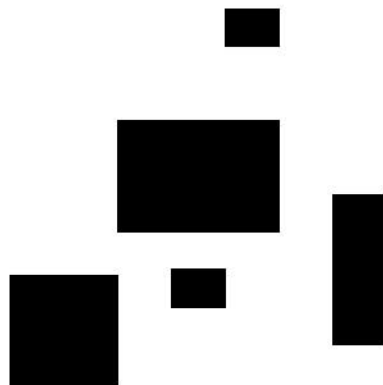


Sustainable investment in action

Practical solutions for investors

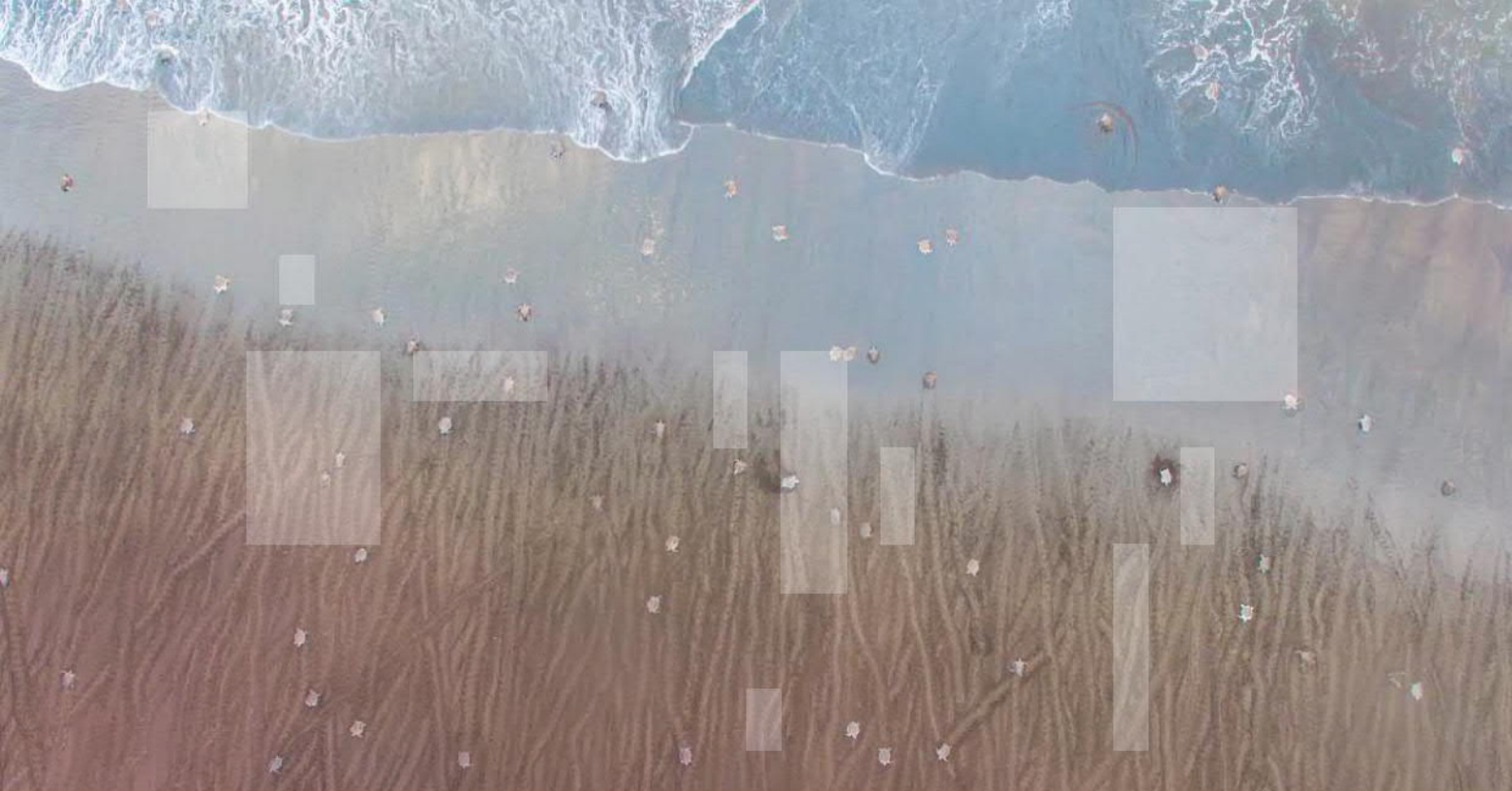
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Thank you to our contributors:

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Sustainable investment is about improving investment outcomes – better returns and lower risk. Investors are now rightfully recognising its central importance in their long-term success, and taking the opportunity to embed it within their investment processes.

We wrote last year that it was “Time for everyone to translate thinking into action”¹ and this update showcases some of what we have been doing to deliver on that for our clients. The strengthening regulatory climate has added to the urgency of taking action, but the positive experience of leading asset owners who are successfully integrating sustainable investment is a great boon to everyone on the sustainability journey.

In the following pages we highlight:

- How we have captured long-term sustainability trends in private markets allocations
- New tools we have developed to integrate sustainability in risk management and asset allocation
- Our expanding partnership with Hermes EOS to strengthen our best-in-class solutions
- An ESG-integrated core equity solution we helped design for our clients
- A deep-dive research project into current stewardship practices

Putting this together, we have a way for all investors to address their sustainability needs. We are fully committed to delivering this into client portfolios, as well as continuing to research and develop more solutions to drive the industry forwards.



Craig Baker
Global Chief Investment Officer



Adam Gillett
Head of Sustainable Investment

¹www.willistowerswatson.com/en-GB/insights/2018/06/sustainable-investment-time-for-everyone-to-translate-thinking-into-action

Real asset solutions: Compelling sustainable investments

Here is a sample of investments we have made as part of our secure income and multi-asset pooled fund solutions. Some of these investments were also made by our segregated delegated accounts, and indeed in some cases also by our advisory clients. Each example is a compelling investment in its own right, supported by long-term

sustainability trends, but as a set these investments benefit further from having attractive societal and environmental impacts. It is worth noting that not all of these required a long lock-up, and even those that did are often tradeable on the secondary market, opening up targeted sustainability opportunities to most investors.



Advanced greenhouses for more sustainable agriculture

- Providing project finance for advanced greenhouses in North America, which give numerous environmental benefits including improved crop yields as well as reduced water consumption, soil erosion, use of chemicals and transportation
- \$40m committed with a conservative return expectation of 10-15% IRR²
- Specialist manager focused on technology-driven agriculture in an emerging sector of controlled food production

Compelling environmental benefits and use of technology

Expected 10-15% IRR

Committed capital of \$40m

Transforming waste into energy

- The UK's largest Energy From Waste (EfW) project – incinerating non-recyclable waste to generate electricity
- Co-investment into a unique EfW asset with privileged London location and access to the River Thames
- Inflation-linked returns in an asset with very high barriers to entry, helping to tackle the UK's energy and recycling challenge
- Highly experienced management team with leading ESG practices and industry engagement

Unique asset with leading management team

Anticipated 5-10% IRR

15-year contractual cashflows



Co-investment into a leading medical training institution

- A for-profit educational institution specialising in medical training which is the largest provider of graduate physicians in the US
- Addressing the chronic skills shortage of suitably qualified medical professionals available to meet increasing US demand
- Co-investment with a differentiated private equity firm focusing on long-term, actively owned investments
- Strong inflation-linked returns tied to key emerging educational and healthcare trends

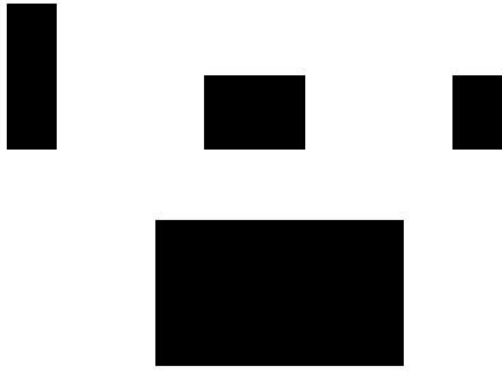
Enrolment, revenue and EBITDA have grown every year for the past 15 years

Provided 3x more work placements than any other US medical school in 2017

33% historic IRR

2.4x historic MOIC³

²IRR: Internal Rate of Return
³MOIC: Multiple on Invested Capital



Investment in Japanese solar farms with stunning returns

- Global solar capacity has quadrupled in the last five years with the third largest increase in 2017 coming from Japan
- Co-investment with one of Asia's largest independent infrastructure managers who specialise in the development, construction and operation of solar projects across Asia-Pacific
- Strong returns of 70% IRR and 3.1x MOIC from diversified overseas asset, alongside environmental benefits of renewable energy investment

Manager has over 2.4 gigawatts of existing generation capacity, and over 4.2 gigawatts under development

70% IRR

3.1x MOIC

Temporary accommodation for vulnerable families

- Targeting an attractive and under-explored real estate sub-sector to deliver strong inflation-linked returns supported by the government
- Negotiated attractive fee schedule and fund terms to ensure robust investor governance rights
- Strong inflation-linked, government-supported returns delivering wider societal benefit in helping to address the UK homeless challenge



Target net return ILG⁴ + 5%

80,000 UK households in temporary accommodation

Expected distribution yield 5%



Supporting business resilience and climate preparedness

- Advancing corporate resilience and business preparedness for climate change and volatile weather patterns
- Long-standing investors in this manager's products indirectly financing and providing insurance against natural disasters and weather volatility
- Excellent diversification and risk-adjusted returns from insurance-linked investments
- A market leading manager with constant innovation in weather-related insurance products
- Leveraging our internal insurance expertise as a firm to deepen our manager research in niche areas

Over 20 years managing insurance-linked investments

Market leading research

Alternative capital at record levels in 2018

⁴ILG: Index-linked Gilt



Venture capital to harness world-leading scientific research

- Leveraging the intellectual power and capacity of the University of Oxford faculty and resources, alongside a high quality and skilled investment team to turn “a thousand years of world-beating science into the next generation of world-leading companies”⁵
- Co-investment with a venture capital firm to finance businesses and projects coming from the University of Oxford’s scientific and medical research departments
- Investing in difficult-to-access, unique and innovative entrepreneurial projects and start-ups

World-renowned academic research

Co-investment with prestigious fellow investors⁵

£15m capital allocation

Specialist social housing for disabled adults

- Providing long-term capital to a developer and manager of social housing projects to address the chronic shortage of affordable specialist housing
- Co-investment to provide specialist supported housing in the UK
- Worked with a manager to structure a fund with attractive fees and governance on an exclusive basis, including being on the investor advisory board
- Strong inflation-linked returns while also contributing to wider societal benefits

90,000 individuals with specialist supported living requirements

Co-investment with attractive fees and investor governance

Inflation-linked UK property market exposure



Investing in UK solar farms

- Invested with one of the UK’s largest independent managers sourcing capital for over 60 UK farms and handling 470 megawatts of energy generation capacity
- Members of the investor advisory board to provide in-depth ongoing stewardship
- Strong inflation-linked risk-adjusted returns, while also contributing to wider environmental benefits and the UK decarbonisation agenda

Manager with 470 MW generation capacity at 60+ solar farms

Record 30% share of UK electricity came from renewables in 2017

Unlocking hydropower energy in Scotland

- Hydropower is the largest global source of renewable energy
- Co-invested in a Scottish hydropower development working with a specialist mid-market European infrastructure manager
- Low volatility inflation-linked returns generated a net IRR of 37% when sold to a strategic buyer for 40% above the holding value
- Asset simultaneously contributing to the UK’s renewable energy agenda

Hydropower produced around 17% of the world’s electricity in 2017

37% net IRR

Investment sold to a strategic buyer for 40% above holding value



⁵www.oxfordsciencesinnovation.com – Fellow investors include the Wellcome Trust, Temasek and Tencent.



Early mover investments in government-backed social infrastructure

- Seed and subsequent fund investments with skilled manager aligned to UK National Infrastructure Delivery Plan to invest over £100 billion in housing and social infrastructure by 2021
- Seat on investor advisory board, negotiated improved fund terms, significant fee discount and seed investors in first fund
- Stable contractual cashflows in long duration inflation-linked assets, performing in line with target gross IRR of 10.5%, whilst also providing tangible wider economic and societal benefits

Aligned to £100 billion+ National Infrastructure Delivery Plan

Seed investor of 30% of initial fund and seat on investor advisory board

Preferential fee deals negotiated

On track for target gross IRR of 10.5%

Co-investment opportunity in early stage cybersecurity venture capital

- Supported by significant tailwinds from technology and digitalisation, co-invested with a venture capital specialist with a strong 20-year track record in cybersecurity
- High expected returns from privileged access to niche venture capital opportunities linked to emerging risks and technological change
- Cybersecurity continues to represent a growing threat globally with cybercrime cost estimated to reach £5 trillion by 2021
- Benefitting from our firm's cybersecurity and insurance insights and expertise to strengthen our research

Manager expertise with 27 cybersecurity investments and 16 exits since 1998

Early stage co-investment negotiated



Sustainable investing should be ingrained in real asset investing

In the case of real asset strategies such as property, infrastructure and agriculture, we believe sustainable investing is a natural part of being a successful long-term investor. For example, good property managers understand that developing an energy-efficient building will lead to a broader pool of potential tenants as well as better and less volatile occupancy rates than less efficient buildings. However, even for those investors struggling with this mindset, legislation is now forcing their hand, such as the Energy Act in the UK.

Social infrastructure projects, like the building and maintenance of a school, are long-term projects involving working with government bodies, developers and contractors for the collective need of local communities. Given the investments are asset-based in specific locations, technical, environmental and community impact due diligences are often embedded as part of the main investment thesis. It is vital to make sure these kinds of

long-term investments have the support of the nearby community who can help with looking after the assets, as opposed to having a hostile community who can potentially become a threat to the security of those assets. Therefore some of our infrastructure managers have run charity programmes or education programmes in the areas where their assets are based which could have a positive impact in the community, especially when they are in remote rural areas in a developing country.

Stepping up on governance

In several investment cases, we have advocated for, and the investment managers agreed to, one or more independent investment committee members being appointed as part of the governance oversight. These independents have veto rights to stop an investment being made by a fund, and can bring important insight in considering non-financial aspects of investments such as reputational impacts. We believe that improved governance structures directly improves the sustainability of returns in these types of strategies.