UK Stewardship Code Statement

Introduction

This statement refers to investment services provided to UK institutional asset owner clients ('asset owners') by Willis Towers Watson's investment line of business ('WTW'). 'Investment managers' refers specifically to investment managers dealing in listed equities given the focus of the UK Stewardship Code ('the Code') on public equities.

WTW recognises the Code as best practice and supports it through services to asset owners:

- Advisory investment services – helping asset owners to support the Code through education, training, investment manager research, reporting and manager engagement.
- Outsourced investment services – as per above but WTW takes on greater direct responsibility for the oversight of investment manager voting and engagement activity (WTW does not itself vote or engage with investee companies).

WTW recognises that it has significant interaction with investment managers and asset owners with attendant ability and responsibility to encourage and improve processes in respect of stewardship.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

WTW sets out its approach to stewardship in this statement which is available publicly.

WTW views good stewardship as an important way of helping to ensure the effective functioning of the financial system and enhance the value of investments for end beneficiaries.

Against this background, WTW focuses stewardship efforts and services in three principle areas:

> *1. Promoting effective stewardship and responsible ownership practices amongst its asset owner clients*
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> WTW provides education and training for asset owners on what effective stewardship involves, the benefits of stewardship, and how best to approach it given their particular circumstances. WTW encourages its clients to sign up to the UK Stewardship Code.
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> *2. Monitoring, reporting and engaging to understand and improve the stewardship practices of investment managers*
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> WTW provides information, research and reporting to enable understanding of the stewardship practices of investment managers. Broadly speaking, for equity managers this considers the approach to integrating Environmental, Social and Governance (ESG) factors into their process, voting policies and activities, and engagement policies and activities. Further detail on the points covered is set out later in this document.
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> WTW communicates expectations of investment managers with regards to stewardship activities. This includes adherence to the spirit and guidance of the UK Stewardship Code or other local codes where relevant. Expectations are set being mindful of context, for example investment managers with larger ownership stakes are often better placed to efficiently undertake effective engagement.
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> In certain cases where the approach to stewardship is considered to be below good practice WTW will engage with the investment manager to suggest improvements.
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> *3. Policy-level engagement, promoting a better functioning investment system for the benefit of all users*
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> WTW believes that improving the overall investment ecosystem will be beneficial to its clients and other investors, and that collaborative and policy-level initiatives have a positive impact. Examples of work conducted are included later in this document under Principle 5.

In circumstances where WTW provides outsourced investment services to asset owners, it delegates day-to-day implementation of its stewardship activity to investment managers. WTW believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of these investments.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

WTW expects investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of their clients are prioritised.

WTW conducts monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. For equity investment managers this 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; and
- a summary of voting and engagement activities in a consistent form.

WTW has a conflicts of interest policy as part of its general code of conduct and business ethics which dictates that clients' interests will be prioritised above others.

Within the provision of outsourced investment services for specific instances where WTW has the ability to hold assets directly, the team responsible for investment decision making has its own conflicts of interest policy to supplement the firm-wide policy noted above. This covers how conflicts are identified, managed, disclosed and monitored. 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 the Conflicts Inventory.

Principle 3 – Institutional investors should monitor their investee companies

WTW expects equity investment managers to monitor investee companies. Issues to be monitored vary by investment strategy, but typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. A key element of our overall rating of many investment managers is the quality and depth of their understanding of the long-term risks investee companies face. WTW encourages investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code in the case of UK companies and local equivalent codes in the case of non-UK companies.

WTW conducts monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

WTW does not expect itself to be made an insider given voting and engagement responsibility is delegated to external investment managers.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities

WTW expects its 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.

WTW conducts monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. For equity investment managers this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity; and
- the estimated performance impact of engagement on the strategy in question.

Given WTW's role, escalation of our engagement activity occurs at the investment manager level, not the company level. Through the reporting process outlined in this document WTW identifies certain investment managers where stewardship processes could be improved or where attention to particular investee company risks seems inadequate. In such cases specific actions are determined to engage those investment managers either directly or as a recommendation to an asset owner to do so.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate

WTW encourages investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

WTW conducts monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. For equity investment managers this includes consideration of:

- whether the investment manager's policy specifies their stance on collaborative engagement activities; and
- the extent to which the investment manager contributes to these efforts.

WTW believes that improving the overall investment system will be beneficial to its clients and other investors, and that collaborative and policy-level initiatives can have a positive impact. Some examples of work conducted in this area include:

- Ongoing work by the Thinking Ahead Institute to effect positive change for the industry as a whole. Sustainable investment, including corporate governance, is one of three core themes for 2016.
- Employing the services of, and working with, Hermes EOS to undertake policy level engagement.
- Willis Towers Watson Japan published a book related to Stewardship Code & Corporate Governance Code and was one of the first institutions to support the Japanese Stewardship Code.
- Hosting Measuring What Matters, a high-profile event in July 2016 on behalf of the Accounting for Sustainability Group which was set up by HRH the Prince of Wales.
- '1 in 100 Initiative': working with the G20 Financial Stability Board, Bank of England, US Treasury, IAIS and other authorities to propel reform on the disclosure of near-term climate- and natural disaster-related risks by financial institutions culminating in the creation of an FSB climate risk disclosure task force led by Michael Bloomberg (announced at the Paris Climate Summit in December 2015).

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity

WTW expects 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.

WTW conducts monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. For equity investment managers this includes consideration of:

- whether the manager has a voting policy and, if so, what areas are covered;
- whether client-directed voting policies can be applied;
- the level of voting activity which is disclosed to clients and the level 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; and
- whether a third party proxy voting service provider is used and, if so, how.

Within the provision of outsourced investment services for specific instances where WTW may hold investments directly, stock lending is prohibited at both the underlying manager and custodian level. Accordingly there is no situation where the lending of stock and failure to recall before voting dates can interfere with the exercise of voting rights by the investment managers.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities

WTW expects investment managers to disclose their voting and engagement activity publicly in an appropriate format, unless from engagement situations where disclosure may be counterproductive to the engagement.

WTW conducts monitoring of investment managers which summarises ESG integration and stewardship activities and highlights areas of potential concern. For equity investment managers this includes consideration of:

- the level of transparency offered by the individual investment managers;
- the level and frequency of standard regular reporting offered by the individual investment managers; and
- whether the manager has any independent process assurance and whether this is available to clients.

WTW retains a record of its engagement activity with investment managers. This record, as well as information around broader collaborative engagement efforts, is made available to clients.

This statement is reviewed regularly and updated as necessary.

For further information please contact:

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