Willis Towers Watson

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Department for Work and Pensions (DWP) consultation on clarifying and strengthening trustees' investment duties

Background

Willis Towers Watson is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. Willis Towers Watson has over 40,000 employees serving more than 140 countries.

Within the investment line of business, we have over $2tn in assets under advice and over $120bn in assets under management, serving over 1,200 institutional clients[1]. We provide a range of solutions that offer expertise in risk assessment, strategic asset allocation and investment manager selection.

Overall comments

We believe that sustainable investment is central to successful investment outcomes and should be a key part of all asset owners' investment approaches. In line with this, we welcome the DWP's proposals in full and agree with all the suggestions outlined. We recognise the proposals as a meaningful evolutionary step in clarifying and strengthening trustees' responsibilities with respect to sustainable investment that will help drive positive change in this important subject.

[1] Source: Willis Towers Watson. All figures are subject to change. Asset under management as at 31 March 2018.

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We believe that the proposals are sensible both in terms of the timelines they suggest and the scope of what they cover, and we would very much support seeing these translated into regulation following due process.

It is worth noting in addition, that best practice schemes are already following most, if not all, of these proposals, which lends further support to what is being proposed. However, as referenced in the consultation, care needs to be applied when weighing the benefits of these requirements against the governance implications, particularly for smaller schemes. In this context, we note that smaller schemes' trustees are often very reliant on the approaches adopted by bundled providers and therefore these entities should be pressured to take these considerations as applicable into account in the governance policies of their fund ranges.

Whilst we agree with all the proposed changes, we highlight the following aspects which we believe are particularly important elements:

1 ***In respect of question 2:*** The proposed wording that requires trustees to set out how they take account of "financially material considerations, including (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations", in our view, provides welcome clarity and unambiguous alignment of these issues with fiduciary duty. We fully agree with this stance, and believe such wording will help address and reduce confusion that has historically existed amongst many trustees. Importantly, it also marks a shift from the more optional language of existing regulation where trustees must state the extent, *if at all*, to which ESG (and/or ethical) considerations are taken into account.

2 ***In respect of question 5:*** We agree that stewardship is an important part of this topic, and that asset owners have a key role to play in it given their position within the investment chain. We also welcome the recognition of different scheme circumstances, and what might constitute an appropriate stewardship approach in these various contexts. However, we would note that stewardship can and should apply to asset classes beyond public equity (where it has often been focussed), and that careful wording is required to avoid narrowing the subject to this single asset class.

3 ***In respect of question 6:*** We agree with the use of the Statement of Investment Principles (SIP) to set out the trustees' approach, and believe that the additional requirement to produce an implementation report for relevant schemes is an important step in introducing increased accountability. Further, whilst we understand the rationale for this proposal not currently covering Defined Benefit (DB) schemes, we would, however, see the benefit of this and therefore support the requirement being extended to include DB schemes.

4 ***In respect of question 7:*** We are very supportive of the suggested measures for relevant schemes to publish the SIP and implementation report online and highlight their availability to members, as we believe that transparency and disclosure are vital elements of a well-functioning investment system that should be encouraged, and this proposed disclosure method will be more effective for members in particular. As with the implementation report, we understand the rationale for not applying this requirement to DB schemes, however we see merit in so doing and would therefore support this requirement being extended to include DB schemes.

5 ***In respect of questions 2 and 5:*** In respect of relevant schemes, we strongly support the focus on the default strategy and the proposed requirement to set out how trustees take account of financially material considerations, including ESG risks within this strategy.

6 ***In respect of question 3:*** We welcome the proposal that trustees should prepare a separate statement on how they take account of members' views. However, we believe that this requires careful wording and guidance given that it is a subject which has led to significant confusion and difficulties for some trustees and schemes in the past. It is important to emphasise, as this consultation does, that this proposal wants "to avoid giving trustees any impression that investments should be made in line with scheme members' preferences". Further, it is important to recognise the difficulty of eliciting member engagement and ensuring that views received by the trustees are representative of the membership as a whole. Therefore, we recommend:

a Careful consideration of what appropriate statements on taking account of members' views could involve – worked examples to show the extent of disclosure required may best illustrate this. Such a list of requirements could include:

   i Disclosure of preferred contact method, including a designated trustee if appropriate

   ii Outline of the process by which views are considered

   iii Timeline of consideration and response

   iv Annual disclosure of member views received and actions undertaken

   v Proactive process undertaken to elicit member views (if any)

b Greater clarification on what may constitute sufficient evidence or data for trustees to form an opinion on what views members "have, or are likely to have". Again, case studies or worked examples may best illustrate this point, and could include:

   i Appropriate sources of public information, including opinion polls

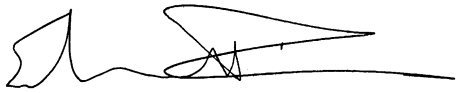
   ii UK Government stances, including international agreements it has signed

   iii Process to deal with contrasting member views

   iv Process to deal with low levels of engagement

7 ***In respect of question 9:*** We recognise the need for appropriate enforcement, but note that the approach needs to strike the right balance between improving standards of governance while being aware of the deterrent effect on becoming a trustee that penalties may have.

We appreciate having the opportunity to respond to the consultation, and would welcome any further engagement if appropriate.



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