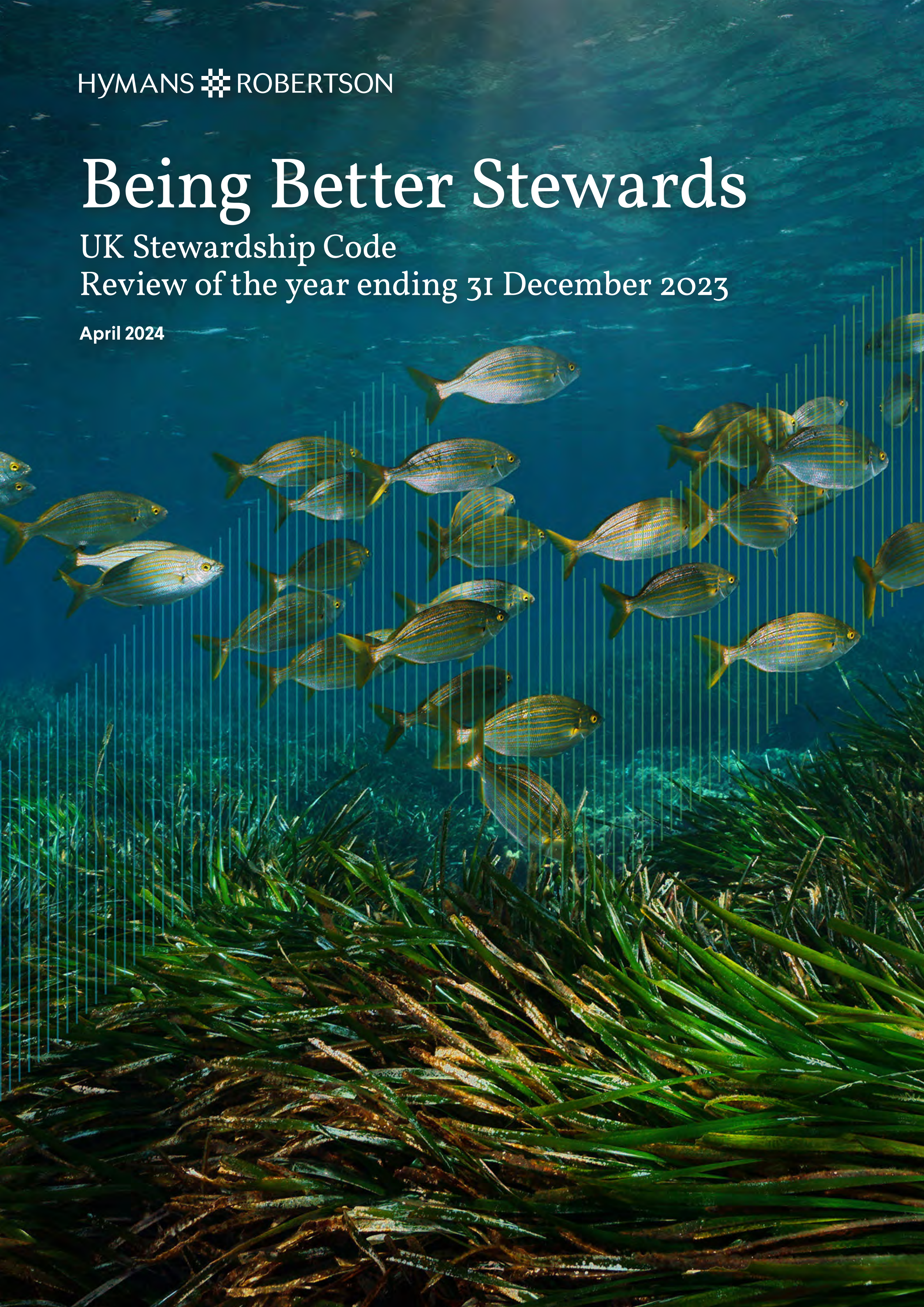
HYMANS ROBERTSON

Being Better Stewards

UK Stewardship Code
Review of the year ending 31 December 2023

April 2024



Introduction

Be bold. Be ambitious. Create change.

Our late colleague, Patrick Bloomfield, expressed these sentiments at the first meeting of our Climate Change Working Group several years ago. They're reflected in what we do, and we've built them into our updated Responsible Investment (RI) Mission Statement. To achieve the goal of investment decision-making "properly and effectively considering the positive and negative impacts on people and planet", we know we need to continue to be the instigators of positive change and to have the courage to challenge, even when it may be difficult to do so.

Over 2023, we were delighted to be successfully certified as a B Corp, a designation that means we meet high standards for social and environmental impact, and that we've made a legal commitment to stakeholder governance. This was a real milestone for our firm, but just the start of our journey as we step into a framework for continuous improvement. Our commitments as a B Corp align with our updated RI Mission Statement and put us in the position of being able to lead.

We continue to embrace the broader principles of sustainability across all that we do, achieving a Gold SKA sustainability accreditation for our London office refurbishment, reducing our core carbon footprint by 57% compared to our baseline year emissions and retaining our Gold TIDE accreditation for our Diversity, Equity and Inclusion initiatives. With over 1300 people now within our firm, the impact we can have continues to build.

Our Responsible Investment resource grew over 2023, as we finished the year with an extended team of 19. This team has supported clients on a broad range of activity, including helping the second wave of pension scheme clients meet their TCFD reporting requirements.

The review of our RI Mission Statement also consolidated our ambitions around three key pillars of Achieving net zero, Being better stewards, and Creating positive impact. This ABC of responsible investment will continue to guide our research and advice to clients, but also defines the outcomes that we want to achieve and be judged against.

In addressing climate issues, we've developed and encouraged our clients to put in place Climate Transition Action Plans, capturing the goals they want to achieve and the actions they will take to fulfil these goals. It's encouraging to see growing numbers of our clients taking steps to set meaningful climate goals.

We've also led the way in developing our approach to climate scenario analysis through the development of climate narratives. In response to some of the external challenges, we've been open in inviting scrutiny of our approach, with the goals of making our own methodology better while also supporting broader industry change.

Our stewardship team formally launched our Manager Engagement Programme, which is focused on our largest asset manager relationships, as we seek to build accountability and create a new mechanism through which we can support our clients' ambitions. We were also pleased to support a number of our clients in demonstrating their own stewardship commitments through the Stewardship Code, including one client that became the smallest asset-owner signatory.

We appointed an impact lead during the year and have been happy to support several clients in building up their impact approach while developing our own methodologies for measuring impact. We see this as a growing area of importance over 2024 as changing economic conditions and evolving government policy create a renewed focus on how pension scheme assets are invested.

Regulatory change has also continued to impact our work, with the FCA clarifying its sustainability labelling regime. We've developed our own framework to help us assess sustainable products, applying this within credit mandates as we help clients continue to evolve their strategies. Further, many pension funds had to submit their first TCFD reports during the year, and we've helped multiple clients to complete their documents. However, we recognise that the focus needs to be on action rather than disclosure.

We therefore continue to believe that collaboration is a core means of creating change, and we've been pleased to partner with a range of organisations over the year. We've worked with others on topics ranging from deforestation, ocean biodiversity and climate tipping points to the development of sustainability standards in risk transfer and manager engagement reporting.

Looking ahead to 2024, our efforts will remain focused on our core pillars of climate change, stewardship and impact. Within these areas, we see themes such as nature and biodiversity alongside the continued development of artificial intelligence as areas of ongoing activity. We look forward to continuing to work with our clients, and all our other stakeholders, to be instigators of positive change.

For and on behalf of Hymans Robertson LLP

April 2024

Shireen Anisuddin
Managing Partner

Simon Jones
Head of Responsible Investment

David Walker
Chief Investment Officer

Principle 1

Signatories' purpose, strategy and culture enable them to promote effective stewardship

We build better financial futures for millions of people across the UK. With over a century of history, we provide services to organisations and individuals across pensions, investments and insurance.

Our firm serves three markets:

- the pensions market, where our services include actuarial, pensions consulting, investment consulting and third-party administration
- financial services, where we provide advice and support to insurers and other financial institutions to address longevity, risk, capital management and investment, and, through Hymans Robertson Investment Services (HRIS), discretionary fund management services to independent financial advisers (IFAs)
- personal wealth, with financial wellbeing advice and guidance to individuals.

Our business is a Limited Liability Partnership, wholly owned by our working partners. As we're an independent partnership, our clients' needs dictate our priorities. We pride ourselves on our collaborative, personal approach and place our clients, not shareholders, at the heart of our business. We operate primarily in the UK, but we're a member of the global Abelica network.

Our purpose is to help businesses, pension funds and financial institutions create better financial futures for themselves, their employees, members and customers. This purpose is captured in our mission statement:

"together, building better futures".

Our culture embeds four key values: friendly, partnering, confident and straightforward. We're committed to developing our caring, professional community where everyone can be themselves and reach their full potential, while contributing to the continued success and development of the firm.

Our values

We're partnering
Our relationships are built on trust, collaboration and a shared commitment to helping everyone achieve their goals

We're straightforward
we're open, transparent and communicate in a clear and accessible way

We're friendly
We're approachable and genuinely care about each other and the work that we do

We're confident
We're assured, decisive and have a clear purpose – together, building better futures

How our culture enables effective stewardship

A core theme for our business is engaging with our staff, linking corporate social responsibility to stewardship this way, with a strong focus on DEI and wellbeing. We've also recognised the importance of our planet through our Climate Pledge. By embedding these issues into our thinking and the way in which we run our firm, we can ensure that our staff – those who directly work with our clients – can point to the actions we've taken as an example of leading practice. We report separately on much of this activity within our annual Purpose with Impact report, but we share some of the highlights below.

Becoming a B Corp

In 2023, Hymans Robertson achieved B Corp certification and joined the B Corp Movement. Widely recognised as a 'gold standard' for social and environmental performance, B Corp certification is a rigorous and comprehensive process, which is overseen by B Lab – a non-profit network dedicated to transforming the global economy to benefit all people, communities and the planet.

To become certified, businesses must demonstrate their performance and credentials across five key areas – Governance, Workers, Community, Environment and Customers – which are measured and evidenced via B Corp's Impact Assessment platform. B Corps also make a legal commitment by changing their corporate governance structure to be accountable to all stakeholders, not just shareholders.

Diversity, equity, and inclusion (DEI)

Combining different perspectives, styles, skills, life and work experiences are the magic ingredients for a rewarding career for our people, better outcomes for our clients and becoming the firm we aspire to be. We're committed to ensuring that everyone working with or for Hymans Robertson is treated fairly, equally and equitably. We work to foster a culture of belonging. This commitment is set out in full in our Diversity Equity and Inclusion policy.

During the year, we retained our gold standard accreditation for the Employers' Network for Equality & Inclusion Talent, Inclusion and Diversity Evaluation (TIDE). The assessment process reviews performance across eight different aspects of DEI and required a detailed submission to evidence our activities in each area. From 171 entries, there were only 15 gold standard recipients. Our firm's overall ranking score was 91% in the third year of measuring our DEI initiatives.

Our Employee Network Groups help support different communities by sharing information, learning and planning activities. Our groups include disability, working families and carers, neurodiversity, LGBTQ+, social inclusion and multi-cultural. Meanwhile, our DEI Allyship programme builds understanding and empathy, while striving to make our work environment one where everyone can thrive. Each ally takes part in an annual learning programme, and our allies meet quarterly to review progress, and support and share insights with each other.

Carbon offsetting

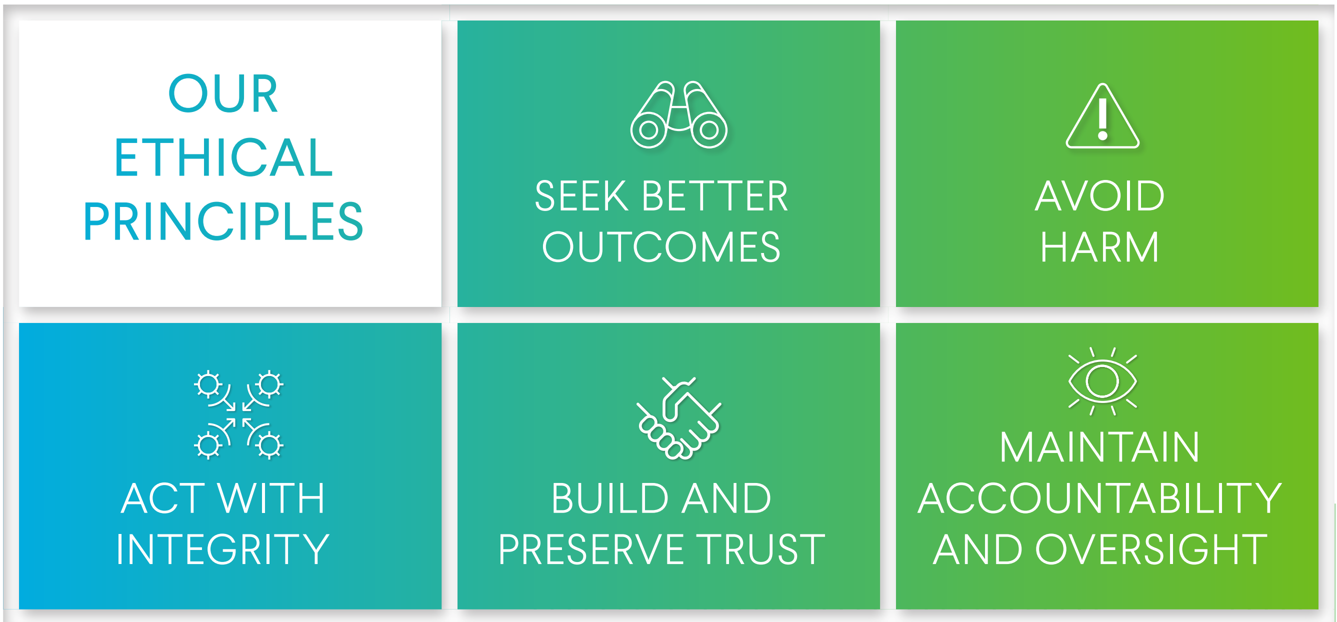
Our innovative matched personal carbon offsetting scheme is now in its third year, with 167 of our people taking the opportunity to offset their family's personal carbon emissions – the cost is split equally between them and the firm. While our primary climate focus will always be to reduce our emissions and footprint, the matched offsetting scheme helps build climate awareness and engagement across the firm. During the year in review, we will offset 3,154 tonnes of carbon emissions.

Hymans Robertson Foundation

Our charitable activities are principally delivered via the Hymans Robertson Foundation – funded by 2% of the firm's profits annually. The Foundation's 10-year goal is to support 10,000 young people into better financial futures, working with a number of charity partners. During 2023, we passed £1 million of grant giving. We report on the activities of our foundation via its website.

Ethical framework

At our March 2023 partner conference, one of the topics discussed was ethics, as we sought to develop our ethical principles. Partners discussed a range of scenarios exploring how ethical considerations may impact decision-making, practices and advice. This led us to set out our ethical principles and framework for making ethical decisions. These, in turn, have been reflected in the development of our approach to the use of artificial intelligence and inform our approach to stewardship.



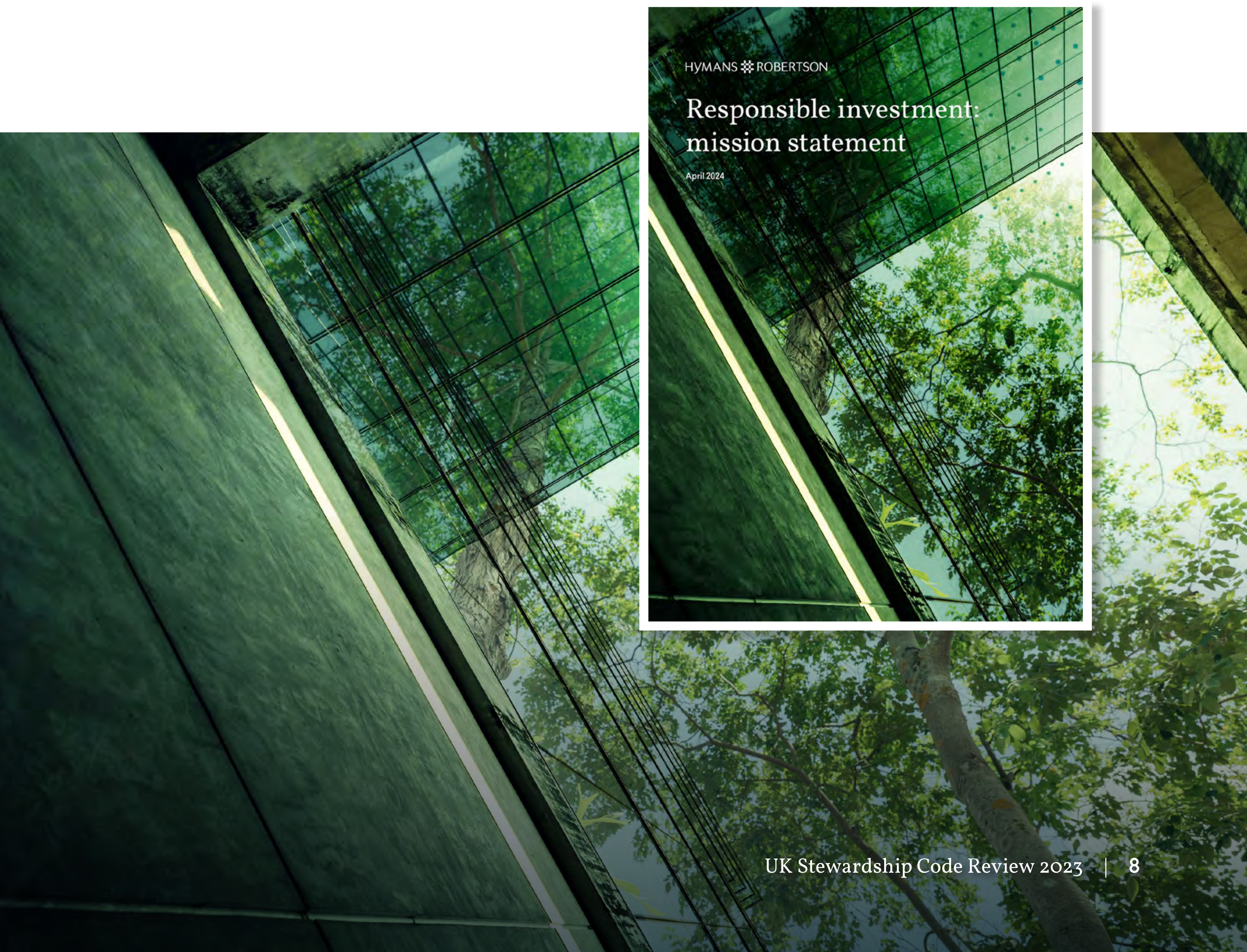
Redefining what responsible investment means to us

Responsible investment has become an increasingly challenging area, with asset owners required to navigate activism groups, regulatory change, increased reporting requirements and growing public scrutiny. All this while striving to successfully manage environmental, social and governance (ESG) risks. To get to the heart of the matter, we took a step back and asked ourselves: what do asset owners really want to achieve from their RI strategies?

The answer forms our **ABC for a better future framework**, combining the **three focus pillars** at the core of our RI mission statement, which we updated during the year and published following the year-end. These focus pillars are:

- **A** Achieving net zero – we recognise that the world must go through a period of systemic change if we're to protect the environment, societies and our economy from climate change and biodiversity loss. The collective goal is that of a low-carbon economy and the pursuit of 'net zero'.
- **B** Being better stewards – asset owners have a role to play in overseeing the assets managed on their behalf. They should thoughtfully – and, where necessary, forcefully – exercise stewardship within their sphere of influence.
- **C** Creating positive impact – assets are invested to generate economic return, but many assets also directly or indirectly affect society and the environment. We'll help our clients invest and exercise stewardship to create positive real-world impacts.

We believe that focusing on these three pillars aligns with our purpose and the broader goals of the B Corp movement.



Making progress against our priority areas

While our broader goals are reflected by our B Corp commitment, in our last stewardship code report we set out five key areas of focus for 2023. We highlight some of the actions taken against each of these priorities below, expanding on these throughout this report.

Catalysing action on climate change

We've helped our clients develop and implement climate transition action plans. We've also invested in the development of climate scenarios, helping clients better understand potential tipping points and thus make more informed decisions. Our Spotlight on Climate sets out more information.

Driving accountability through stewardship

We created our stewardship working group and launched our Manager Engagement Programme during the year. We've continued to help clients develop their own engagement frameworks and supported 11 clients to become or remain Stewardship Code signatories.

Focusing on social issues

We've explored how AI (Artificial Intelligence) is being considered by asset managers, and explored how we can better use the technology. We coordinated training on modern slavery issues and have added the consideration of human rights to our manager review.

Expanding our consideration of biodiversity

We've continued to educate our clients and develop our own knowledge on biodiversity and nature. We've worked with external stakeholders on deforestation and ocean biodiversity issues, publishing material on both subjects. We've also helped clients evaluate investments in natural capital.

Pushing for more impactful investment

We added an impact specialist to our team during the year. We've also worked with clients to develop their understanding of impact and begun developing mechanisms to measure and prioritise impactful investments.

How we've served the best interests of clients

Effective stewardship takes both time and resource. We've continued to grow and develop our responsible investment team over the year, with our approach supporting the sharing of resource and skills with client teams across multiple business units. This helps us to drive improvements in knowledge and standards, to evolve stewardship activities and to meet our clients' needs.

The development of our Manager Engagement Programme has been a significant step forward in the evolution of our approach. Focused on a core group of asset managers, we're supporting clients by developing greater insight and thus increasing accountability. Further, we've continued to evolve our approach to climate scenario analysis, recognising that the industry and our clients need to better understand climate uncertainty to implement appropriate solutions.

While these examples illustrate some of our own developments, we've also been pleased to work with our clients to help them become better stewards. In particular, we were delighted to help four clients become new stewardship code signatories during the year.

This report expands on our work over 2023 through a variety of different case studies, highlighting examples of work done by different consultants across a range of clients. These illustrate the breadth and depth of work that we've undertaken to help our clients improve their own stewardship outcomes.

Principle 2

Signatories' governance, workforce, resources, and incentives enable them to promote effective stewardship.

How our governance structure supports RI

Our Management Board has ultimate responsibility for all our RI and stewardship activities, to provide accountability and consistency across business units. Individual business units are then empowered to embed RI considerations into the development and implementation of client-specific advice, with one accountable person within each relevant business unit. This structure is illustrated below.

Management Board/Oversight Board

Investment Committee
Cross-business committee providing oversight in approach to all investment issues

Climate Change Steering Group
Cross-business group focused on ensuring climate issues are addressed consistently

Research Oversight Group
Investment group providing challenge and direction on research activity

Our Business Units

- Defined Benefit Investment
- Defined Contribution Consulting
- Wealth Management
- Insurance and Financial Services
- Other

Responsible Investment Team
Focus on broader RI activity, stewardship and knowledge development

Research Team
Focus on market/manager research, developing asset class views and product recommendations

Climate Change Modelling Group
Cross-business group working to develop and consolidate modelling tools within our broader systems

Net Zero Working Group
Cross-business group working with client consulting, research and RI teams to ensure our net zero commitments are embedded in our client advice

Our governance arrangements

Our governance arrangements have remained largely unchanged over 2023. At a practical level, the continued growth of our RI team has led us to create a second formal workstream focused on our stewardship pillar, with the intention being to launch a third, impact-focused workstream in 2024.

Investment Committee

Our investment committee continues to be chaired by Emma Cameron and met six times during 2023. Sustainability issues discussed by the committee included the potential advantages and disadvantages of our participation in an external climate framework project, the impact of regulatory developments on sustainable investments, and the development of our Mission Statement and Manager Engagement Programme.

Research Oversight Group

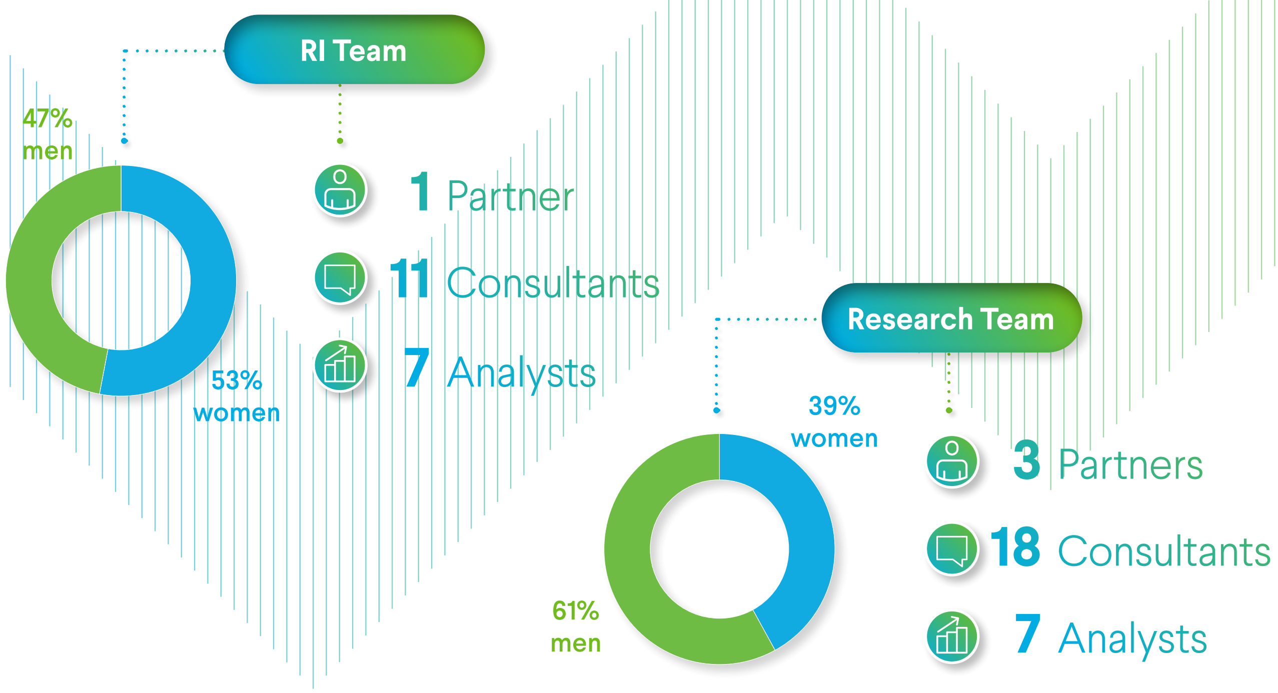
Our ROG is chaired by our Chief Investment Officer, David Walker, and met fortnightly over 2023. A standing item on the agenda is Research and RI team responsibilities, provided by the Head of Research. This covers key priorities and activities of the teams. For example, the ROG was kept updated with progress on research into sustainable buy & maintain mandates over the course of 2023. Other issues discussed with the ROG included RI initiatives, proposed updates to our RI ratings and our sustainability framework, and theme prioritisation.

Climate Change Steering Group

Our climate change steering group is chaired by Lisa Deas. The group met five times during the year, considering issues such as the evolution of climate scenario analysis and knowledge development within the firm. The group is also responsible for the firm's annual climate competence survey.

How we've resourced our RI activity

We resource our activity using specialists from our RI and investment research teams, while educating and providing internal training to all our consultants and analysts across the business. The seniority and diversity of specialist resource available is illustrated below:



We continued to grow our RI team over 2023, with the extended team increasing by three over the year. We also increased areas of specialism with the creation of our stewardship working group. Further, within our Insurance and Financial Services business, we have a number of consultants who provide direct support to clients on sustainability issues.

Developing and engaging the team

It's imperative that our research and consulting teams can develop their broader skillsets to support our work with clients. We strive to support all our people in their development through formal and informal training, structured development programmes and by encouraging involvement with industry working groups, allowing them the chance to learn from others.

Ensuring competence

Within our investment business unit, we've undertaken a complete review of the competency matrix that colleagues use to assess their skills and knowledge at different stages of their career. The new competency matrix provides clarity on the level of knowledge needed for each role within the investment business unit. This enables individuals and their managers to assess where time is best spent, and which training sessions are most suitable to support further learning and development requirements.

The matrix is consistent with expectations set out within role profiles across the business unit and will support priority setting for individuals, as they identify those areas requiring development to progress and put in place priorities that align. It will also ensure consistent and cohesive priorities within teams across the unit. Because we recognise its importance to our client base and the broader industry, RI forms one of the core components of this matrix.

Focusing development and training

Our investment consultants are required to agree appropriate Continuing Professional Development (CPD) objectives that have requisite training hours to demonstrate progress, and which are monitored by our people managers as part of the ongoing evaluation process. We proposed that colleagues focus on the following areas during 2023.

THEME	LEARNING GOAL
Better stewardship	Consider different approaches to stewardship including variations between asset classes and the mechanisms by which stewardship can be implemented. Understand the stewardship process, including setting objectives, actions and expected outcomes and consider how clients can best monitor progress. Understand how to engage with clients on stewardship issues, including the benefits of developing engagement themes.
Impact investing	Understand what is meant by impact investment and how to frame impact objectives. Develop an understanding of impact investment frameworks and how impact can be measured.
Net Zero Journey Planning	Develop an understanding of the factors that need to be considered in setting a net zero target date, climate-related objectives and an associated climate transition plan. Consider how to prioritise actions with clients and how progress can be measured.
ESG & climate data	Build a detailed knowledge of the mechanics behind the calculation of ESG and climate data metrics. Understand how to determine what looks reasonable and where there may be outliers. Be able to communicate the relevance of ESG and climate metrics for portfolios to clients.

To support the development of our staff and to help them meet their CPD objectives over the year, we organised a range of specific training sessions. Training is provided both by our in-house team and by external specialists and asset managers, where appropriate. Topics that we focused on over the year included:

- Climate scenario modelling, with a Q&A on industry challenges and our approach to climate scenario analysis.
- A net zero journey planning session, covering how clients can align their portfolio to a 1.5 degree net zero transition pathway.
- An impact investing session for consultants on how impact investing can be integrated into existing investment strategies.
- Regulatory change and use of our Sustainability Framework.
- Renewable energy as an alternative asset class, in accordance with the energy transition carried out by IFM Investors.
- Investment in timberland, provided by Stafford Capital Partners.

These latter sessions were part of a broader initiative by our research team to allow our consultants to 'meet the managers'. We record training sessions and make them available to all staff through our internal learning system, Aspire. We also have a learning and development site, accessible by all staff, which is home to all our training materials and recordings of sessions.

Our broader support for learning and development

To keep consultants' knowledge fresh, we deliver updates on developments in the broader market through our regular Investment Consultants' Briefings. These sessions are also used to highlight client-focused projects, including various case studies that are referenced in this report.

Over the course of 2023, we ran monthly RI drop-in sessions within our investment and defined contribution consulting businesses. These sessions, which are hosted by our RI team, provide an informal environment for colleagues to ask questions on both client specific and broader research topics, thus serving to embed knowledge within the team.

More generally, everyone who joins our investment team receives RI training as part of their formal induction. RI issues are also integrated into our graduate training materials, with programmes run for first- and second-year graduates.

Engaging with external training

In 2023, over 30 members of the investment team took part in an external climate course delivered by Alliance Bernstein in partnership with Columbia Climate School. The aim of the course is to help bridge the gap between climate science and investment decision-making across asset classes, regions and sectors. The six-week course covered a range of topics, including biodiversity, carbon markets and decarbonisation.

To supplement this external training, we also arranged three internal discussion sessions to reflect on the course materials and the associated Q&A sessions. This gave our consultants the opportunity to consider how climate issues interact directly with client specifics and debate how we could feed learnings into our consulting and research processes.

Seeking and acting on feedback from colleagues

We annually survey our consulting staff across our investment, defined contribution, insurance, and actuarial business to track views about how our consultants rate their knowledge on climate change. This allows us to gauge progress on upskilling consultants across the business on climate-related issues.

Our 2023 survey demonstrated a slight improvement in the average rating compared to prior years, with 73% stating that their knowledge had improved over the year. Our survey suggests that the pace of change within the industry remains a key challenge, with regulatory change and developments in climate scenarios identified as areas for continued education.

Supporting the next generation of talent

We run an annual intern programme across our business, with 24 students joining the firm during summer 2023. As part of their eight-week programme, each intern takes on a project, the results of which they then present during the final week of their internship. This year, interns within the Investment business unit progressed three RI projects focusing on deforestation, the use of AI, and understanding voting policies.

Drawing on some of the learnings from the latter two projects, we were also able to leverage the work done to test the capabilities of AI in synthesising and reporting on the characteristics of voting policies, testing this against the outcome of a more manual process. This identified both the success and limitations of AI. Meanwhile, the work on voting policies has been refined to support our engagement with clients on voting choice.

In addition, our Head of Responsible Investment supervised a Master's student on the University of Edinburgh's Ecological Economics programme. Their dissertation explored the efficacy of ESG ratings.

How we incentivise stewardship

Our incentive structure includes an element of individual bonus, which is assessed against objectives agreed with each of our people. As we've prioritised RI, individual objectives and incentives will reflect this, but we also recognise that different clients (and therefore different consultants) have different requirements. So, a 'one size fits all' approach isn't appropriate. Those who have a more direct responsibility for RI issues, such as our RI team, are more directly incentivised to develop both our services to clients regarding RI and the more direct exercise of stewardship.

Developing our systems and processes

We recognise the need for ongoing improvement in our systems and processes, particularly as the information available increases and stakeholder needs evolve. Our investment in systems and processes seeks to ensure we continue to be efficient. These were our areas of focus in 2023.

Research information management

We've been working to consolidate our research information within a single system, thereby improving access to this information for both researchers and client consultants. Further, an associated benefit of this will be to allow themes and trends in manager behaviours to be more readily ascertained, thereby allowing greater insight. We substantively progressed this project over 2023, and we expect to launch our system in early 2024.

Data & reporting

We have a specialist data and reporting team that has responsibility for the collation, synthesis and reporting on client portfolios, through both performance and sustainability lenses. This team has increasingly sought to build direct relationships with asset managers to collect portfolio level data and stock holdings, thereby allowing the continued automation of analytics.

Ensuring our fees are appropriate

We're flexible when it comes to the structure of our fee arrangements with clients. What matters to us is that fees are transparent and fair, so that our clients receive excellent value from our advice and service. Whether clients value the cost certainty of a fully fixed fee or prefer the cost control of an annual budget with project-by-project sign-off, we work with them to accommodate their requirements and preferences.

Appreciating the control and certainty of fixed-fee agreements, we take a no-surprises approach to fees. Where the scope is clear, we'll provide fixed fees for all items that we expect to deliver on a regular basis. In addition, we'll provide quotations for any material pieces of work required on an ad hoc basis. In instances where the scope can't be defined in advance, we agree a budget and provide early notifications on progress against this budget.

We also believe it's appropriate to help our clients understand their fees are appropriate. We partner with technology platform ClearGlass on the Cost Transparency Initiative framework to fully understand the costs and charges being incurred and assess whether these offer value for money.

How our approach serves client needs

Our core value of partnering means we take time to understand our clients' needs and work with them to help them achieve their stewardship, and broader, objectives. However, we recognise that our clients' needs will continue to evolve, and it's therefore vital that we also develop our approach and skillsets to provide both support and leadership.

Responsible investment issues are considered as a matter of course in client advice and discussions. Its relevance to each situation will vary, but by equipping our consultants with appropriate knowledge and skills, and ensuring that we provide information that offers context, they can exercise judgment. Further, we continue to invest in resource to directly support our clients' requirements, whether this be through supporting client consulting teams or working directly with clients as needed.

We also believe that we can provide leadership. We've made significant progress in areas such as climate scenario analysis, impact investment and stewardship over the year, as evidenced within this report. By keeping all our stakeholders informed of our progress, and engaging with other leaders, we continue to serve our clients' needs.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

It's vital for our business's continued success that we always act in the best interests of our clients. The identification and management of potential and actual conflicts of interest are embedded in the client take-on phase right at the start of our process.

We also have measures in place to ensure that conflicts continue to be considered and monitored at all stages of a client lifecycle. In addition, conflicts are one of the considerations when we develop new services or propositions.

Our conflict management policy

We have a mandatory policy in place that colleagues across all of our group companies are required to follow. This was revised and updated during the year to clarify expectations on upfront disclosure of actual, potential or perceived conflicts of interest. At the heart of this is ensuring that:

- all potential, perceived and actual conflicts are identified and documented as early as possible, and mitigations to manage the conflicts are agreed
- we'll only act where we can do so without inhibition and in the best interests of our clients
- we're open and transparent with our clients
- we work with the relevant parties to agree and implement measures to manage any potential, perceived or actual conflicts (as you would expect, such measures will include ensuring that we're complying with any of our professional/ regulatory obligations).

Our internal requirements for the management of conflicts apply not only to client conflicts, but also other areas where conflicts could arise. For example, the selection of suppliers or the potential for conflict between the interests of an individual and the interests of a client and the firm.

Conflicts champion group

We have dedicated conflicts champions for each of our business units, who are responsible for providing their teams with advice, guidance and training on conflicts-related issues. In addition, we have clear escalation points for more complex issues (whether to a member of our management board, senior actuary or our legal team).

With a view to continuous improvement, our conflicts champions group meets quarterly to discuss training and best practice for how to manage conflicts of interest. There are representatives from all business areas.

CASE STUDY:

Managing a potential conflict over impact investing advice

Our impact specialist has many conversations with asset managers about impact funds. One manager wanted to evolve their approach to managing impact in line with our thinking. The asset manager requested support and our specialist's time to help with this. This raised a practical question about the amount of our consultant's time needed to support that, and would it warrant payment.

To avoid any potential conflicts, as soon as that conversation was initiated, our consultant made it clear he'd have to check with his colleagues. Our conflicts champion subsequently put together a conflicts plan document, which outlined the background to the proposal and whether it would be suitable for our consultant to use their time in this way, given the potential for a conflict of interest or a perceived conflict of interest.

Ultimately, we decided we were willing to proceed with the client's request by using a conflicts-management plan to address any perceived conflict through separation between the consulting advice and the ratings process as well as ensuring transparency with any exposed clients. Also, while the project was live, a similar level of transparency would be disclosed to any other clients that could become exposed through manager advice Hymans delivered.

In addition, there was no financial incentive in recommending that client over any other manager who may be able to provide the same services.

CASE STUDY:

Supporting both parties in a consolidation exercise

A relatively common example of where we demonstrate good conflicts of interest management is when we are the advisers to two parties in a consolidation exercise. For example, we've supported both parties within the merger of two master trusts.

To manage this conflict of interest, we operated with two totally separate client teams to service each of the clients, with no overlap in personnel between the teams. The conflict was declared from the outset of the consolidation process and managed throughout the project, including producing a conflicts of interest management plan. 'Digital walls' were also put in place to prevent information sharing between the two client teams.

The outcome was that we were able to provide objective and unbiased advice to both clients without compromising our independence or objectivity. TPR continues to champion further consolidation within the DC industry, which gives rise to these unique challenges. This conflict is therefore likely to be repeated in future with other clients, and we will continue to put these types of conflicts protocols in place when required.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

As investment advisers, we're aware of the multitude of risks that markets, institutions and the global financial system can present. But we're equally aware of the importance of building sustainable solutions to long-term problems.

We have three routes for the identification of emerging systemic risks and the consideration of how clients may understand and mitigate these. We recognise that this approach will lead to areas of overlap. For example, the manifestation of climate-related risks that may be identified through long-term scenario analysis may also be identified in our assessment of capital markets.

Capital market led

We have a Capital Markets Oversight Committee in place to evaluate the outlook for different asset classes and markets through a defined framework that considers a range of fundamental, valuation and technical drivers.

Stewardship led

Our Stewardship Working Group has developed an approach to theme prioritisation, which considers potential systemic risks through the lens of 'impact cost-effectiveness' alongside issues that may be of direct investor interest. Through this lens, our primary focus themes of biodiversity, the low carbon transition, artificial intelligence and modern slavery have been selected as topics for discussion with asset managers.

Climate scenario led

The development of our approach to climate scenarios considered the broad drivers of climate risk, taking a systems perspective. Our narrative-based climate scenario methodology, which is explored elsewhere in this report, considers five separate long-term risk drivers and their interactions in our work and client advice.

Capital-market-led risks

One area of focus for our investment research team is to develop our outlook on market-wide and systemic risks for capital markets. Our Capital Markets Oversight Committee evaluates the outlook for different asset classes and markets through a defined framework that considers a range of fundamental, valuation and technical drivers.

Views are communicated both internally, through regular briefings for consultants, and externally to clients, through our quarterly Capital Markets Update and InflationWatch publications and via regular dialogue with our consultants.

One of the key areas of development over the course of 2023 was our approach to monitoring financial stress and how our clients can explore this. We also continue to monitor developments in markets to identify other areas of concern.

Monitoring financial stress

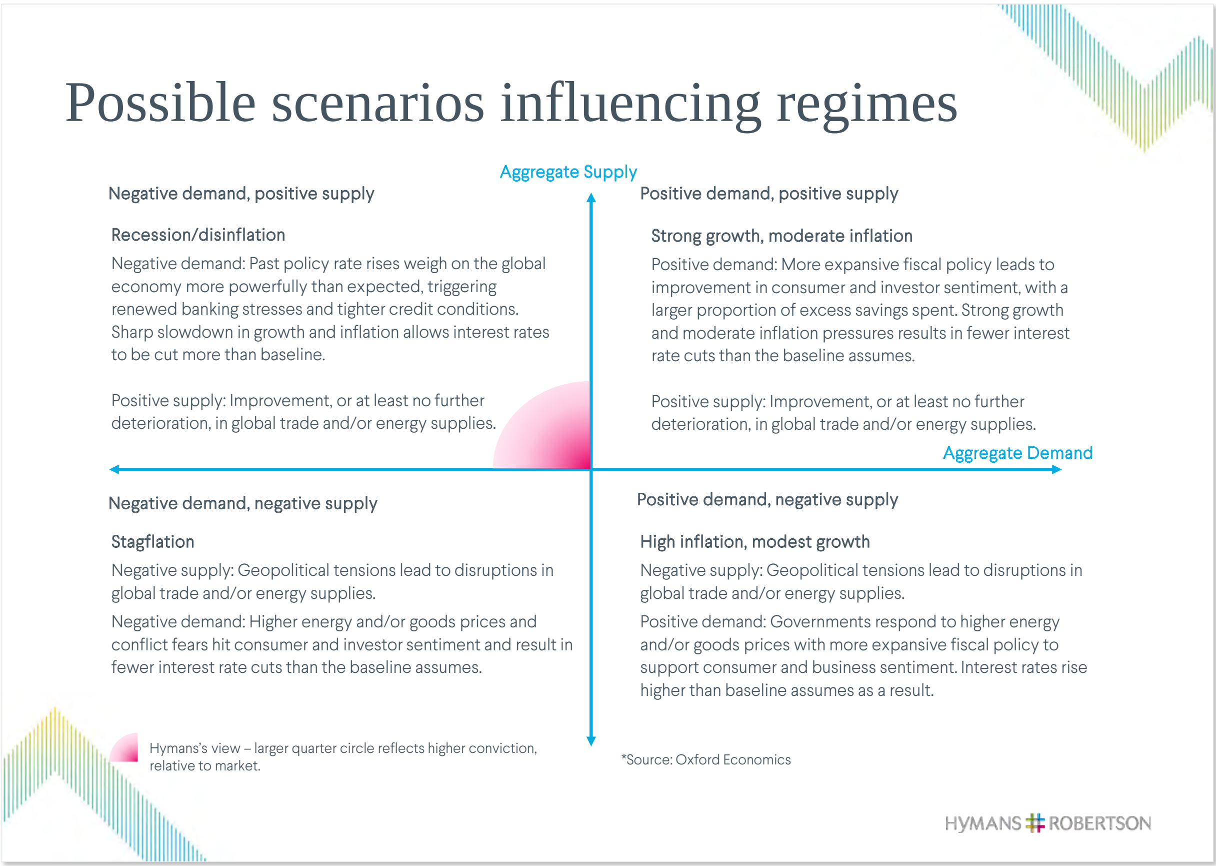
We've built a risk dashboard containing information that helps with ongoing capital market views. However, one of the more relevant indicators is our own Financial Stress Indicator. This seeks to track the key risk spreads that drive intermediary leverage in financial markets and so can heavily influence asset prices in the very short term at extremes.

Our Financial Stress Indicator considers factors such as implied equity volatility, implied treasury volatility, FX volatility, and investment- and speculative-grade credit spreads. This is potentially a coincident indicator, but it can also highlight acute financial stress, whether it's getting worse or better, and the subsequent implications for short-term asset price movements.

Horizon scanning

We've been working on scenario testing with clients and building a framework for developing scenarios (as illustrated below). We're encouraging an approach that considers generalised impacts on supply and demand, the resultant impact and the consequences for inflation, rates and asset prices. While we could come up with any number of scenarios, we're trying to guide clients towards something more generalised to identify the sorts of situations that may impact them most negatively, or types of scenarios to which they're most exposed.

In developing this approach, we're drawing on multiple external resources to explore and integrate how external risks are transmitted to the economy and to asset prices. We're also following the work of the Bank of England's Financial Policy Committee and examining how their exploratory scenarios can be deployed with clients.



Our scenario framework allows a broad discussion on potential risks and outcomes with clients.

UK property market

The strive for liquidity over 2022 and 2023 coupled with ongoing consolidation has created a risk to the UK balanced property fund industry. We expect that the pooled fund universe is likely to be smaller in the future. There are likely to be fewer funds in the peer group, and those funds may well be smaller. We've engaged with managers across the industry to identify potential threats to pooled funds and worked to ensure that investor interests are protected against forced selling. However, as we highlight in Section 5, we also see opportunities to reshape property allocations to create impact.

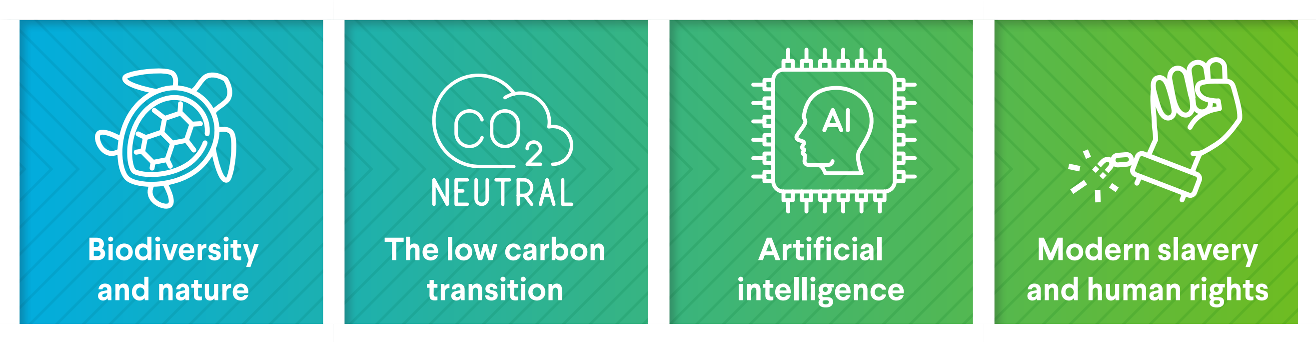
Policy risk

We monitor geopolitical events and the potential impact that political, and thus policy, change may have on both short-term decision-making and long-term policy around sustainability issues. Geopolitics is also one of the five risk drivers within our updated approach to climate scenario analysis. Over the year, we highlighted concerns within the US arising from an ongoing political impasse and also the impacts of quantitative tightening.

Stewardship-led risks

In seeking to understand and prioritise systemic risks, we recognise that investor choice may be influenced by local priorities and preferences, investment opportunities, external pressures and prevailing news flow. This can mean that risks and themes for engagement and research are influenced by factors other than the impact that addressing them may have.

While this isn't intrinsically wrong, we believe it's also helpful to draw on external research and the associated evidence base. Our methodology is still evolving, which has informed the themes our stewardship team will focus on. Our four currently selected themes are:



We expand on our work in relation to each below, with climate change covered in greater detail within our Climate Spotlight.

Biodiversity and nature

Biodiversity plays a pivotal role in supporting human life via the vast number of ecosystem services it provides. Over 50% of global GDP (around $44 trillion) depends on natural capital, and we rely on biodiversity for most of what we need to survive. However, biodiversity is declining faster than at any other time in human history. Issues such as overexploitation, climate change and pollution mean that extinction rates are expected to increase significantly over the coming decades.

Biodiversity is an integral part of our stewardship approach both as an issue in its own right, and due to the close links between the climate and nature crises. The Taskforce on Nature-related Financial Disclosure (TNFD) framework, which came out in September 2023, sets out actions that investors and companies can take to address nature loss while assessing and disclosing their risks, impacts, dependencies and opportunities regarding nature.

We've supported our clients directly, to help them understand all the key issues related to biodiversity, natural capital and nature-related risks. We've run training sessions, including with public-sector clients who have net zero ambitions and want to understand how biodiversity relates to their climate objectives. Educational material we've produced includes:

- An introduction to the TNFD framework to guide our clients who want to be frontrunners in this space.
- An exploration of deforestation risk, produced in conjunction with Global Canopy.

From a manager engagement perspective, we conducted forward-looking conversations with managers who are launching funds around natural capital, timberland and agriculture, who clearly need to consider these issues. We've highlighted the investment options within certain natural capital assets including timber and agriculture.

In developing an approach to biodiversity measurement, we've undertaken an initial project on deforestation footprinting using the Forest 500 dataset. We've analysed exposure to deforestation across a client's equity portfolios and made recommendations on engagement goals following this. During 2024, we intend to explore further data sources to support clients in their TNFD reporting ambitions and in better understanding exposure to biodiversity risks within their portfolios.

CASE STUDY

Influencing engagement theme selection

In our annual review of stewardship themes, we noted that achieving a sustainable marine economy is a part of the Welsh Government's strategy, with ocean health important in achieving global climate and biodiversity goals. From our work on marine biodiversity, we also noted that the marine environment is one of the lowest areas of focus for investors and those targeting progress against the SDGs. We therefore proposed that our client consider an engagement theme on the marine environment in conjunction with their engagement service provider, as a longer-term objective.

OUTCOME

The issue was raised during discussions on theme selection and, following the broader review, we and our client were delighted to see that marine biodiversity had been adopted as an engagement theme for 2024.

Modern slavery and human rights

Modern slavery is a human rights violation in which victims are exploited for others' gain, diminishing human capital. Regulatory change is increasing the focus on modern slavery, and organisations are being challenged to respond through implementing appropriate policies and improving disclosure and accountability where subcontractors are used.

We're conscious of the asset managers, insurers and pension providers we engage with and their commitment to responsible investment. When the assets of our clients are invested, there is potential modern slavery exposure for our clients through the supply chains of the corporates they invest in. We educate our clients on the issues surrounding modern slavery and how this can arise in their portfolios, as well as scrutinising the asset managers, insurers and providers we work with. We take time to understand their position on responsible investment through data we gather from them and the subsequent engagements that take place.

CASE STUDY

Integrating human rights issues into our manager evaluation

We recognise that modern slavery is one of several potential human rights violations that may be considered by investors. Dialogue with both internal and external stakeholders raised the consideration of ethics and when it may be appropriate, or inappropriate, to act. One discussion highlighted a need to understand whether managers had human rights policies in place and how these were being implemented.

OUTCOME

We updated our RI questionnaire to incorporate the consideration of broader human rights issues. We've subsequently obtained responses to our questions from managers and are building these into our review of managers and RI ratings framework in early 2024.

Artificial intelligence

AI threatens to be a disruptive force, creating value for investors but with potential impacts for people and thus human capital. AI offers improved productivity and management but comes with risks like the creation and propagation of misinformation, discrimination through biased algorithms, a lack of transparency in decision-making, and potentially even more severe outcomes.

Over the year, we've sought to understand how AI is being considered and deployed by asset managers and others, what safeguards are being put in place, and the different use cases of AI. This has included running our own pilot exercises and developing an internal policy relating to AI's use within the firm.

CASE STUDY

Establishing a baseline position for engagement on AI

To support our engagement with managers and clients on this issue, we surveyed asset managers to gather information on how the industry is approaching this subject. Overall, respondents were mixed in the extent to which they're engaging with societal risks from AI: 28% have not yet considered AI or taken any actions, with about a quarter currently undertaking research on potential impacts.

Others have undertaken additional action, in the form of engagement or making investments to benefit from AI impacts. Relatively few respondents have developed a policy on AI, but this appears to be an area under active consideration by some. In general, respondents felt that AI was likely to have a net neutral to slightly positive impact on society.

OUTCOME

The survey provided us with an initial indication of manager thinking and policy development. As a focus theme, we intend to explore this in greater detail through our Manager Engagement Programme over the course of 2024.

Responding to industry consultations

We believe it's appropriate to represent our clients' interests in the development of policy and regulation. Over 2023, we responded to several consultations to support our beliefs, work with clients and influence policy outcomes.

CASE STUDY

Sharing views quickly to create leverage

We responded to the *Local Government Pension Scheme (England and Wales): Next steps on investments consultation*. Our response raised concerns about issues of concentration and the imposition of a single governance model, noting the risk that this would stifle innovation and the development of effective investment solutions.

To ensure our views were shared with other stakeholders promptly, an internal working group quickly established our consolidated insights. These views were presented to internal forums to allow onward discussion with clients. We also quickly developed our formal response to the consultation and shared these with clients and other stakeholders, including via a live client webinar to communicate the working group's consensus response and key messages.

Working with others

Collaboration is a tenet of our climate pledge and our broader ambitions. We aim to participate within initiatives where we can effectively share our knowledge and influence outcomes.

Abelica

Abelica Global is an international network of like-minded consultancies, all of whom are leading firms in their local markets. We've been an active member of the Abelica Global network for many years now and have regularly shared thinking and experience with our partners on sustainability issues.

During 2023, we participated in Abelica's Climate Change Working Group. We shared experience and knowledge while providing content and training to support other firms across the Abelica network in improving their client approaches on the topic and upskilling their consultants with our learnings from UK regulations. This included presenting at an Abelica Benefits Conference on TCFD and what we've learned and developed as a result of these regulations, as well as providing training on our approach to climate scenario modelling.

Net Zero Investment Consultants Initiative (NZICI)

We remain involved with the NZICI, being represented on both the Steering Committee and the Manager Assessment Workstream. Activity within the group over the year was focused primarily on reporting, and we were pleased to both update our own report and to see the collective NZICI report being published.

Investment Consultants Sustainability Working Group (ICSWG)

We've remained heavily involved with the ICSWG over 2023, with Alison Leslie leading the Raise the Bar workstream and Simon Jones taking on the role of Co-Chair of the Group alongside other involvements. During the year, the Group produced guidance and standardised requests for managers on reporting emissions metrics for sovereign bonds, updated guidance on ESG metrics for consultants and updated the Engagement Reporting template for asset managers.

The Group also responded to consultations from the Financial Conduct Authority and the Vote Reporting Group; while we chose not to directly respond to either consultation, we actively contributed to the development of the Group's response. The ICSWG also formally launched its Influence workstream during the year with the goal of engaging with policymakers in the UK.

Sustainability Principles Charter for the bulk annuity process

In 2023, Accounting for Sustainability, The Church of England Pension Board and Railpen encouraged pension fund chairs, insurers, pension advisers and regulators to improve sustainability in the bulk-annuity process. The outcome of numerous workshops and roundtables was the Sustainability Principles Charter for the bulk annuity process, which was launched in late January 2024. Its four main principles are: transparency, decision-making, reporting and engagement, and collaboration. We provided input at various stages of the development process and were delighted to formally support the Charter on its launch.

Institute & Faculty of Actuaries (IFoA)

While we have numerous involvements with the IFoA, including representation on the IFoA Council, Sanjay Joshi was a co-author of one of the most influential papers of the year, The Emperor's New Climate Scenarios. Building on the issues that we had raised in late 2022/early 2023, the paper highlighted concerns within approaches to climate scenario modelling.

This paper has encouraged participants in the financial market to challenge approaches to assessing the future impact of climate change and raised awareness of the complex nature of climate risk. As noted elsewhere in this report, we've developed our own approach reflecting this work.

Source: Cover image from IFoA and University of Exeter report, *The Emperor's New Climate Scenarios*.

Spotlight on climate

Addressing climate change is a strategic imperative for our firm. Our clients need to not only be ahead of this transition with the rapid shifts in the investment landscape, but they must also accelerate the change by investing in solutions. We continue to invest in the development of our tools and knowledge to support our clients' efforts.

Helping clients align with their net-zero ambitions

We've been working with clients to set net zero targets and policies and to develop and implement strategies. Our net zero working group is tasked with undertaking research and developing the associated tools to support our engagement with clients. Over 2023, in addition to helping our clients build their understanding of net zero ambitions, the group was focused on three primary areas: the development and deployment of action plans, the evolution of our journey plan analysis, and the creation of model portfolios.

Building knowledge

78% of clients covering 95% of assets under advice have now received meaningful education on net zero.

Developing Climate Transition Action Plans

We believe that climate ambitions need to be translated into meaningful actions with measurable goals, ideally across the areas of emissions, solutions, alignment and engagement. To help our clients address this, we developed a climate transition action plan (CTAP) and outlined the benefits of developing CTAPs in our May 2023 RI News & Views.

The CTAP captures the agreed fund-level and mandate-level targets and areas of focus, while providing a means to communicate the strategy to all stakeholders. Further, by ensuring that clear objectives have been set, reporting via annual dashboard provides a means of measuring progress against targets as well as evolving the areas of focus. We've been actively working with our clients to develop CTAPs, with **six clients now having fully put such a plan in place** and others working to finalise theirs.

Journey planning analysis

We've continued to evolve our modelling capability to help set and assess the progress of clients' strategies against net zero goals and pathways. Our approach considers the 'fair share' of the overall carbon budget and assesses whether a strategy is aligned with the client's own net zero ambitions, highlighting potential areas of deviation.

This allows for more advanced judgments about whether individual portfolios are fully or partially in line with a given pathway, offering a more nuanced approach to assessing climate-informed strategies. The analysis informs our discussions with clients about their objectives and appropriate targets. It can also help test whether an existing strategy would meet an interim target.

Model portfolios

A third aspect of our approach is the consideration of 'model' portfolios with different target dates. We use model portfolios to illustrate what a potential target portfolio may look like, allowing clients to understand the potential changes that may be necessary and make discussions on strategy more meaningful.

CASE STUDY:

Applying our process to develop a net-zero strategy

We were engaged by a new client that wanted support on understanding their current portfolio's emissions baseline, the setting of a net zero target, the potential trajectory of their strategy and alignment of investment objectives to help achieve their net zero target. They also wanted do develop a CTAP to document their objectives and actions in accordance with their net zero ambition.

Our response to the client's needs was to design a series of three workshops to support them in understanding more about climate change and net zero, how this related to their current positioning and the methods that the client could use to achieve net zero. The focus of the workshops was to provide the client with education and training on net zero, the allocation of capital to different types of climate solutions and the importance of engagement.

The first workshop focused on the provision of education and training to support knowledge building of how net zero targets are situated in the broader global remit of climate change risk and net zero goals. Consideration for the Fund's current baseline position was also assessed here, with discussion of a fossil fuel exclusions policy. The second workshop took a more granular approach to ideas about policy provisions from the initial workshop's discussion. Greater focus was placed on understanding how different trajectories adopted by the Fund could result in the achievement of different net zero targets at different dates.

The workshops were highly collaborative and contained many open-ended discussions to gather the client's thoughts on various mechanisms to implement net zero and how we could support in formalising these ideas into a coherent plan. The workshops' participants included the Committee, the Pension Board, and other stakeholders such as employee representatives, which helped generate a broader viewpoint.

OUTCOME

The final workshop presented a summary of the ideas discussed at the first two workshops, in the form of a finalised Net Zero Policy and CTAP, which was presented to the client for review. Once any proposed changes were discussed, we implemented the changes and issued a final draft to the client following the year end. The aim is for the policy to be revised on an ongoing basis and formally reviewed and monitored annually.

Developing narrative-based climate scenarios

We've long been vocal about the importance of interpreting climate scenario modelling with care, recognising that it's an area where both understanding and methodologies will develop through time. We'd already commenced a project to evolve our own approach to climate scenario modelling at the point the industry came under criticism, which keeps us able to have meaningful dialogue with our clients.

The approach we've taken

For a climate scenario narrative to be realistic, one must consider how different actors within our global system respond to stress. This is to add in the human response to environmental or other stimuli, recognising that different entities may not always take decisions that lead to an optimal outcome. We've done this by considering five different risk drivers:

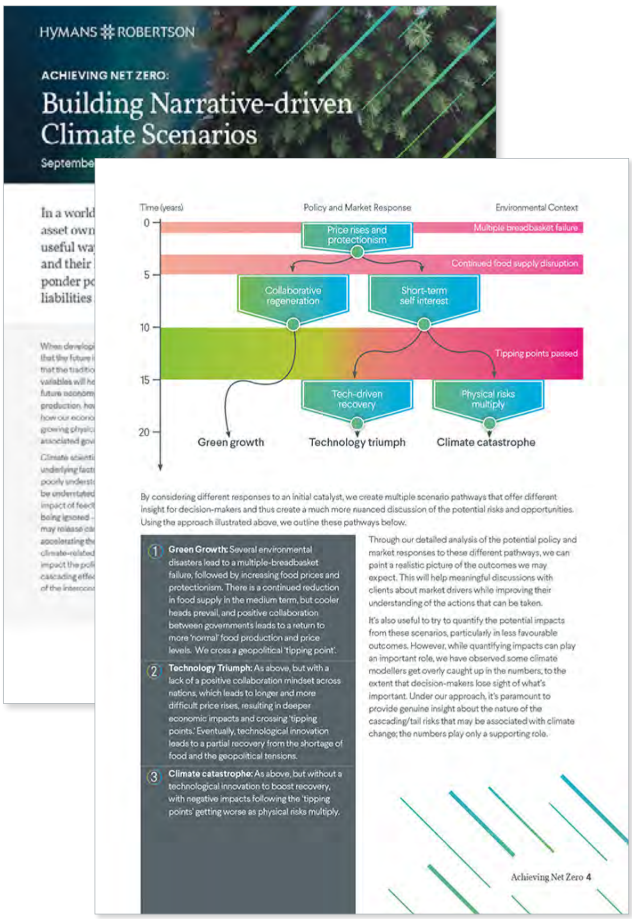
- **Energy:** issues including the global energy mix and corporate transitions.
- **Geopolitics:** trade relationships, policy development and carbon pricing.
- **Environmental factors:** including carbon emissions.
- **Social factors:** migration and issues related to the just transition.
- **Technology development:** includes factors related to climate solutions.

To turn these drivers into meaningful climate narratives, we think that scenarios should have a catalyst. This could be driven by environmental considerations, by policymakers or by technological change. It's easy to conceive of different catalysts and, while many may be negative, positive events may also be considered. By considering different responses to an initial catalyst, we create multiple scenario pathways that offer different insight for decision-makers and thus create a much more nuanced discussion of the potential risks and opportunities.

It's also useful to try to quantify the potential impacts from these scenarios, particularly in less favourable outcomes. However, while quantifying impacts can play an important role, we've observed some climate modellers getting overly caught up in the numbers, to the extent that decision-makers lose sight of what's important. Under our approach, it's paramount to provide genuine insight about the nature of the cascading/tail risks that may be associated with climate change; the numbers play only a supporting role.

Through our detailed analysis of the potential policy and market responses to these different pathways, we can paint a realistic picture of the outcomes we may expect. This will help meaningful discussions with clients about market drivers while improving their understanding of the actions that can be taken.

We published details on our approach in September 2023, sharing information with the industry and inviting feedback. We've received several responses that have led to further engagement on the subject.



CASE STUDY:

Engaging on climate narratives

Following the development of our new approach, we've run several pilot exercises with clients to share our thinking and understand how learnings can be conveyed. Our goals have been to establish how best to use a substantively different approach to help clients make better decisions. This has allowed us to explain both the methodology employed and the potential quantification of the output.

OUTCOME

One learning from this process was that quantification, particularly in certain formats, distracts from the more detailed discussion on the risk drivers, thus derailing the broader goal of the methodology. We therefore refined the approach to quantification while also further deemphasising quantitative outputs in discussions. Consequently, initial discussions have been far more involved and understanding of climate risk has deepened. We will continue to refine our approach into 2024.

We'll be engaging further with clients on our approach during 2024 and embedding this methodology into future funding and investment strategy review exercises.

Addressing the gaps in climate data

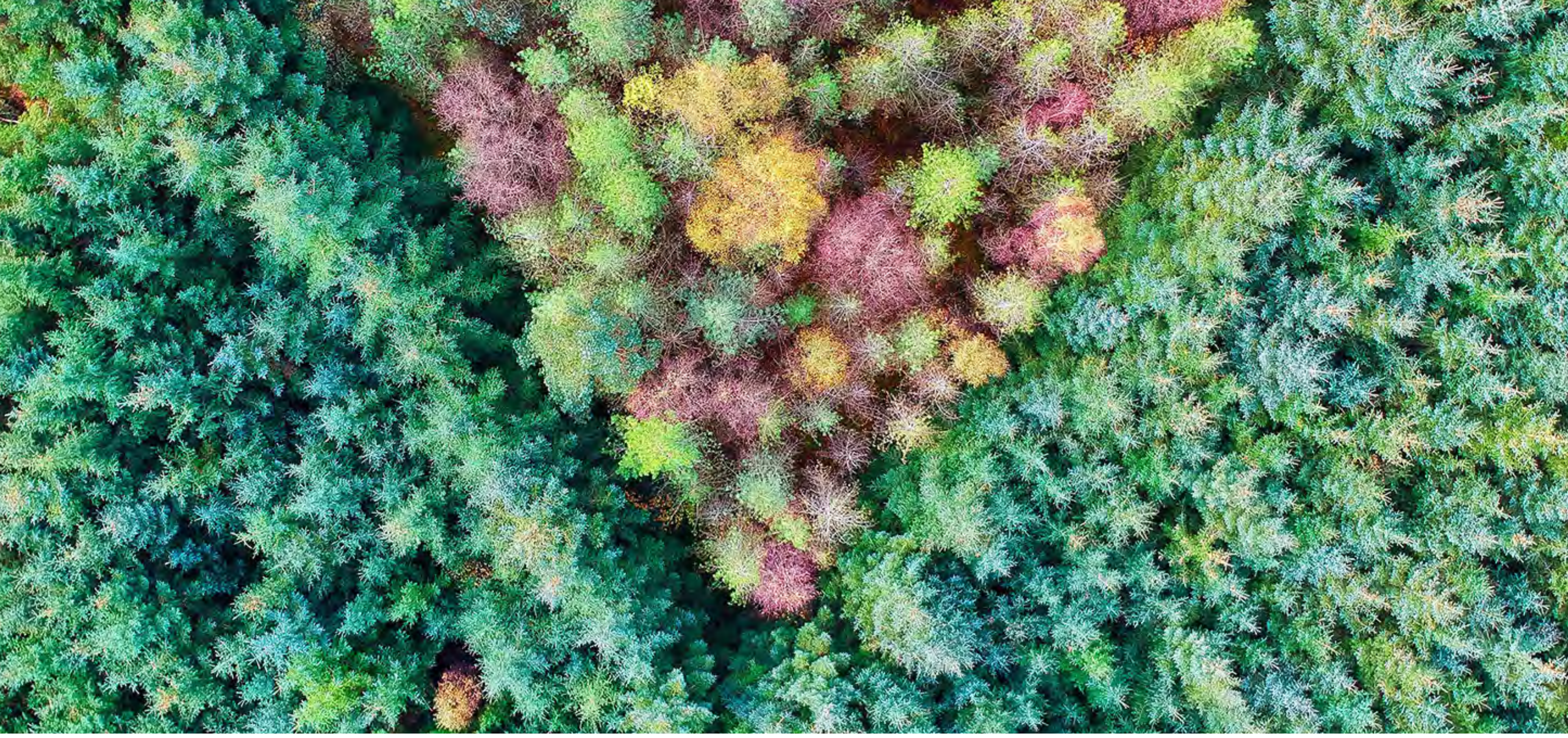
Asset owners are increasingly subject to climate reporting requirements in line with the TCFD framework, and public sector pension funds are expected to fall into scope in the near term. Addressing climate issues is a core issue for many, particularly those who are setting net zero ambitions. Being able to measure and demonstrate progress is critical. But even where data provision is impractical, this doesn't negate the need for transparency and explanation.

The results of our second annual private markets climate data survey revealed an improvement in response rates and data quality, although overall progress in the data provided by private market managers is not sufficient. This lack of strong progress indicates why engagement with managers remains crucial. We've proactively shared our findings with the asset manager community through our Research Roundup publication, and through our ongoing dialogue with managers. Full details can be found in our published paper here.

OUTCOME

Our research report made the following five recommendations:

- **Continue to ask for data.** Asset owners can drive change by making consistent requests for information.
- **Engage with managers.** It's important for asset owners to assess their managers' internal processes for data collection across private market assets. Where data is not being reported, asset owners should understand the actions being taken to begin reporting, with engagement being used to emphasise data requests.
- **Understand data verification processes.** Managers should be asked to explain how reported data has been tested. This will help to ensure accuracy and can instil confidence in the approach followed.
- **Be pragmatic.** There may be some assets for which data collection is impractical or uneconomic. Understanding where asset managers are not pushing for data, and why is vital.
- **Encourage transparency.** It's more beneficial for managers to report on some metrics rather than not reporting at all because they have some gaps. Managers must be urged to assess both the relative significance of data gaps, and the actions they're taking to ensure that climate risks are being managed effectively.

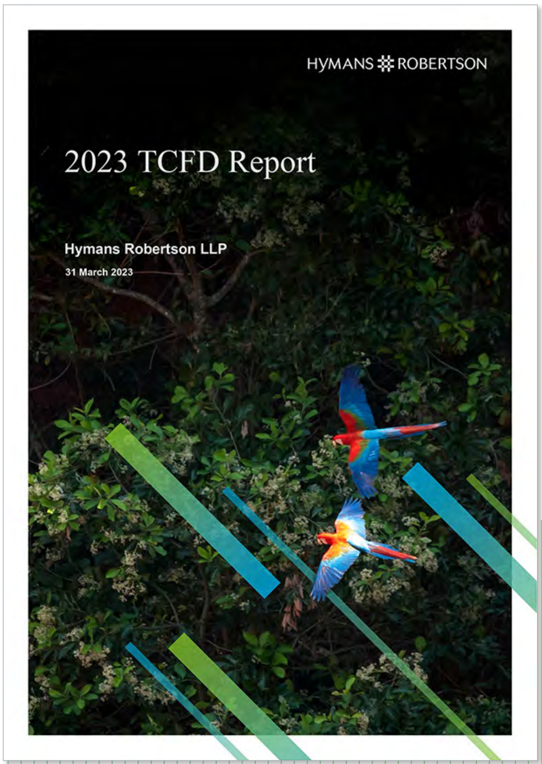


Demonstrating accountability

We've made clear commitments to be transparent in both the approach we have taken to address climate issues and the progress that we've made with our clients. Consultants assess their clients at least once a year to establish where they are on their net zero journey and the progress being made. For those that aren't yet committed to net zero, we try to identify the barriers and provide support through the NZWG.

During the year, we updated our initial report under the NZICI framework to incorporate the agreed Key Performance Indicators. We set out as an Appendix to this report the progress made against each of these KPIs over the course of 2023, with **improvements seen across all five client-related metrics demonstrating an increase in client engagement on climate issues.** We also published our 2022/23 TCFD report, which details how we are meeting our own climate commitments.

Our approach to ensuring our firm-wide climate expertise meets best practice standards is to assess ourselves against the ICSWG's consultant Climate Competency Matrix. We encourage our clients to employ this as a basis for their assessment of our capabilities in accordance with the requirements of the TCFD framework and will formally publish our self-assessment as at 31 December 2023 during the first half of 2024.



Principle 5

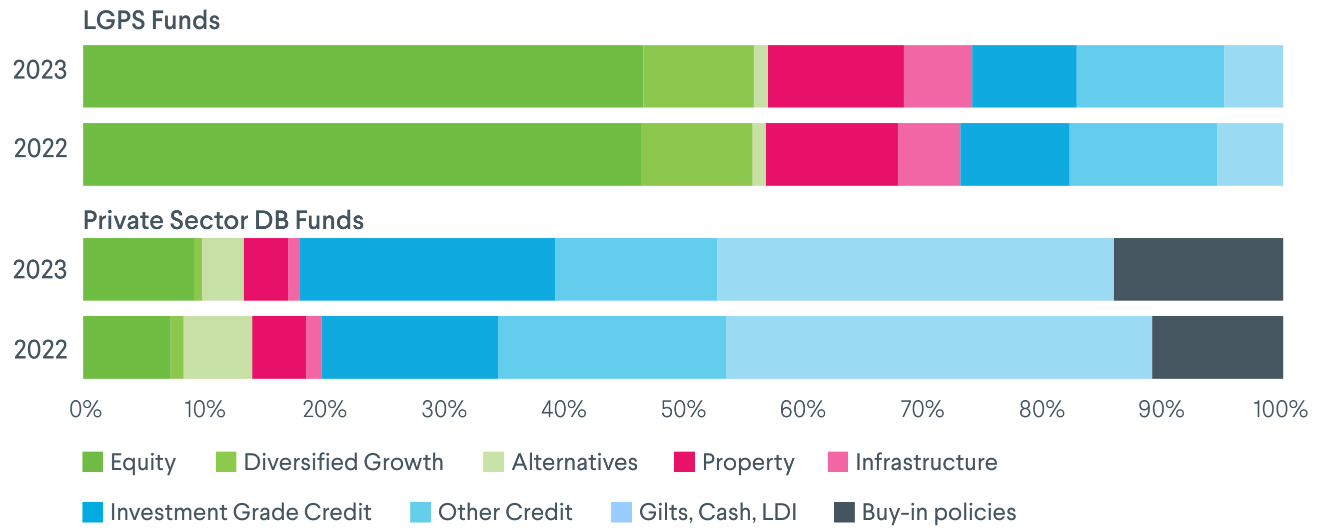
Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken.

Our clients are the trustees, sponsors, platform providers and committees that govern defined benefit (DB) and defined contribution (DC) pension arrangements. We also work with endowments, insurers and other financial services institutions that are responsible for asset pools.

Our clients are UK domiciled. In total, we provide direct investment advice to pension clients with approximately £283 billion of assets, of which £189 billion relates to DB clients and £94 billion relates to DC clients. While consideration is given to RI issues in all areas of our services, stewardship is most directly exercised over the assets of our institutional client base.

The charts below provide breakdowns as to how our DB clients' assets were invested in 2022 and 2023.

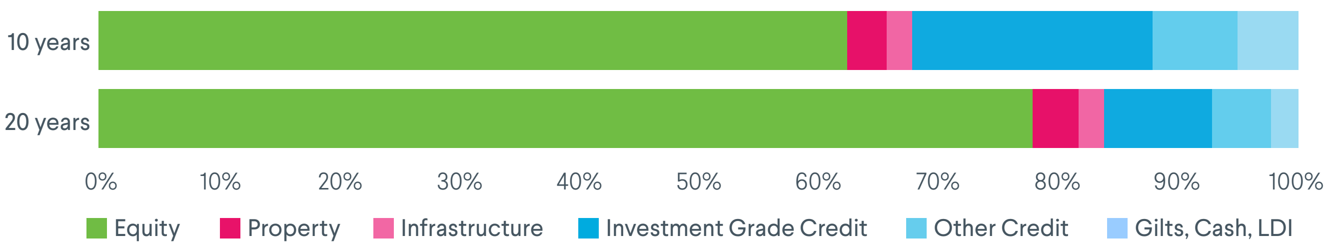
DB client asset investments 2022-2023



Source: Hymans Robertson, Data as at 31.12 in each year.

Our DC clients comprise both individual clients implementing their own strategies and providers that are responsible for the entirety of assets invested across their platform, and the asset allocation generally depends on the age of members. In practice, younger members will be invested more heavily in equity and other growth assets, and older members will be invested in a more diversified manner. The chart below represents the allocation of the members who are both 10 and 20 years from retirement. Our advice to clients influences the asset-allocation journey that individuals take, the nature of the default arrangements, the underlying constituent elements, the stewardship of assets and how issues are communicated to members.

Average DC member asset allocation by time to retirement



Source: Hymans Robertson, Data as at 31.12.23.

Supporting our clients

We've highlighted various areas of research focus throughout this report, but our team also explored a number of other areas over the course of the year, which included:

Equity
We spent time investigating how ESG integration has evolved over time, and the specific ESG themes that managers are prioritising. We also explored equity strategies for clients who are seeking a biodiversity-themed allocation.

Sustainable fixed income
Recognising the desired for fixed income strategies from clients who were continuing to derisk alongside sustainability considerations, we spent time assessing the universe of sustainable buy-and-maintain strategies. We have shared thinking on this topic since the year end.

Avoided emissions
We explored 'avoided' or 'scope 4' emissions and emissions removing investments. We sought to understand how this could be defined and measured, and the associated investment opportunities that may exist within this area.

Agriculture
We investigated investment opportunities that make efficient use of limited resources (energy, land, water) through technological developments and/or improved management, initially focusing on crop farming.

We recognise that many clients have set sustainability ambitions, and we're equally conscious of the need to hold managers to the highest possible standards. We have several mechanisms for doing this including through our sustainability framework, our dialogue with managers and our ratings committee. This ensures that products are subjected to the highest level of scrutiny and challenge prior to being recommended to clients.

CASE STUDY:

Questioning the sustainability characteristics of funds

One of our preferred managers developed a sustainable version of an existing rated strategy in response to perceived client demand. At our clients' request, we reviewed the proposed mandate, holding several calls and meetings with the manager, testing the strategy against our own framework and the expectations of clients. We raised concerns around the sustainability goals and the overall level of ambition that was conveyed.

OUTCOME

While we ultimately concluded that the strategy was suitable for investment, our preferred rating for the existing strategy was not directly transferred, thus demonstrating that we will hold managers to rigorous standards. Based on our views, our clients chose not to make change.

When addressing sustainability issues, the ways in which our clients work can vary significantly, and the actions that are appropriate for one client may not meet the needs of others. Our advice is therefore tailored to the needs of our clients. Our updated Mission Statement formally captures our three core pillars of activity – we've used this framework to further illustrate the different ways we helped clients over the course of 2023.

Achieving net zero

Helping our clients address climate-related issues remained at the core of our work over 2023, as our Spotlight on Climate has illustrated. However, we've also sought to combine our research and climate focus in supporting clients. We developed model portfolios to help our clients understand the capital allocation that might be needed to achieve net zero. This has been of particular benefit to clients in prioritising the actions that they may take and has led some clients to consider allocating to natural capital mandates.

CASE STUDY:

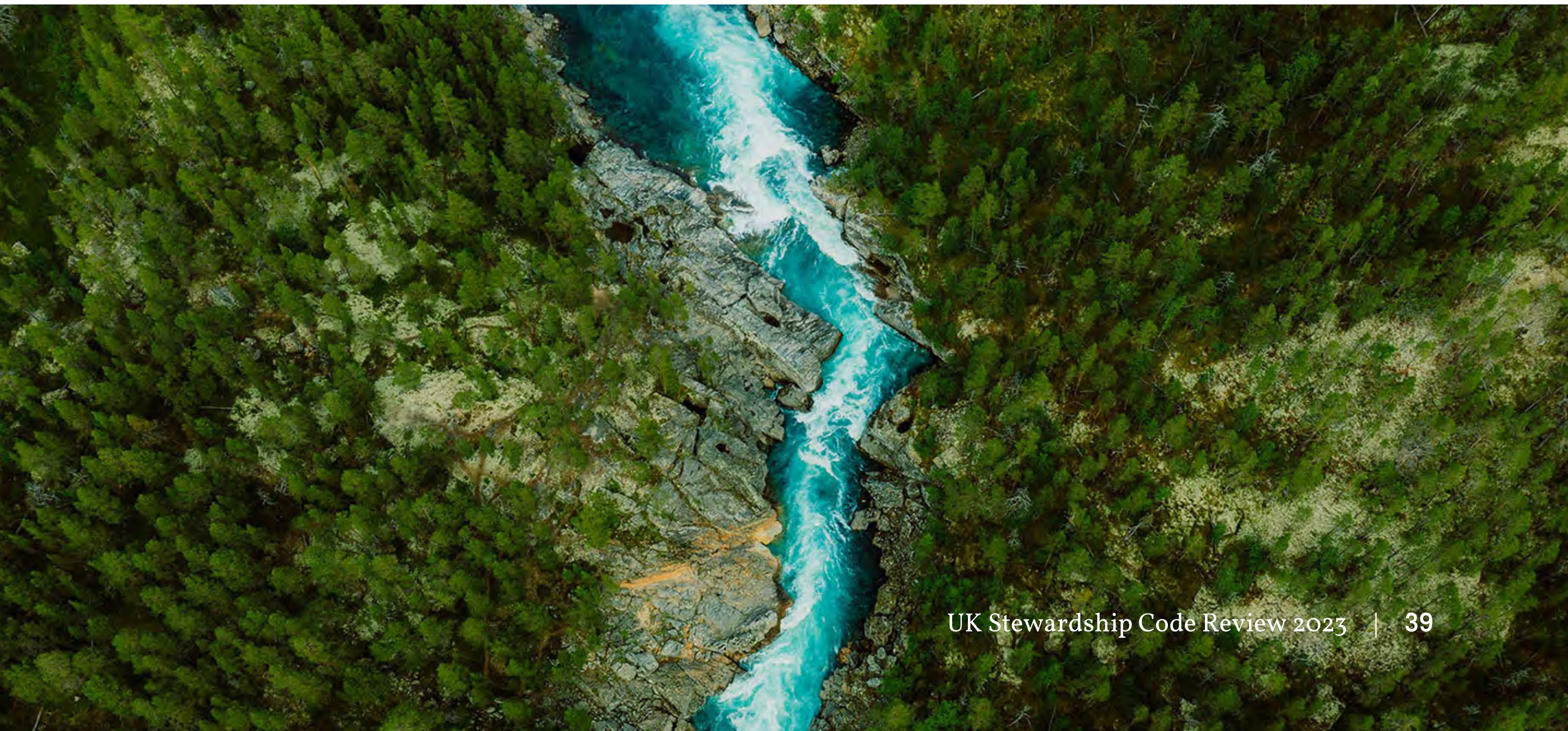
Investing in natural capital to meet a sustainability goal

Our client is a well-funded public sector pension scheme with a high allocation to listed equities. Equity market performance had been very strong over a five-year period, meaning both valuations and equity risk were potentially of concern. We took the opportunity to explore alternative opportunities for the client, mindful that the Fund already held allocations to infrastructure, property and direct lending. We also considered timberland, with the Fund ultimately initiating a £50 million holding in this asset class.

The Fund could afford to take on some illiquidity risk, while our analysis found that overall performance was balanced reasonably evenly between income generation and capital value generation. Moreover, the fund had an ambitious net zero target and we found that timberland allocation would materially contribute to this goal. We met several managers with the client, who appointed two: one specialising in farmland and timberland, and the other a dedicated timberland fund.

OUTCOME

Our work and subsequent advice meant that the Fund's target allocations are now more balanced, and the client's concerns round equity valuation risk were allayed. The portfolio had more diversified sources of income and returns, while the timberland allocation makes a measurable contribution to the Fund's net zero target.



Supporting better analytics and reporting

We continued to work with many clients following the extension of TCFD reporting requirements for pension schemes, working with around 30 different organisations on projects that included helping clients draft their report, collating and reporting climate related metrics, and climate scenario analysis. While continuing to support clients in meeting their regulatory obligations, we also helped them to develop a broader understanding of climate-related risks and improve their own reporting.

The work undertaken to develop our carbon pathway analysis formed an element of this, with understanding the challenges of entity level reporting also a focus. We developed approaches to facilitate broad data collection, explored and discussed the benefits of using proxies within climate analytics and the calculation of historic positions.

CASE STUDY:

Working with multiple stakeholders on climate analytics and reporting

We completed a landmark climate analytics project to better understand climate risk exposure across multiple public sector funds, exploring both pooled and unpooled assets. We undertook data processing and cleansing to fully understand exposures across asset classes, while gathering manager portfolio information. Having agreed the metrics we'd report on, and the creation of suitable asset class proxies to deal with the data gaps, we undertook analysis on multiple portfolios to allow reporting at both pool and fund levels.

Reporting was shared with various stakeholders, which prompted discussion and engagement, leading to the adoption of a series of recommendations and agreement to the publication of an external report.

OUTCOME

This ambitious project required collaboration across multiple parties and led to the adoption of a series of recommendations on the development of policy and decision-making frameworks. However, the project also allowed stakeholders to explore changes through time and therefore understand the impact of various policy decisions. We expect this will impact on future decision-making.

We expect clients will continue to want to report at an entity level and for analytics to be expanded beyond listed assets. By undertaking a project of this nature alongside our ongoing work on the collection of private markets data, we've created processes that will support clients to meet this goal.

Being better stewards

Stewardship has been a core focus for us over several years, with the goal of helping our clients become better stewards. Our focus remains on creating more effective dialogue between our clients and their asset managers and other providers, ensuring that our clients operate primarily within their direct sphere of influence. We've developed tools to support this work and continue to encourage our clients to make use of their existing processes, such as the preparation of Implementation Statements, to support their efforts. We also supplement this by providing more detailed topics for discussion, identifying individual assets that can be used as case studies or by building shorter focus lists of companies that clients can use.

Our approach creates continuity in dialogue, recognising that stewardship can be an incremental process and actions may not be successful at the first attempt. By maintaining a more detailed history of engagements and ensuring that agreed actions and targeted outcomes are recorded, and followed up on, we can create accountability. We've supported clients in many ways, as illustrated on the following pages.

CASE STUDY:

Building and implementing an engagement framework

Our client has ambitions to be a leader in RI. Over recent years, we've worked with them to create a plan, outlining the actions they need to take to achieve this goal. One aspect of this has been to create an engagement programme. We designed the programme, presented it to the client, and we now meet with the client monthly to share progress. Crucially, we wanted the programme to focus on outcomes-based engagement. That means not just meeting with the managers, having discussions, and then moving on, but creating engagement logs (as illustrated below) of those discussions and the outcomes that we want to achieve, which are then monitored.

Having created the engagement programme, the final step was to carry out the engagements. We've decided to approach it by asset class, starting with direct lending managers (the client has four). Our first round of engagements with the direct lending managers considered their TCFD reporting requirements, RI policy expectations and their net zero ambitions.

The next steps are to engage with the infrastructure and credit managers. We've prioritised engagements by the investment strategy, considering asset classes that are going to be more prevalent in the portfolio or held for longer.

Engagement Topic	Priority Theme	Outcome
ESG Integration		
ESG Integration - ESG risk rating & emerging ESG risk: *Engagement note section 1*	n/a	Satisfied and monitor **Satisfied** that XXX have a robust climate change and ESG risk rating process, that draws on multiple data sources and considers materiality. Further, satisfied these are continually reviewed and inform engagement. Satisfied that XXX have a well-considered and thought-out understanding of the potential emerging ESG risks and that the portfolio is being monitored to protect against these. Continue to **monitor** the effective use of climate change and ESG ratings. Timeline: monitor annually.
ESG Integration – ESG margin ratchets: *Engagement note section 1*	n/a	Satisfied and Monitor Satisfied that XXX have a considered approach to SLL's and are using them to reduce greenwashing claims by ensuring that all KPI's meet SLL principals. Continue to monitor that the number of SLL increases over time and that that quality of targets become more ambitious (as per XXX's own ambitions). Timeline: At the next annual engagement meeting, or within 12 months.
ESG integration- Transparency & reporting *Engagement note section 1*	Corporate transparency and climate change (TCFD)	Follow up **Satisfied** that XXX have been focussed on improving transparency and reporting, through the introduction of an ESG questionnaire that has evolved over the years and increased in response rate, which is high. **Satisfied** with the use of Novata, a third-party platform, which allows for meaningful benchmarking against industry peers enabling the data to be more decision useful. Further, **satisfied** that the KPI's selected for borrowers to report have been determined considering various industry frameworks. through a considered process (via consideration of industry wide frameworks to ensures consistency and materiality). Satisfied that XXX are committed to reporting against TCFD requirements in 2024 (although this is a regulatory requirement), **follow up** to obtain a copy of the TCFD report for review. Timeline: at the next annual engagement meeting, or within 12 months.

Our client's engagement framework captures details of discussions held with managers, the agreed actions and an assessment of our client's confidence in the managers abilities.

Launching our manager engagement programme

During 2023, we established our formal manager engagement programme. While our research team and client consultants have regular dialogue with asset managers, we retain the goal of helping our clients become better stewards of their assets. To do this, we believe that a separate, more strategically oriented dialogue with key asset manager relationships would help increase challenge of managers on their actions, influencing change where actions are not as expected and help others see the value of stewardship.

We build on routine monitoring and frequent conversations with asset managers to analyse the stewardship activity of asset managers at a firm level and highlight areas for follow-up. Our programme was launched in Q3 2023 and was initially focused on a group of 17 managers. The goal of our first round of discussions was to better understand the ambition and intent of the manager's stewardship activity and draw out examples on climate-related issues. As we develop this programme, we will be sharing the outcomes of our discussions with clients and, in turn, encouraging their own stewardship efforts.

22 clearly targeted meetings with asset managers through our manager engagement programme

CASE STUDY:

Focusing our engagement

We've developed a concept we currently refer to as 'thoughtfully forceful stewardship'. There's a certain level of basic stewardship at which asset managers can operate. For example, they can ask for stronger governance or more disclosure. Both of which are generally desirable. But we also think there are more ambitious things to ask for – and more ambitious ways to ask for them.

During our initial engagements with managers, we asked two questions, one of which was a general question about what good stewardship looks like. We also found it useful to have a tangible example, namely, did they oppose the creation of new fossil-fuel facilities? This is an example of a stronger ask that an asset manager could make.

We didn't frame this as a good or a bad opinion to have. However, if the asset manager indicated they were culturally or philosophically opposed to or in favour of this, it was useful, because it told us about that organisation's culture. It was also a good engagement opportunity to ask, firmly but politely, why it made sense to them. It was helpful to identify those asset managers who were ideologically, culturally or philosophically more prone to the idea of using their influence to achieve positive outcomes in a way that's good for the world but would also help their portfolio values do better.

OUTCOME

We believe the tension between the thoughtful and forceful aspects is that by being ambitious or strong in what you're demanding, then you can have more impact. Our initial thinking is that it's appropriate to emphasise the 'thoughtful' aspect before making strong demands. As part of that challenge, we can ask, what does careful research look like? Or how did you make these decisions? We found that where they were philosophically aligned to making the world a better place, they tended to welcome the challenge.

Continuing to evolve processes and practices

A key step for both us and our clients is to ensure that we learn from experience, recognising that organisations can always evolve or extend their practices to improve their stewardship efforts. We help our clients undertake self-assessments, using their own policies or external reporting as a catalyst for such an assessment.

For example, where we have helped clients report against the Stewardship Code, we typically follow preparation of the report with a list of learnings that we've established. This has ranged from areas where there are gaps in processes or data availability, to identifying how an existing process can be applied in a different way or in a different context. We've found this helps us set a forward-looking agenda and allows for continued improvement in processes.

CASE STUDY:

Learning from the journey

Our client is a pension fund with around £200m in assets under management. Over the last four years, we've worked with the trustees to help them first develop and then implement a vision for a responsibly invested strategy. This has included evolving how they exercise stewardship over their assets.

We believed that the work undertaken by the trustees would allow them to become a UK Stewardship Code signatory. We gained their support to submit a report, believing that it was possible for smaller asset owners to demonstrate high standards, and that reports do not need to be lengthy to succeed. Their report was just 27 pages long, demonstrating our ability to communicate concisely and their application was successful.

We also highlighted several development areas for the trustees to improve their approach, including the need to review their investment beliefs and set more tangible engagement themes. These steps have now been taken.

OUTCOME

A successful stewardship code application cemented the trustees' belief in the processes that they had put in place and allowed them to demonstrate their activities to both the sponsoring employer and an interested membership. We were also able to help them take some relatively simple steps towards improving their approach, all derived from being able to take a broader perspective on their stewardship processes.

Learning from individual client experiences also helps us continue to evolve our own approach, but also to educate our clients drawing on our learnings. For example, drawing on our experience of working with clients on stewardship code reporting, we hosted a webinar during which we were able to share our own and others' experiences to help make others better stewards.

Helping clients focus their efforts

Stewardship is a resource-intensive exercise and reporting on activity, while desirable, can crowd out efforts focused on action. Our support allows clients to focus their attention where it is most needed. For example, we have actively recruited staff to directly support clients and, within our Insurance & Financial Services business, routinely second staff to support on reporting projects. While such arrangements fill a resourcing gap, to ensure that we effectively tailor our support, we often find it useful to identify a particular goal the client is seeking.

CASE STUDY:

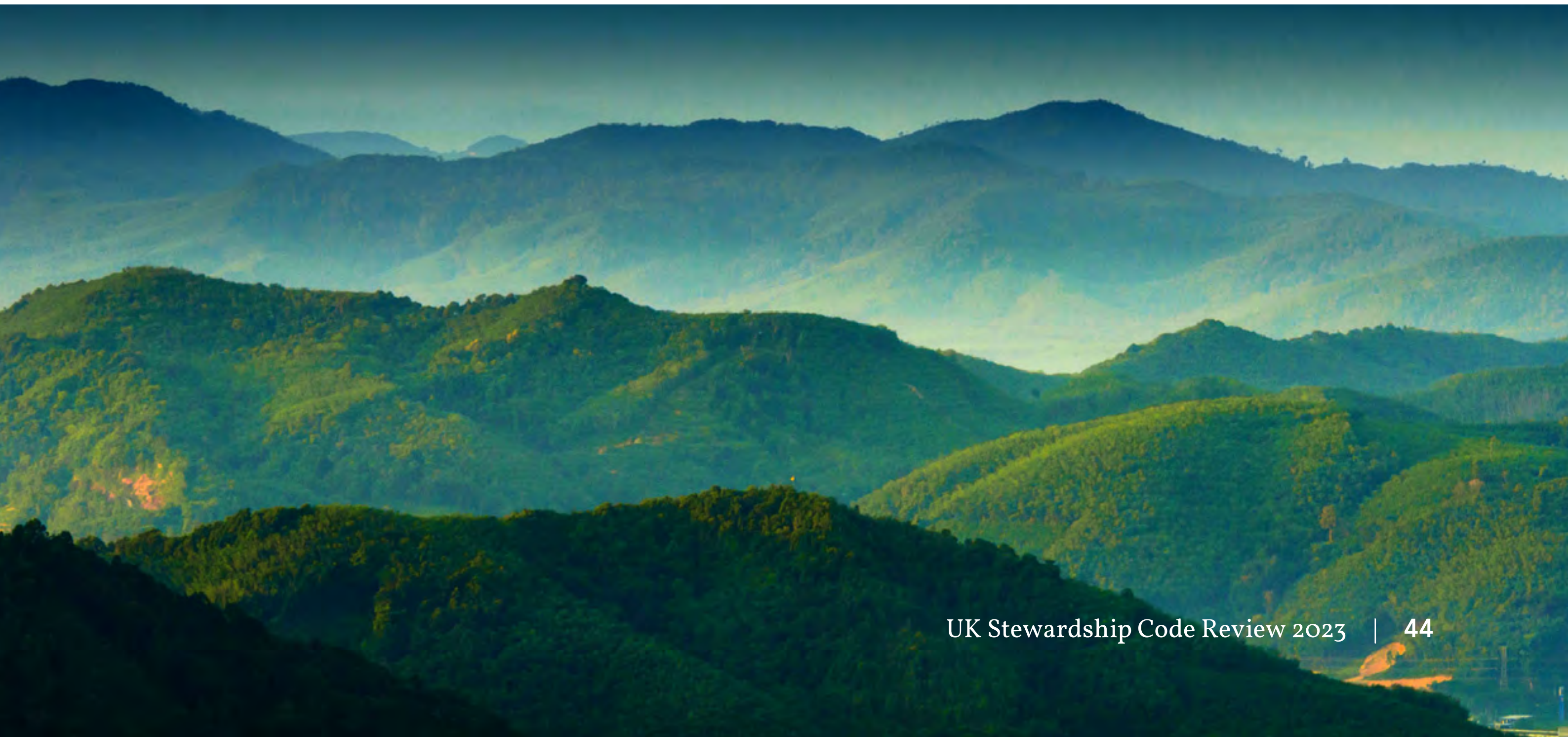
Helping a fund to better understand their stewardship processes

Our client, a £13 billion pension fund, expressed a desire to formalise how its beliefs and thinking were reflected in the fund's assets and processes, and to report externally. We were appointed to support this process. We methodically reviewed their existing policies to identify gaps and interviewed several of their team to establish how processes were being implemented.

Central to this task was teasing out the good work the fund had done in engaging with managers. Through our discussions, we found the client was doing a lot of meaningful work, but they required our help to capture it and ensure that the work was being effectively recorded. Reporting on these processes and the outcomes achieved became an iterative process, with two-way feedback flowing between us and the client. This ensured that we were able to produce a complete report that met their needs.

OUTCOME

While our client was subsequently confirmed as a stewardship code signatory, our support has led them to better understand their existing processes and for their team to ensure that outcomes are being more effectively recorded.



Providing independent oversight

Some clients employ fiduciary managers or otherwise outsource the direct management of their investment arrangements. Where this is the case, our support is tailored towards the provision of oversight services and ensuring that we are familiar with the approaches to stewardship provided by outsourced providers. This makes us able to provide more focused challenges and support.

Our fiduciary oversight team meet with all providers on at least an annual basis to better understand the developments in their service offerings and processes, and thus provide a basis for constructive challenge and reporting to our clients. Issues covered during our 2023 meetings included the framing of net zero and climate goals, approaches to client reporting, the exercise of stewardship, and the use of third party and other data sources. Through this we identified common themes, which were cascaded to consultants and used to support client engagement.

CASE STUDY:

Providing independent oversight and constructive challenge on RI issues

This client had evidenced a strong desire to ensure RI was firmly embedded into the scheme's decision-making, so we suggested they put in place a responsible investment working group. This group, comprised of trustees, formulates the RI priorities and tracks how they feed into investment decisions. The creation of this group has established a governance framework to make sure that RI work is prioritised. Recent work has focused on integrating the work of the responsible investment working group into the traditional investment committees.

As a strategic adviser, we see our role as challenging the approach that has been followed by the client's fiduciary manager. We want to ensure that the principles behind the scheme's policies remain fit for purpose as the ESG landscape evolves. We provide a regular bulletin to the client on key RI issues, and we ensure the fiduciary is taking an engagement approach that's linked to the scheme's priority areas.

OUTCOME

The information and support we provide to our client has allowed them to effectively question their fiduciary manager across a range of issues. This follows one of our desired outcomes for effective stewardship, being that of a continuous dialogue where issues are raised, responses assessed and promised outcomes monitored to assess the progress being made. Our client reflects these discussions within the stewardship reporting.

Creating positive impact

Assets are invested to generate economic return, but many assets also directly or indirectly affect society and the environment. Being clear on the desired outcomes is essential to creating impact. One area of focus has been real estate, particularly considering how the sustainability credentials of property assets can be improved.

CASE STUDY:

Positioning an impact property allocation

Our client has been seeking to migrate an existing property allocation towards a more impact-oriented strategy. This is part of a longer-term focus of the trustees. We have provided input on the current UK property market, training on potential areas of real estate impact cross both environmental and social dimensions, and hosted training from a third-party manager.

OUTCOME

The trustees have agreed to make changes to their strategy and will be allocating to an impact-oriented strategy during 2024.

Developing impact measurement and theme selection methodology

With many asset owners just starting out on their impact journey, when making allocations, it's still uncommon for investors to ask their asset manager to estimate upfront the amount of impact they'll achieve. We want to help investors create positive impact. But without these targets, monitoring becomes difficult.

To be confident they're achieving this, investors must be able to demonstrate that their impact is legitimate. We've begun developing what we call our IxA framework, which can help with monitoring and determining allocations between impact themes and asset classes. We've shared our thinking with managers, asset owners and industry groups to positive feedback, and will be expanding this thinking into 2024.

CASE STUDY:

Evolving clients' RI beliefs to incorporate impact

Our client, a large local government pension scheme, has evolved its beliefs since we delivered a sustainable equity solution in late 2022. As the client's knowledge and enthusiasm for RI issues has grown, they've come to view their investment approach as a spectrum, with a timeline beginning with traditional assets, moving to incorporate RI beliefs – the phase where we designed the sustainable product – and with developing impact solutions as the next phase.

OUTCOME

We're currently helping the client with its plan to repurpose its alternatives investments to introduce impact solutions. In terms of our impact work, we're developing a framework to map our approach to this, keeping in mind the high levels of due diligence that are needed to ensure the impact criteria are met. More specifically, we're exploring a timberland fund that has impact criteria.

A further area for discussion with clients is what they want to have impact upon. We've had discussions on allocating to local and place-based investments but believe that our clients can approach this in a more systematic manner. We've begun considering more evidence-based approaches for theme prioritisation.

CASE STUDY:

Testing thought leadership within defined contribution markets

Our client is a leading master trust that has regularly sought to evolve its default strategy and approach to stewardship. In response to dialogue on impact themes, we shared our thinking on different approaches to prioritising impact themes. This provided the Trust with a different perspective on theme selection.

OUTCOME

Our client's response to this initial work was very positive. This has encouraged us to continue to develop our own work in this space and engage further with a range of stakeholders, including broader industry groups. We continue to develop thinking in this area with the expectation of trying to influence industry behaviours over 2024 and beyond.

Embedding stewardship across our business

Beyond our investment business, our teams work both with clients and providers to embed the consideration of stewardship issues in their approach to working with clients.

Insurance and Financial Services

Most of our client projects have some element of ESG considerations. We brought climate change into our With Profits forums, which we consider a relatively new area of life insurance for considering climate options. We also completed our third climate survey with insurance companies, with over 30 insurers across life and general insurance participating. Issues addressed ranged from how insurers are managing their climate-related risks, to hot topics like biodiversity and transition plans.

The anonymised results of this survey were presented at the General Insurance conference (GIRO) in November, with positive feedback from those in attendance. We've presented at other conferences, including our Insurance & Financial Services Annual Seminar in October 2023. We recognise that there is merit in sharing experiences and have sought to convene several local sustainability networks.

More broadly, we have continued to drive industry thinking. For example, we have highlighted issues on ESG considerations for With Profit funds following roundtable discussions and commissioned Censuswide to survey consumers on climate-friendly investments, producing a white paper on the results.

Risk Transfer

In recent years, the consideration of insurers' approach to addressing climate and ESG risks has become a consideration for trustees who are pursuing risk transfer solutions. We've made it an element of our own evaluation process and, while not a primary driver of decision-making, it remains a relevant factor.

We reviewed our ratings benchmark during 2023, but we didn't make any material changes to our process during the year. Meanwhile, we continued to work with insurers to capture their information and updated our ratings in this regard. We also added additional information on SBTi validation of insurers' net zero targets. Finally, we worked with a new insurer following their entry to the market, to ensure that we had a rating in place to support future projects.


HYMANS ROBERTSON

Spotlight: Insurer TCFD reporting and net zero targets

By Paul Hewitson, Head of ESG for Risk Transfer

In our recent Risk Transfer report, I took an initial look at one of the challenges that trustees face when trying to compare insurers' progress against their own targets to reach net zero emissions, as set out in their TCFD reporting.

In the bulk annuities market, all insurers have published their first disclosures in line with the Taskforce for Climate-related Financial Disclosures (TCFD) framework, including details of:
- **their targets for emissions reduction and net zero ambitions;**
- **their transition plans setting out the actions they propose to take; and**
- **the metrics they will use to track progress towards their net zero targets.**

On the first of these points of detail – in looking to compare insurers' net zero targets – the range of interim and ultimate net zero targets can make for a tricky comparison. The chart below shows each insurers' targeted evolution for the emissions from their investment portfolios.

However, as noted previously when looking to compare insurers, the devil is in the detail – both with their headline targets, but also in the plans of how each insurer will look to transition the assets within their investment strategy to meet their goals.

In this report we delve further into the other points of detail from insurers' TCFD disclosures, as noted above – insurers' transition plans and their metrics for measuring progress towards their target.

Our March 2023 Spotlight focused on insurer TCFD reporting and net zero targets.

Communicating with clients and other stakeholders

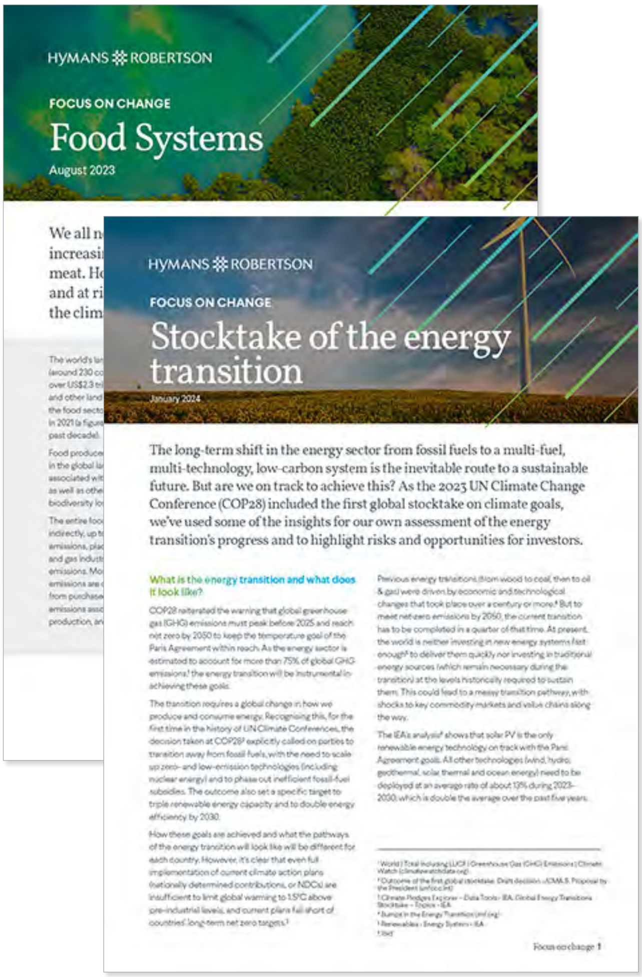
We place value on being able to share our thinking with our clients through a variety of media. Supporting this are various periodic publications, many of which directly focus on stewardship issues.

RI News & Views

Our RI News & Views is published quarterly and provides a mechanism for us to share opinions, market developments and other emerging activity with our clients. We always include detail of forthcoming votes that can be considered by asset owners in scrutinising their asset managers. As a result, our clients are finding it easier to create dialogue with their asset managers on voting and engagement issues and are better prepared to challenge unsatisfactory responses.

Research Roundup

Our Research Roundup is also a quarterly publication but targeted at the asset manager community. Through this, we can share information on current areas of activity and focus, but also provide feedback on our research findings. This supplements the direct discussions and engagement we have with asset managers. Topics covered in the Research Roundup included our Sustainability Framework, our AI survey, and our RI questionnaire.



HYMANS ROBERTSON
FOCUS ON CHANGE
Food Systems
August 2023

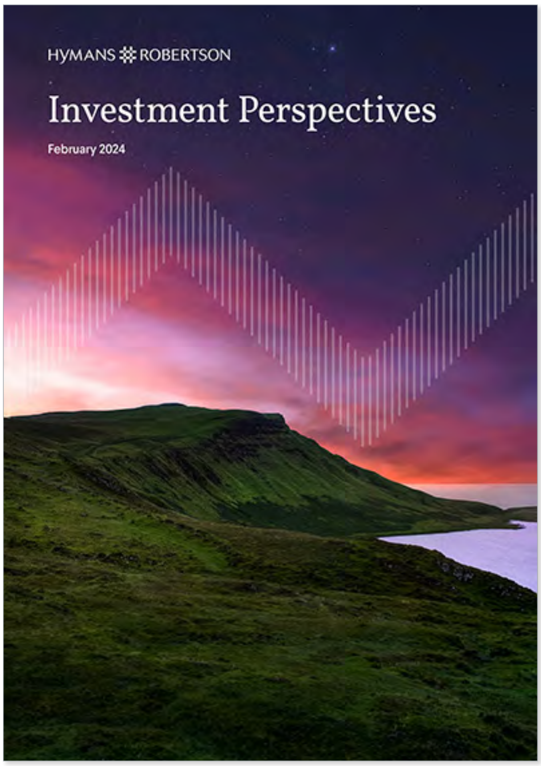
HYMANS ROBERTSON
FOCUS ON CHANGE
Stocktake of the energy transition
January 2024

The long-term shift in the energy sector from fossil fuels to a multi-fuel, multi-technology, low-carbon system is the inevitable route to a sustainable future. But are we on track to achieve this? As the 2023 UN Climate Change Conference (COP28) included the first global stocktake on climate goals, we've used some of the insights for our own assessment of the energy transition's progress and to highlight risks and opportunities for investors.

What is the energy transition and what does it look like?

Focus on Change series

Considering opportunities not just for today, but for the years ahead, means we need to explore how the ongoing transition to a low carbon economy may impact us all. Our Focus on Change series of articles explores a range of issues relating to changes within energy systems as we try and identify the investment ideas for tomorrow. While we continued to focus on energy systems, exploring the potential investment case for hydrogen in particular, we also broadened our consideration to other areas that may be affected by climate, such as food systems.



Investment Perspectives

Investment Perspectives is our quarterly magazine for asset owners, consolidating our views on capital markets and showcasing our thought leadership.

Hymans Robertson Podcast Series

Our podcast series offers commentary on a broad range of investment and other topics. Subjects addressed during the year included biodiversity and renewable energy infrastructure, with expert input from asset managers providing colour. However, we're not afraid to do things a bit differently, and our Book Club episode explored governance and workplace culture with author Jenny Segal.

Getting feedback from our clients

Each year, we undertake an annual Voice of Client survey, so that we can glean information about the quality of our service and our clients' overall experience. This is essential information, because first and foremost our clients need to trust us and have confidence in our ability to guide and advise them.

The survey data relates directly to our ability to support our clients: they need to see us as their expert, trusted adviser if we're to persuade or influence them to make RI and stewardship a priority.

In our 2023 client survey:

96% of clients would recommend us to their colleagues.

96% of clients agree that we understand and take the time to get to know them.

98% of clients rate us highly for service quality.

93% of clients rate us highly for innovation and bringing them new ideas.

We also maintain Guardian Partner roles with around one-quarter of our clients, where a senior member of our firm who sits outside the direct client team meets periodically with clients to gain feedback on all aspects of our service. This feedback is shared with client teams and used to improve our services.

Finally, we regularly engage with other service providers, particularly Professional Independent Trustees (PIT) as key stakeholders, as noted under Principle 4, which is coordinated by our Professional Independent Trustees (PIT) group. Feedback and areas for development are shared and used to inform the evolution of our services. These varied processes feed both directly and indirectly into the development of our propositions and provide an effective means for understanding what our clients value.

Principle 6

Signatories review their policies and assure their processes.

Our purpose is to help our clients deal with the challenges and risks they face. We know that our clients need help in understanding these risks, evaluating the solutions that they may employ, and then making changes.

Our research and tools are all geared towards providing our clients with better, more relevant information that they can use to make decisions. We review our progress on stewardship and investment issues on an ongoing basis, to ensure our processes remain fit for purpose and include the latest thinking.

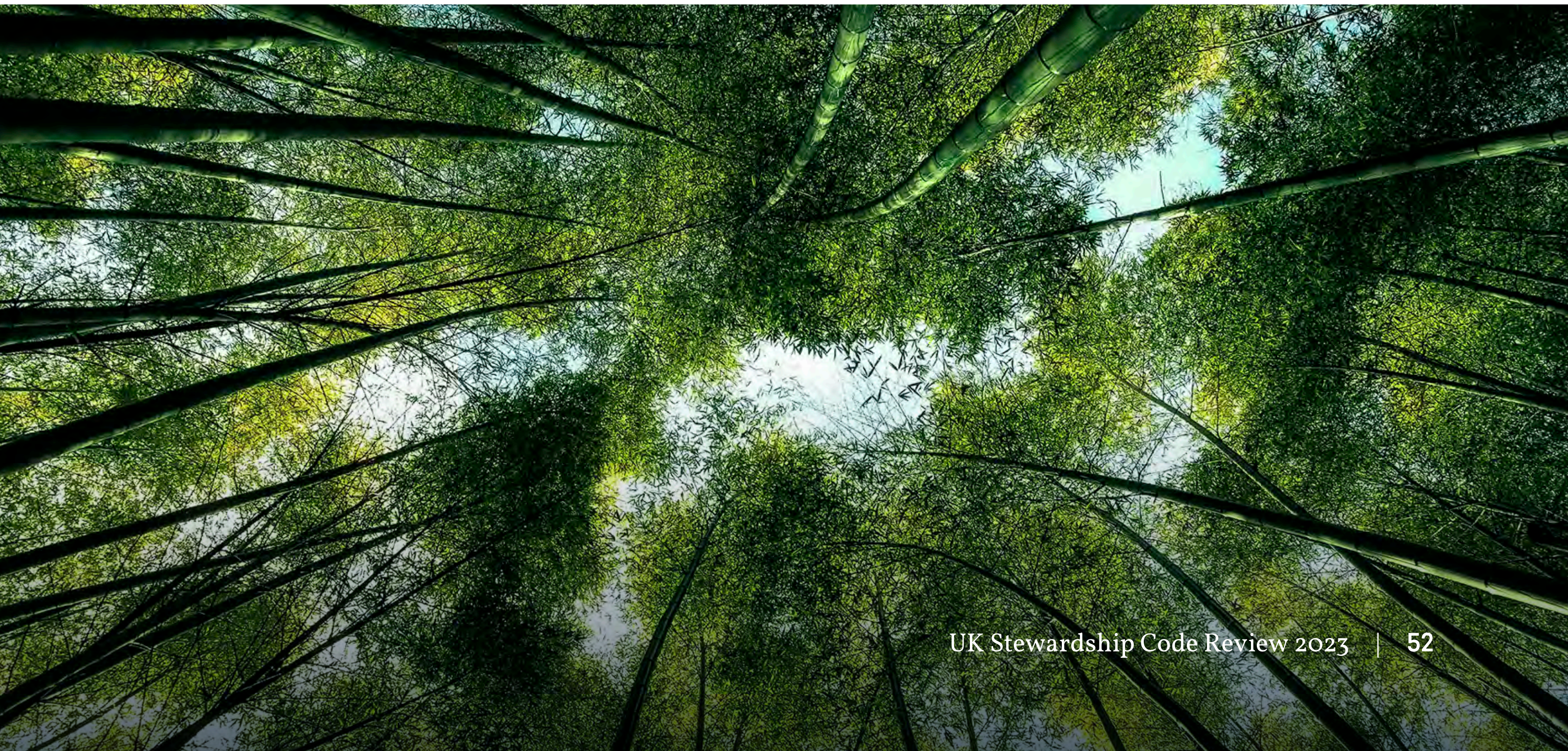
Our Investment Committee and Research Oversight Group both offer mechanisms for scrutiny and the provision of assurance as needed, serving to challenge new areas of activity. In addition, through our membership of different industry bodies, our discussion with other market participants such as professional independent trustees and the scrutiny exercised by our clients, we're regularly able to test the validity of our approach.

We carried out the following activities to review our policies and processes over 2023.

Reviewing our RI policy statement

As noted in our 2022 report, the review of our RI policy was progressed over the course of 2023. We transformed our RI policy (rebranded as a Mission Statement) to capture the essence of what we believe RI to be, to reflect the evolving understanding of sustainability issues, and to better convey our ambition in this area.

Our policy was developed through a series of discussions and workshops with stakeholders from across our business, followed by feedback sessions, redrafting and design. One of the actions undertaken as part of this exercise was to review our beliefs around responsible investment to reflect our current thinking. Our updated beliefs are set out in our Mission Statement and reproduced on the following page.



Our responsible investment beliefs

ESG factors can affect investment outcomes
ESG factors can have a material financial impact. Asset owners, managers and companies should maintain integrated processes to ensure these factors are built into their decision-making.

Effective stewardship adds value
Investors must act as responsible and active owners. Voting and engagement activities can both influence outcomes.

Data counts
Better data means better decisions. The more informed we are, the better our choices will be. However, materiality and quality also matter. Not all data has value, poor quality data may be misleading and reporting has a cost. Investors need to be judicious in their requests for and use of data.

Governance matters
An effectively governed organisation manages risk more effectively. This makes such organisations more open to scrutiny and challenge as well as more likely to remain accountable to stakeholders. Organisations may need to prioritise their efforts in areas of greatest potential impact according to their governance budgets.

Investors need to evolve with the times
The world is changing, and the industry must adapt to survive.

Transparency is essential
Organisations can be most effectively assessed if they make as much relevant information available as they can. But organisations can also help stakeholders by being clear and concise in their reporting. The adoption of industry-standard disclosure frameworks should enable better decision-making.

These beliefs are reflected in multiple ways across our Mission Statement and within the actions and outcomes set out in this report. They range from the focus on getting better data through our updated questionnaire and our ongoing private markets climate data initiative, to the core pillar of Being better stewards, which we have made a pillar of our activities over recent years. Going forward, we will continue to embody these beliefs in all that we do.

Developing a Sustainability Framework

As clients have increasingly sought to invest sustainably, and with the regulatory scrutiny on greenwashing, we have formalised our approach to evaluating products and strategies that make sustainability claims. Our Sustainability Framework was developed to test offerings against what we perceive to be credible standards of sustainability. This framework is both aligned with regulation and is asset class specific, capturing nuances across fixed income, equity and real assets.

Our framework assesses four aspects of sustainability, being the objective, methodology and data sources, measurement and reporting as well as any stewardship claims. To support both asset owners and asset managers, we are transparent in our approach and have publicly shared details of our approach.

CASE STUDY:

Applying our framework to sustainable buy-and-maintain credit

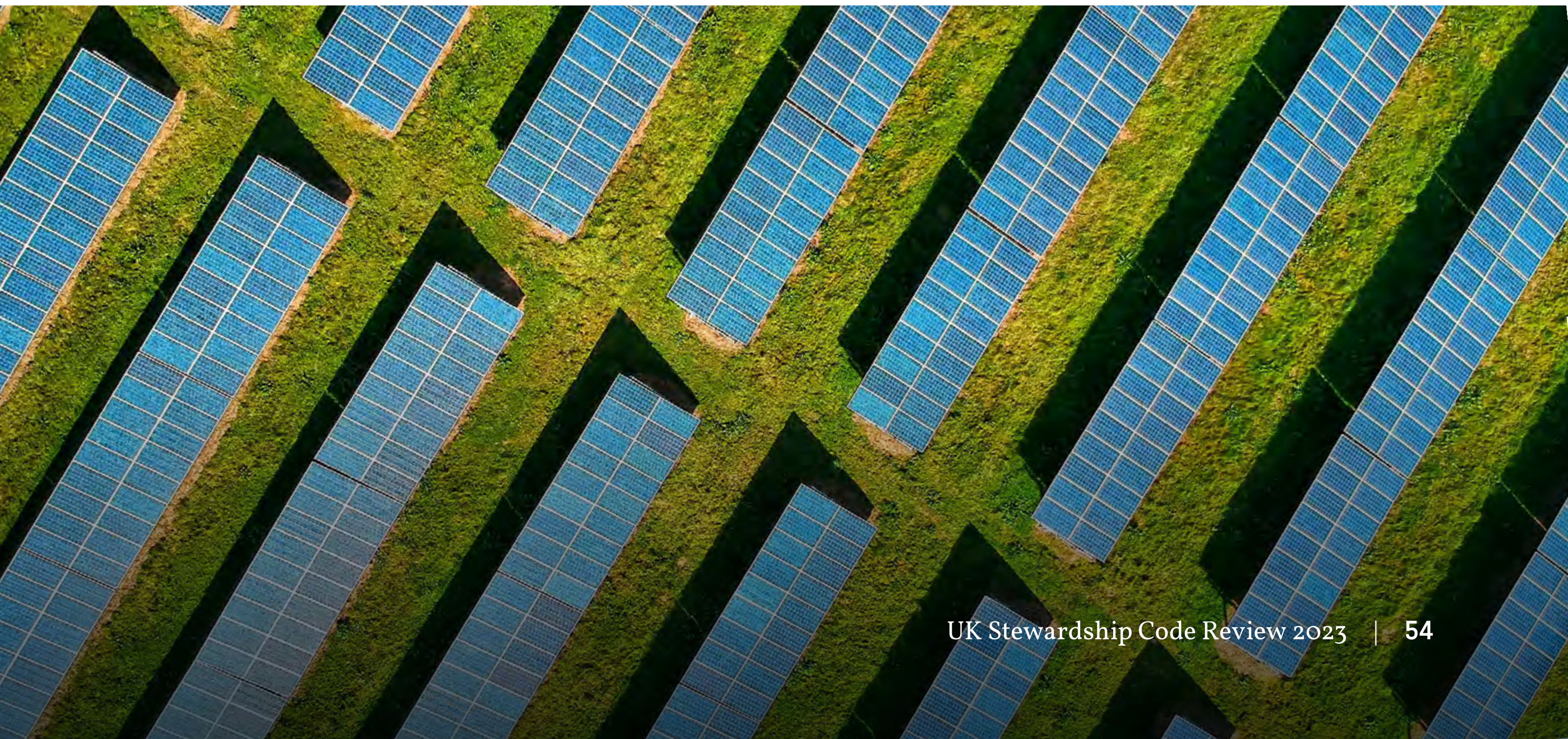
As DB pension schemes look to de-risk assets and many are targeting buy-out, allocations to fixed income have increased, particularly to investment grade credit markets. The low turnover and long-term nature of buy-and-maintain portfolios makes the consideration for sustainability issues such as climate change more crucial, given the associated long-term risks.

OUTCOME

We initially applied our framework to support the development of a universe of sustainable buy-and-maintain funds. Using the framework, we've rated several managers on their sustainable buy-and-maintain product offerings as well as their stewardship structures and resources employed to achieve their product's sustainable objective.

Updating our RI due diligence process

Our RI questionnaire is sent to all investment managers to better understand their firm-level approach to RI and serves as our key data collection exercise on RI practices. This year, we undertook the task of updating our RI questionnaire to ensure that the data we collected was more reflective of ongoing change in the industry. We've incorporated the principles of the Asset Owners Diversity Charter. We've also substantially expanded the information we gather on climate issues and added questions on human rights.



Looking ahead to 2024

Our updated RI Mission Statement sets our ambitions to be instigators of positive change, to be challenging, and to be influential. Our areas of focus will follow our ABC of responsible investment.

Achieving net zero

A priority over 2024 will be helping our clients create and then implement Climate Transition Action Plans. This will place focus on four key areas: portfolio emissions, transition alignment, climate solutions and opportunities, and engagement, all of which are levers to effect real-world change.

We continue to see opportunities for investment in changing energy systems, but also see the potential for aligning capital with organisations that are both core to the transition, and for whom the transition will be long and complex. We will support clients in shifting capital towards these themes.

Helping our clients have a more detailed understanding of investment portfolios, the actions being taken by individual companies, and ensuring that positive activity is being supported will be vital. We will therefore continue to help our clients analyse exposure to climate risk through multiple lenses and support them in developing focus areas for engagement on climate issues.

Being better stewards

Asset owners have a role to play in overseeing the assets managed on their behalf. They should thoughtfully – and, where necessary, forcefully – exercise stewardship within their sphere of influence. We recognise that effective stewardship can be time consuming, and we'll continue to make it more accessible through the development of engagement frameworks and effective planning.

We will focus on both AI and modern slavery as priority themes over the course of 2024, recognising that there is a clear overlap between social and environmental issues, particularly to support a just transition. We'll also share the results of our 2023 manager survey and the potential areas for engagement by clients throughout the year.

We recognise that stewardship is more powerful when you can amplify your voice. When an asset owner engages with an asset manager, their impact is multiplied when their agenda is echoed by others. Our Asset Manager Engagement Service, which we will be rolling out to our clients during the year, will provide a mechanism for asset owners to achieve this.

Creating positive impact

Theme selection is core to our approach to impact investment, and arguably the most important decision an impact investor might make. Our support to asset owners will increasingly bring in relevant evidence and research to support this decision.

Assessing how impactful investment opportunities are is a complex topic. Our IxA framework seeks to quantify the amount of impact any given investment may have. It's an approach we will use to both assess options and help our clients implement their impact strategy. This framework also helps asset owners to have more impact, and ensures that their impact investing is legitimate, creating genuine impact.

Finally, we will continue to work with clients to identify opportunities for them to allocate capital in line with their chosen themes.

Natural capital and biodiversity

We recognise the importance of biodiversity and protecting our natural capital, this being inextricably linked to climate change. The work of the TNFD has brought nature to the fore, but we want to ensure this is not a reporting exercise, but a means for driving action. We'll be focusing on two key areas over 2024: deforestation and marine biodiversity. That means helping asset owners understand how they can look at their portfolios to understand risk exposures, and to create dialogue with asset managers on these topics.

Ensuring this report's accuracy

This report has drawn on input from across our business and has been drafted by members of our RI team. The report has been reviewed by our Head of Responsible Investment and members of our Investment Committee. The report was subsequently presented to and signed off by our Management Board.

Appendix

Appendix: Reporting for the Net Zero Investment Consultants Initiative

We have not produced a separate report in relation to our commitments as a member of Net Zero Investment Consultants Initiative (NZICI) for the year ending 31 December 2023. This report details the progress we have made in addressing climate risk within our advice and broader business. We set out below references to each of the nine NZICI commitments and where these can be found within this report. Much of this can be found within our Climate Spotlight on pages 31 to 35. We also set out our progress against the various Key Performance Indicators as at the year-end in comparison to our position at end of 2022.

OUR PROGRESS AGAINST THE COMMITMENTS

Commitment	Comment/Reference
Integrate advice on net-zero alignment into all our investment consulting services as soon as practically possible and within two years of making this commitment.	We carry out annual assessment for all our investment clients that tells us where they are on their net zero journey and any perceived barriers to progress. Alongside the support provided by our net zero working group, our investment consultants are able to integrate net zero advice that is appropriate for their client and progress their journey, whatever their starting position. We continue to ensure all our investment team have sufficient knowledge and support to be able to bring net zero advice to their clients and regularly update the investment business on our NZICI commitments. More details on pages 31 and 32.
Work with our institutional asset owner clients to identify the investment risks from climate change, highlight the importance of net-zero alignment and, where applicable, support our clients in developing policies that align their portfolios to a net zero pathway.	We have developed a clear methodology to take clients through the steps needed to build a credible net zero strategy. The output of this work is a climate transition action plan that sets out the actions not just the targets to take their net zero journey forward. Our narrative scenario work also helps with the richer understanding of climate risk more broadly and supports the pursuit of net zero. More details on pages 31 to 33.
Support efforts to decarbonise the global economy by helping our clients prioritise real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonisation methodologies.	Our focus and our analytics continue to support real-world change. Whether that is through supporting the transition by staying invested in high-emitting sectors or companies, increasing allocations to climate solutions or through incorporating natural capital themes to their strategy. Our model portfolio work and work to explore scope 4 emissions across various asset classes has helped support the progress in this area, as has encouraging our clients to build climate action plans. More details on pages 31 and 32.

OUR PROGRESS AGAINST THE COMMITMENTS

Commitment	Comment/Reference
Assess and monitor asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in our client recommendations.	Our Manager Engagement Programme has focused on engagement with our largest asset manager relationships, exploring how they are supporting the transition. More details on page 42.
Align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making this commitment.	Not applicable
Set emissions reduction targets across all our operational emissions in line with 1.5°C scenarios.	Our last report provided details of our emissions reduction targets and emissions report for the year 2022/23. Further information can be found in our TCFD and Purpose with Impact reports.
Where suitable net-zero methodologies do not exist, work collaboratively for the benefit of our clients to address these challenges, seeking harmonised methodologies.	Our most recent example of this is working with IIGCC on the NZIF framework for private credit.
Engage, independently or as a group, with regulators and policymakers, to facilitate the transition to net zero carbon emissions, addressing any barriers to our clients adopting and achieving their net-zero targets.	We have actively supported the creation of the ICSWG influence workstream in its engagement with policymakers.
Report progress by our firm against the commitments made here at least annually in the public domain.	This serves as our report under the NZICI commitments.

Key Performance Indicators

Our clients are UK domiciled. In total, we provide direct investment advice to pension clients with approximately £283 billion of assets, of which £189 billion relates to DB clients and £94 billion relates to DC clients. The following figures refer to these clients and their assets under advice (AUA); no clients have been excluded.

KEY PERFORMANCE INDICATOR	% OF CLIENTS MEETING THE KPI AS AT 31 DECEMBER 2023 (2022)	
	By AUA	By number
Meaningful net zero education received	95% (86%)	78% (40%)
Baseline emissions data received	89% (86%)	48% (40%)
Net Zero ambition declared	70% (68%)	25% (19%)
Net Zero target and interim targets set consistent with Paris aligned method	61% (60%)	16% (14%)
[1]Formal goal to increase exposure to climate solutions	83% (64%)	40% (16%)

Notes:

[1] With respect to the 'climate solutions' KPI, we include those with targets of investments that have a measurable or clear objective to contribute positively to tackling climate change, for example, timberland, renewable infrastructure and impact strategies. We do not include any rules-based climate 'tilted' funds such as climate tilted listed equities or bonds in this category. Also, in this figure we include those clients that have already made investments in these solutions as well as those that have made a formal goal to increase exposure. In most cases, those that have made an investment have also committed to increase exposure.

Our key people

We want to say thank you to all those who have been involved in the ongoing development and evolution of our approach to responsible investment over 2023, our success in becoming Stewardship Code signatories and those who will be working with us over 2024 as we continue to build.

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Claire Cairney
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