewardship within their organisations
- Organised 10 events, published 13 papers, and released 21 investment insights and 6 podcast episodes

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 investing (SI) reports, and ultimately our overall rating and conviction in that strategy.

We do not specify to managers a single correct way to undertake escalation given the asset managers we work with have access to different engagement levers given their varying size, investment approach and asset class emphasis. Areas we examine to understand the adequacy of an asset manager's escalation approach include:

- the investment manager's stated process regarding when and how they will escalate engagement activities
- overall engagement statistics (volume and topics of focus)
- examples of substantial engagements to evidence escalation taking place
- for public equities, processes around using voting as an escalation tool and evidence of this activity

Escalation in our engagements with asset managers
During 2022, we engaged extensively with the asset manager community on SI, and as mentioned previously in this report, we engaged with over 200 managers across asset classes. We saw a good level of receptiveness to suggestions for improvements, with the vast majority of asset managers making progress in 2022. 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 2022 where we felt our minimum standards would not be met, progress was too slow or where we decided the gap between current practice versus best practice was unlikely to be closed through engagement. 25 managers were downgraded or rejected at a late stage for this reason in 2022.

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

Background
WTW has invested in this firm since 2019 and the first vintage of its Australian SME lending fund. At the point of initial investment the manager was small and at an early stage of its lifecycle, with limited commitment to considering ESG in the investment process. Based upon client demand and WTW's own commitments to ESG standards there was a dialogue with the firm about how it can improve on ESG analysis and engagement.

At the end of 2021 the manager began fundraising for the next vintage of the fund, Fund II.

There had been some progress at the firm with the manager increasingly incorporating ESG in the investment underwriting process but overall progress with engagement was limited and in our view the fund had become a laggard relative to peers.

Engagement
During the due diligence process for Fund II in 2022, WTW communicated that there would need to be commitments to further improvements, especially in engagement recording and reporting with underlying borrowers.

Following six months of discussions, the manager had made no significant progress towards implementing these. The manager had also become increasingly reluctant to commit to a timeline for this progress.

Outcome
Ultimately the rating for Fund II was downgraded. WTW will continue to engage with the manager with the ultimate aims of seeing improvements for the benefit of investors in Fund I. WTW would consider rating future vintages of the fund but on the condition that there is material improvement in the aforementioned issues.

Case study 2: Escalation by WTW – global equity manager

Background
WTW currently has 10 clients invested with the manager with roughly $1.5B in AUM. We have been concerned about its historical approach to SI and ESG issues.

Engagement
As with many fundamentally oriented managers, they have long stated a focus on companies with strong governance. However, even in that area the company was not able to provide substantive examples of engagement and there have been very limited discussions with companies around environmental and social concerns.

We have been feeding our concerns on these back to the manager for several years. In 2022 following a review of the manager's sustainable investing credentials, we highlighted to the manager concerns around what looks like a below average amount of engagement/stewardship from a value manager looking to invest in improving businesses. Following our review of the strategy we outlined to the manager our expectation to see stronger formulation of their ESG integration approach, with examples of the work they have undertaken and an expectation of more examples of proactive engagement with portfolio companies.

Outcome
The manager has made improvements including promoting and tasking an analyst with leading the firm's efforts on ESG integration. The firm has also provided their formal policies around ESG as well as DEI.

At our most recent meetings, they strove to provide more visibility around their ESG analysis. At our latest due diligence meeting, they allowed us to review their notes on recent ESG controversies involving their portfolio companies.

Although we acknowledge the progress that the team has made, we believe there is still areas of improvement. In particular, the follow up work and examples of tangible engagement from their ESG controversies notes seems somewhat limited in scope. We believe the manager is on the right path and will continue to work with them on further engagements.

Case study 3: Escalation by WTW – engagement to improve asset stewardship by an regional indexation manager

Background
This indexation manager predominantly services a local market where it has a large market share. The manager has historically been behind the curve on stewardship in our view with a small team relative to peers and limited breadth of coverage. A small formal stewardship team had been created, engagement efforts had been low in quantum, and voting activities had been heavily reliant on third party voting advisors.

Engagement
WTW engaged with the manager on these topics:

- Reliance on third party voting advisors, where votes tended to be cast in line with third party recommendations with limited review
- Small stewardship team relative to peers and stretched within their roles – they are involved in developing ESG methodologies for their in-house ESG solutions alongside stewardship responsibilities
- Collaborative engagements are used as the primary form of engagement, which can be more limited in their breadth and maturity vs larger peers; we also expect the manager to strengthen its direct engagement efforts.

Our engagement took the form of repeated discussions emphasising stewardship priorities with the managers during annual meetings and dedicated stewardship meetings as well as follow-up correspondence across the year. WTW highlighted that stewardship is an important aspect of our rating process and that without a greater focus on stewardship, clients seeking indexation managers with a stewardship focus would not see the manager being put forward in a selection exercise.

We also escalated our concerns to our client teams to reinforce the importance of stewardship activities and the managers progress here.

Outcome
The manager took the following major steps:

- Established a more bespoke voting policy in 2022, designed in conjunction with ISS (moving away from ISS's off-the-shelf SRI policy); however, there remains room for improvement in the review process of individual votes
- Established processes linking their voting and engagement activities
- Expanded stewardship resource, with 2 new team members hired in 2022 and a commitment to adding further members in 2023

Following our engagement, the manager has expressed to us a willingness to increase its direct issuer engagement program.

Case study 4: Escalation by asset manager – TCFD reporting

Background
This engagement describes the escalation approach of a large indexation asset manager we work with. As part of its fiduciary duty to preserve long-term value for clients, the manager has viewed climate change risk management as a key stewardship priority for many years.

Engagement
The manager – an early signatory of TFCD – notes that TCFD asks for board oversight of climate change, disclosure of scope 1 & 2 emissions, & targets to reduce and address those emissions. The manager expects companies in the major indices to align their climate risk reporting to TCFD expectations. Beginning in 2022 the manager took voting action against certain companies that failed to provide sufficient disclosure in accordance with the recommendations of TCFD. The manager viewed this as part of its commitment to holding portfolio companies accountable for reducing carbon emissions and as a natural escalation of its previously-stated expectations on climate-related disclosure and history of proxy voting and engagement on TCFD.

Outcome
The manager voted against directors at 150+ companies in 2022. They will continue to engage companies with a focus on understanding companies' plans and progress toward long-term climate goals.

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, letters to the board of directors, collaborating with investors or other stakeholders, questions or statements at annual meetings, recommending votes against annual meeting items, shareholder resolutions or open letters.

In EOS's regular reporting to clients, they provide such examples of escalation. In the EOS 2022 Annual Review, such examples include:

- Escalating engagement on deforestation to annual shareholder meetings at various food and beverage companies, alongside recommending votes again directors where necessary
- Successfully engaging with Mattel on product quality and safety concerns after several years of unresponsiveness
- Escalating issues around culture in US gaming company Activision Blizzard with formal letters to the board and detailed questions to directors and committee co-chairs

EOS recognise that working with other investors is critical to driving change. One example of this is the role that EOS play in Climate Action 100+, where they led or co-led collaborative engagements with 24 companies in 2022.

While they acknowledged the progress by many of the CA100+ focus companies to committing to achieve net-zero emissions, EOS recognised that companies still needed to match their long-term ambitions with aligned short-and-medium-term targets and disclose credible strategies to achieve these. They continued to push for progress in 2022 using escalation techniques such as:

- Meeting repeatedly with BP management, including the CEO, to challenge the strategy they had put forward
- Escalating concerns about TotalEnergies strategy by pre-declaring their intention to guide for a vote against the climate change progress report
- Escalating engagement with Volkswagen by supporting the filing of a shareholder resolution asking for explanation of lobbying activities. When this was rejected by the company, EOS voiced their support for a group of investors taking legal action to challenge the decision
- 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 are contained in our response to Principles 9 and 12.

The case study below provides an example of an escalation approach by asset managers we work with their underlying holdings.

Case study 5: Escalation by asset manager – climate targets and reporting

Background
One of our global listed infrastructure managers invests in a European railway firm who are undertaking an energy transition process to become more sustainable. However, there were no concrete goals for them to aim for.

The firm approached the manager with their initial Climate Change Plan but it did not meet the standards of the manager. There was a lack of progress towards setting specific goals due to the Covid-19 pandemic, management changes and Brexit, so the manager had to escalate the process through more intensive communication and greater assistance.

Engagement
The manager set out a requirement that the company must put in place a meaningful emissions target. An initial set of targets were set in 2021 but these were not considered adequate. The manager then approached the firm with an ESG toolkit of attributes and scoring methodologies to help show them what kind of goals they should be setting.

The manager also connected them to an external consultant who could guide them in the process.

Outcomes
In 2022 the firm made a commitment to produce TCFD-aligned reporting, to set out a SBTi-accredited interim emissions target and establish a goal to make progress towards carbon neutrality by 2050. They now report on emissions and are progressing towards their goals.

The manager as a result voted for the firm's climate proposal at the 2022 AGM.

Case study 6: Escalation by asset manager – climate scenario analysis; water and waste risk management

Background
An emerging market debt manager we work with engaged with a Chilean mining company to request more granular analysis of the financial impact of climate scenarios and analysis around potential financial risks related to the company's water and waste footprint.

Engagement
The manager started engagement with the company in 2020 including making recommendations on practices and disclosure related to TCFD guidance. Despite the company improving climate and environmental disclosure during 2021, the manager still believed that more should be done. Considering this, as an escalation measure, the manager decided to start, as Lead Investor, the first collaborative engagement initiative regarding climate and environmental issues for key Chilean mining companies.

This collaborative engagement was coordinated by the manager's ESG Team and Principles for Responsible Investments through its Heads of LatAm Ex-Brazil.

Under the collaborative initiative a letter, signed by the manager and several Chilean pension funds and asset managers as co-signatories, was sent to this company as well as other Chilean mining companies. The letter set out transparency and analysis requests around carbon emissions, water management and waste management. A number of engagement meetings between the manager and the company followed.

Outcomes
The company implemented the main recommendations given, and published details in its 2022 Annual Report.

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.

Whether investments are implemented through third party funds or directly held equities, we delegate stock selection and voting decisions to third party asset managers. Therefore, assessing the voting practices of our agents is an important part of our process. Our manager research team assessment is described below. This feeds into our sustainable investing (SI) reports which track and summarise various voting processes, resources and metrics, ultimately assigning a positive, neutral, or negative score on a manager's stewardship practices. Where we see potential for improvement in one of our appointed third party managers, we engage with the manager on the relevant issues to seek improvement. Further information on our SI reports is provided in 'Principle 6 (AM/AO), Principle 5 (SP) —

Client and beneficiary needs, and supporting clients' stewardship'.

In addition to the voting practices of the third party managers, we employ EOS at Federated Hermes (EOS) for several mandates to provide voting guidance to the underlying asset managers. Reasons not to follow this approach might include a) where EOS guidance would be unlikely to influence due to WTW client assets representing a small part of a wider pooled fund, and b) an asset manager operates within a specialist section of the market where we believe EOS's voting guidance is less additive.

We provide input into EOS's engagement plan and voting approach, alongside other EOS clients. You can see EOS's global voting guidelines here. EOS's key policy documents and approach to stewardship and escalation are available online here. EOS voting guidance incorporates the services of a proxy voting provider. Instead of using 'default' recommendations from the proxy voting provider, EOS shares its preferred voting approach each year with the proxy voting provider. The proxy provider interprets this to arrive at a custom policy which drives initial guidance for each vote. EOS then reviews this initial guidance from the proxy provider and may override based on the insights from EOS company engagements and the EOS team's general ESG expertise.

Our conviction, monitoring and ongoing engagement with EOS is described elsewhere in this report, including in response to Principles 2 and 8.

We regularly monitor the voting decisions each asset manager makes. Where EOS is employed in the mandate, we also monitor voting against the guidance by EOS. We will engage with or challenge the underlying asset manager where necessary. Throughout this process we pay particular attention to ESG related resolutions especially on the topic of climate given we, and many of our clients, have identified this as a key topic.

We are sometimes able to assist clients should they wish to implement a specific voting policy or direct voting. How this would work in practice depends on client specific goals, investment arrangements and the size of assets.

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

Our voting and engagement activity is disclosed to 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 custom 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

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 describe how we integrate ESG into credit research in Principle 7. Fixed income engagement case studies are provided in Principle 9 and Principle 11.

We expect all our managers to review the prospectus and trust deeds for all securities they invest in with respect to impairment rights and other issues. This is basic credit analysis and is important.

Where possible, the asset managers we use engage with issuers to amend document terms. This is most frequently done by private debt asset managers given they have greater influence. Whilst not yet common, we are seeing increasing use of ESG linked ratchets in areas like middle market direct lending. This will typically involve a circa 5-10bps increase (if specific ESG KPIs are not met) or decrease (if they are met). Examples of KPIs could be diversity targets at the board level / senior management or related to safety standards. Some managers in the direct lending space have committed to asking every prospective borrower for the inclusion of these, although given it is still not common practice and they will not commit to every loan including them.

It is more difficult to amend covenants in public issues, but the asset managers we use do engage at the time of issue. More commonly, they will decide not to invest in issues where they feel the covenants are insufficient. On occasion this has led to some covenants being amended. We review the managers' approach in this area as part of our due diligence.

Activities and outcomes

Given the scope of our advice and solutions to clients and the wide 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), a multi-manager, global equity strategy described in more detail in Principle 9, to illustrate the activities undertaken and outcomes in this area.

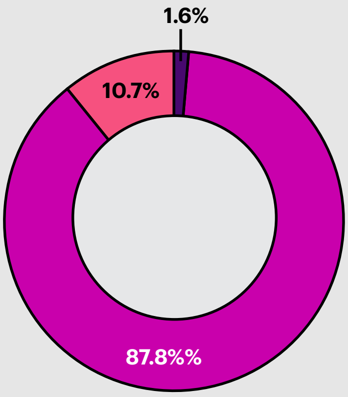
As described above, GEFF's underlying managers are accountable for voting all proxies, where appropriate, for shares they hold. EOS at Federated Hermes (EOS) provides voting guidance to the managers. Underlying managers retain the final decision-making authority on the vote.

In 2022, EOS also published a public declaration of their voting guidance to draw attention to what they regard as material issues at certain companies. All of these were in some way related to climate change or wider environmental issues.

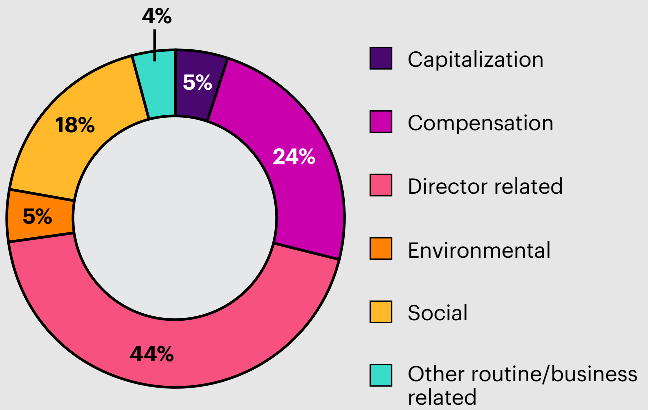
During 2022 we monitored the voting activity of the underlying managers in various ways using a proprietary tool. For example this highlights: whether all votes are exercised, voting on key topics of interest, voting vs EOS guidance, any conflicting votes between the underlying managers. In 2022 we improved this tool by: updating the voting categories including new mappings to ISS vote categorisation; enhancing our ability to search and report voting by category; adding additional granularity by category and by management/shareholder proponent; and adding additional error checking.

Of the total 2,516 votable resolutions during 2022, our managers voted against company management 11% of the time, predominantly around director-related, compensation and social issues.

Votable proposals during 2022:



Votes against management by topic during 2022



Source: WTW, ISS, EOS at Federated Hermes

GEFF voting statistics – 12 months to 31 December 2022

Number of meetings with eligible votes	149	
Number of votable resolutions	2,516	
Number of votes exercised	2,516	100%
Number of votes with management	2,209	88%
Number of votes against management	268	11%
Number of votes abstained	39	2%
Number of meetings with at least one vote against mgmt	92	62%
Number of votes contrary to recommendation	284	11%

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

In addition to the voting examples below please see Principle 9 (case study 6) and Principle 11 (case study 4 and EOS escalation section).

Company	Weight at vote	Topic	Why deemed significant	Voting action	Rationale	Outcome of vote
Pegasystems	0.5%	Director related	Votes against management	Against	"Against" –election of director. While the person at hand was a technology industry veteran and is well acquainted with the business, his most recent executive experience was some time ago. As such, the manager believed the company may be better served by appointing a director with more recent experience and positive diversity attributes. The manager notes that they will likely continue to vote against the candidate.	Pass
Alphabet	3.1%	Social – human rights	Votes against management	For	The resolution was regarding a report on the risks of doing business in countries with significant human rights concerns. The manger voted for the resolution, against company management, believing that the shareholder proposal promoted better management of ESG opportunities and risks.	Fail
Cigna Corp	1.5%	Social – gender pay gap	Votes against management	For	The manager voted in support of disclosure of data to assess Cigna's gender pay gap on a raw and adjusted basis; they communicated their intent to vote against company management ahead of the vote. The manager believed the data disclosure would positively support Cigna's global recruitment and human resources efforts. Diversity, equity and inclusion are important for the long-term success of a company for them to attract and retain talent which in turn is important for shareholders' interests.	Fail
Salesforce	1.5%	Social – racial equity	Critical factor influencing long-term performance and sustainability of a company	For	The manager voted for a resolution to oversee and report a racial equity audit. The rationale for voting 'for' the resolution was that it promotes appropriate accountability and incentivisation on gender and diversity. Despite the outcome failing, the manager will continue to consider proposals whether from management or shareholders which enhance company diversity.	Fail
Meta Platforms	1.2%	Social – child exploitation	Votes against management	For	The manager voted for the shareholder resolution for a report on child sexual exploitation online. The rationale for this was that the shareholder proposal promoted better management of a key ESG risk. This particular area was seen as material in terms of potential damage to the company's brand if the risk was not well managed. The vote received only 17% support but this figure was lower due to the level, and nature of, voting rights attached to insider ownership. Adjusting for this, the sizeable level of support from minority investors sends a signal to the company that many investors believe this is a material risk to manage.	Fail

Spotlight on: EOS at Federated Hermes (EOS)

EOS is a leading stewardship service provider – it specialises in helping institutional investors to be more active owners of companies and fulfil their fiduciary duty. It offers corporate engagement and proxy voting services and currently advise on over $1.34 trillion of assets under advice (as of 31 December 2022).

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

Our use of EOS highlights – and is a critical part of — our commitment to effective stewardship.

How we worked with EOS in 2022:

- EOS undertook corporate engagement and voting advice on a variety of our pooled fund solutions, covering both listed equity and some fixed income
- In addition to the bottom-up company engagement, EOS performed public policy engagement and advocacy on behalf of us and our clients
- Our Head of Stewardship continued to chair EOS's Client Advisory Council, and we engaged closely with EOS on their engagement agenda and prioritisation

During 2022, WTW held a meeting to give our delegated clients the opportunity to engage with EOS to challenge their work and communicate key priorities. The meeting included:

- EOS sharing engagement case studies, and explaining how their voting approach has evolved
- A deep dive discussion around climate engagement (a focus area for clients)
- Questions from clients (e.g. EOS's approach when companies are not responsive, EOS's work on biodiversity)

EOS's work in 2022

EOS's 2022 Annual Review summarises their approach, activities and outcomes over the course of the year.

Engagement and voting numbers

- Engaging with **1,138 companies** on **4,250 issues** and objectives
- Making voting recommendations on **134,188 resolutions** at **13,814 meetings**, including recommended votes against **24,461 resolutions**
- **33 consultation** responses or proactive equivalent
- **75 discussions** with relevant regulators and stakeholders

Priorities and themes

- Established **twelve engagement themes for 2023-25**, across broader topics of environment, social, governance and strategy, risk and communication. Priority themes remained climate change action, human and labour rights, human capital, and board effectiveness, and ethical culture, with three expanding themes: biodiversity, digital rights and tax
- **2,617** of the issues and objectives engaged in 2022 were linked to one or more of the UN SDGs

Work and initiatives

- Engaged companies across key topics – including Sainsbury's on the living wage in the wake of the cost-of-living crisis, Amazon on tax transparency, and BHP on addressing sexual harassment in Australia's mining industry
- Active participation in many collaborations including Climate Action 100+, Principles for Responsible Investment (PRI), and UN Guiding Principles Reporting Framework
- Received a 5-star PRI rating for its investment and stewardship policy, an A+ Influence Map Climate Engagement Score, and received a 1st in Scope's ESG integration ranking, all for the international business of Federated Hermes, recognising EOS activity

Below we have outlined three thematic case studies highlighting work undertaken by EOS in 2022 to address three different sustainability themes. This highlights the breadth of EOS's engagement with companies, policy makers and industry bodies to push for progress.

Case study 1 — thematic engagement by EOS: climate and net zero

EOS play an important role in the collaborative engagement initiative Climate Action 100+ (CA100+), recognising that investor engagement on climate change is important to help companies manage risk through a period of economic transformation.

Within that, EOS acted as the lead or co-lead engager on 24 companies in 2022. Some highlights include:

- Continuing to push for progress where companies lagged best practice, as well as welcoming the setting of new targets by others e.g. food company Danone setting Science-Based Targets initiative-validated emissions targets — something EOS have engaged on since 2019 through CA100+.
- A focus on 'say-on-climate' votes, particularly at European oil and gas companies. This required some intensive engagement to inform the analysis distributed to CA100+ signatories and EOS's vote guidance to clients. Examples of this extend from BP to Centrica to TotalEnergie, as well as mining companies Anglo American and Rio Tinto
- Intensified scrutiny and engagement with German automobile companies BMW, Mercedes-Benz and Volkswagen on aligning their public policy lobbying with their ambitions for achieving net-zero emissions

EOS appreciate that good progress has been made over the past five years of climate engagement, but many of the world's biggest emitters are still far from achieving full alignment with the goal of the Paris Agreement

Please refer to pages 16-19 of the EOS Annual Review for a more extensive review of its climate engagements with CA100+ in 2022.

Case study 2 — thematic engagement by EOS: digital rights

EOS have engaged with companies on digital rights since 2016. In 2022, they published their Digital Rights Principles to provide an engagement framework for investors in the tech sector and other data-reliant sectors. Some of the key focus areas are on privacy rights, freedom of expression, and risks related to the negative societal impacts of digital products and services with an emphasis on social media.

In 2022, EOS used the principles in their engagements with companies. They sent letters to some of the largest tech companies globally including Alibaba, Alphabet, Amazon, Apple, Meta, Microsoft and Twitter, introducing the principles. They made several requests from companies and subsequently met with most of them to reiterate the requests and track responses.

Outcomes from this include:

- Meta publishing its first human rights report. EOS have been engaging with the company on digital rights since the 2018 Cambridge Analytica issue
- Engaging with Tencent and Alibaba on complying with China's Personal Information Protection Law. Tencent made improvements to its private and security disclosures, but EOS have suggested it could do more. Alibaba have acknowledged the need to enhance its focus on these issues and have outlined plans to develop such a strategy
- Engaging with standards-setting organisations for digital rights such as the Global Network Initiative and the Ranking Digital Rights Index to influence their standards and inform our views on best practice

EOS will continue engaging on digital rights with these large tech companies in 2023. Please refer to pages 35-36 of the EOS 2022 Annual Review for further detail.

Case study 3 — thematic engagement by EOS: deforestation, biodiversity and sustainable food systems

EOS have responded to the challenges presented by a loss of biodiversity by engaging with companies on their impacts and dependences on biodiversity and encouraging them to develop strategies to avoid and mitigate their impacts on nature, whilst aiming for an overall net-positive impact.

They have developed a dedicated biodiversity engagement programme to accelerate and deepen the focus on biodiversity protection and restoration.

Some positive outcomes from 2022 include:

- EOS attended the Montreal COP 15 international negotiations in 2022. A senior EOS engager inputted to the drafting of the goals, advocating for an ambitious Global Biodiversity Framework. This was ultimately agreed in December 2022
- Companies starting to identify their impacts and dependencies on biodiversity and preparing for the Taskforce on Nature-related Financial Disclosures (TNFD)
- Posco International developing its sustainable palm oil strategy in accordance with Roundtable on Sustainable Palm Oil (RSPO) guidelines
- An impressive regenerative agriculture pilot by Carrefour, which EOS urged them to scale to a larger proportion of its supplier base
- Engagement with the chief sustainability officer of Yum! Brands to encourage a group-level target and strategy for sustainable proteins

Please refer to pages 27-29 of the EOS 2022 Annual Review for more context, examples and future plans.

Appendix – Disclosures and disclaimers

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 seventy one at the end, with a total of seventy nine 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 and Bonds from 1 January 2002 to 31 December 2021. '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 averaging all the relative returns for Preferred rated products in each quarter and then annualizing the average of all of the quarters in the required period. For example, to calculate a calendar year period we multiple the average Q1, Q2, Q3 and Q4 by four

Appendix – Disclosures and disclaimers

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 table 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 managedaccounts or investment funds. Investments cannot be made directly into a benchmark.

Proportion	Benchmark source	
	Override benchmark	Manager preferred benchmark
Equities	36%	64%
Bonds	45%	55%

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.

Appendix – Disclosures and disclaimers

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. WTW 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. WTW 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 WTW Group are required to follow them. Towers Watson Limited, Towers Watson Investment Management Limited, Towers Watson Netherlands BV and Willis Towers Watson GmBH 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.
- Individual versus firm – an employee's personal interest does or could conflict with the firm's interests.

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 WTW 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 WTW 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 WTW 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 WTW; 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.

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.

Carne Global Fund Managers (Ireland) Limited ("Carne") is the management company to the WTW Irish range of actively managed funds and has appointed TWIM as the investment manager to these funds. Carne was incorporated on 10 November 2003 under registration number 377914 and its registered office is at Iveagh Court, Harcourt Road, Dublin 2, Ireland. Carne is authorised and regulated by the Central Bank of Ireland

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

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