HYMANS ROBERTSON

Being Better Stewards

UK Stewardship Code Review of the year ending 31 December 2022

April 2023

Introduction

Stewardship empowers asset owners to not only act in ways that they consider fair and ethical, but also to influence others to do the same through collaboration, engagement and an appreciation of the contributions made by different stakeholders.

As we're advisers to a broad range of asset owners, our role is to encourage and challenge our clients to be better stewards.

We began 2022 with Covid still disrupting the way we worked. The pledges made at COP26 in Glasgow provided hope, albeit tempered by caution about whether those promises would be kept. And as the year progressed, the war in Ukraine, increasing inflation, the cost of living and the gilt market crisis created a climate of anxious uncertainty. But the unpredictable nature of these factors emphasises the importance of taking control where we can, and the need for strong stewardship.

We were delighted to remain signatories to the FRC Stewardship Code, but this isn't a position we take for granted, and we strive for ongoing improvement. In this report, we outline the actions and initiatives we undertook in 2022 in fulfilment of the six principles for service providers.

A key theme over the year has been the principle of a sustainable partnership. We recognise that the decisions we take today must support our next generation of partners and staff, this being reflected through our values and our culture, and how we engage with and advise our clients. This was a vital focus as our business continued to grow, surpassing 1200 people over the year. Within our business, we have focused on Diversity, Equity and Inclusion (DEI) and Wellbeing. Beyond our business, in support of broader communities, our foundation has now donated over £1 million to good causes.

Our responsible investment team also grew significantly over 2022, as we finished the year with an extended team of 16. This team has supported clients in meeting their TCFD requirements, developed methods for consulting on climate strategy, improved its scrutiny of managers and, most importantly, focused on 'being better stewards'. We've actively sought to help our clients engage more constructively with their asset managers and hold them accountable for their actions.

Integrating climate change into our research, services and advice remains one of the central commitments of our own climate pledge. We and our clients rely on others to provide information to help inform decision-making, although this remains an area of concern. Recognising the need for better climate data, our survey of private market asset managers identified their reporting gaps, and we've used this as a basis for engagement, pushing managers to do more. We'll be running our survey again during 2023 and hope to see a material improvement in reporting and data availability.

The journey to net zero was also a focus over 2022, with clients increasingly committing to the long-term decarbonisation of their asset portfolios. We've spent time building our approach to modelling net zero pathways and have been pleased with the engagement we've had from clients on this subject as they look to take ambitious actions. We also completed our first report as a signatory to the Net Zero Investment Consultants Initiative (NZICI), demonstrating progress not only on our advice, but also our own efforts to reduce carbon emissions.

An area where we've seen a positive outcome is our Climate Impact Initiative. This Initiative called on DC pension providers to launch products that will allow savers to invest in climate-impact solutions. We made this an element of our provider assessment, thereby influencing the direction of capital, and we're delighted to see providers increasingly considering the inclusion of appropriate solutions in their offerings, with around 10% of DC savers able to access a climate impact choice, up from around 2% just 12 months earlier.

Another area of focus over the year was biodiversity, in the lead-up to COP15. We were delighted to have the support of Global Canopy to help us build knowledge on deforestation issues and contribute to our recent publication. We look forward to building other partnerships to better understand nature-related risks as we welcome the Taskforce on Nature-related Financial Disclosures (TNFD) framework later in 2023.

It's clear that our private sector pension scheme clients are working towards an endgame strategy. Our risk-transfer team recognises the importance of ensuring that insurers are properly taking account of climate and ESG risks and continue to enhance their scrutiny of potential providers. The appointment of Paul Hewitson as Head of ESG for Risk Transfer during the year recognised this increased focus.

While 2022 may have been a year of uncertainty in financial markets, what's become increasingly certain is the central role that asset owners and their advisers must play in driving change through stewardship. Key among our ambitions for 2023, therefore, remains the goal of 'being better stewards'. Climate change, biodiversity and social issues will be points of focus, but we'll continue to strive to hold all stakeholders to account for their actions.

For and on behalf of Hymans Robertson LLP
April 2023

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've been building better futures for over 100 years. Working alongside employers, trustees and financial services institutions, we offer pensions, investments, benefits and risk consulting services, as well as data and technology solutions.

Our Values

We're partnering
We look to work as a partner with you, sharing two-way feedback and ideas to help your success.

We're straightforward
We will come to you with clear solutions and recommendations which are easy to understand.

We're friendly
We want you to enjoy working with us. Our consultants enjoy building open and meaningful relationships with our clients.

We're confident
We have the skills and research base to provide you with advice which is well thought out and truly tailored to suit your needs.

Our firm serves three markets:

- the pensions market, where our services include actuarial, pensions consulting, investment consulting and third-party administration
- the financial-services market, where we provide advice and support to insurers and other financial institutions to address issues such as longevity, risk, capital management and investment, and, through Hymans Robertson Investment Services (HRIS), discretionary fund management services to independent financial advisers (IFAs)
- personal wealth, where we provide 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. While our business operates primarily in the UK, we're also a member of the global Abelica network.

Our purpose is to help businesses, pension funds and other financial institutions create more certain 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 friendly, caring, professional community where everyone can be themselves, reach their full potential, and contribute to the continued success and development of the firm.

What responsible investment means to us

We maintain a consistent definition of responsible investment (RI) in our dialogue, both internally and with our clients, which we set out in our RI policy. We consider responsible investment to have two key dimensions:

- Investors should recognise the potential financial impact of environmental, social and governance (ESG) factors in investment decision-making.
- Investors should act as responsible and active owners, through considered voting of shares and engagement with company management when required.

We're continuing to develop our core offering towards being better stewards and integrating ESG and climate-change considerations across our advice, as well as seeking to use our influence to build knowledge and create behavioural change among clients.

How our culture enables us to promote effective stewardship

A core theme for our own business is talking to our staff, and linking corporate social responsibility to stewardship that 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 have taken as an example of leading practice.

While we report on our activities through our annual Corporate Social Responsibility (CSR) reporting, here are further examples of the actions we've taken over the course of 2022:

- All partners have a part to play in ensuring that the firm's success continually improves with each generation of partners. Over 2022, to future-proof the firm's leadership, all partners were enrolled in a development programme that included training in how to lead a sustainable partnership. The programme combines online digital learning, peer-group coaching and psychometric testing with individual feedback.
- We took the opportunity to refresh the wording of our Climate Pledge to make sure we're as clear and transparent as possible on our objectives to meet our ambitious climate pledge commitments. Our goal is to be able to measure and track our entire carbon footprint, putting in place reduction plans that are ready to be accredited by the Science Based Targets initiative (SBTi).

- We have a number of employee network groups that support different communities including disability, ethnicity and social inclusion. As an illustration of our commitment to DEI, the membership of our employee network group on neurodiversity increased over the year. The group held its first open meeting in December 2022: Christmas for Neurodiverse Families. Other examples of our commitment are evidenced by the launch of our menopause policy, with supporting events including a 'Diversity Dialogue' to discuss the complex reality of going through the menopause at work. We also ran 'Andy's Man Club' – a series of sessions on mental-health awareness.
- Our DEI Allyship programme was launched during the year, and we now have 43 active allies across the firm building understanding and empathy, and ensuring our work environment is one where everyone can thrive. Each ally takes part in an annual learning programme, and our allies meet quarterly to review progress, support and share insights with each other.
- Our innovative matched personal carbon offsetting scheme is now in its second year, with 178 of our people taking the opportunity to offset their family's personal carbon emissions, the cost being split equally between them and the firm. While our primary climate focus will always be to reduce our carbon emissions and footprint as far as possible, the matched offsetting scheme helps build climate awareness and engagement across the firm, and this year will offset more than 3,300 tonnes of carbon emissions.

We believe that demonstrating these values and practices reflects the firm we want to be, but also show what can be achieved through embedding the right culture. We've found that our clients are increasingly demanding evidence of the actions that we're taking within our firm, representing an alignment of values.

Our clients are also interested in understanding how we've taken the steps that we have. Consequently, our Head of CSR has met with clients and other firms within the Abelica network to explain both the development of our climate policy and our approach to addressing our carbon emissions.

How our strategy promotes effective stewardship

Our strategic goal is to sustainably grow our partnership within the markets in which we operate. In doing so, we aim to reflect our purpose and values for the benefit of our current and future staff and partners, and our wider stakeholder community. Within this, addressing RI and climate change is a strategic imperative.

Our climate pledge focuses in part on the actions we're taking as an organisation, and our commitment 'to integrate climate risks into our research, advice and services' has the potential to have far greater influence on future outcomes.

While our climate pledge and commitments through the NZICI guide our strategic activity, in our previous stewardship code report, we also set out five key areas of strategic focus for 2022, as follows:

Stewardship: our ambition was to 'make better stewards' by focusing on what good stewardship looks like, to help our clients see the value in stewardship, with an emphasis on evidence of outcomes.

Accountability: linked to our stewardship priority was a goal of demanding accountability, seeking to better challenge our clients' managers and other providers on their actions, being able to call out practices and influence change where actions are not as expected.

Climate change: we sought to continue to help clients meet climate-change regulatory requirements and, as signatories of the NZICI, to put net zero at the heart of our advice.

Journey planning: we wanted to help our clients take the next steps on their RI journey, ensuring that they have the context and knowledge for their decision-making. We also wanted to develop our approach to supporting smaller schemes.

Identifying opportunities: recognising that capital allocation remains an important tool, we wanted to identify areas where clients can deploy capital in rules-based, credit and real asset strategies while working to ensure all our clients are aware of the opportunities that exist.

While we continue to work with our clients to embed RI considerations into decision-making, our RI team led the focus on these areas. We expand on the actions that we've taken primarily under our response to Principle 5.

Key to the delivery in each of these areas has been the growth in our team. Having recruited heavily into the RI team in late 2021, we've been able to embed this additional resource into our business, creating designated leads for both stewardship and net zero within our RI team. Coupled with a closer working relationship with our research team, this has allowed us to focus on making progress in each area.

How we've served the best interests of clients

We recognise that effective stewardship takes both time and resource. Our investment in the development of services and in our people has allowed us to increase our commitment in this area, broadening and deepening the support for our existing clients. Our approach promotes the sharing of resource and skills, allowing us to create client teams across multiple business units to address client needs, but also improving knowledge and standards across the business.

Improving the efficiency of information delivery is also critical, and our data and reporting team, supported by an internal team of developers, is focused on process improvements. We continue to explore ways in which we can further improve our services and have worked with a range of partners over the year to support this. For example, we've expanded our ongoing dialogue with our ESG and climate data provider, both helping to improve how data is collected and allowing an ongoing process of two-way feedback. We have also continued to engage with managers to automate the collecting of client and portfolio data into our systems.

Our clients have different objectives, beliefs and experiences, and so our approach has to accommodate these individual requirements as best we can.

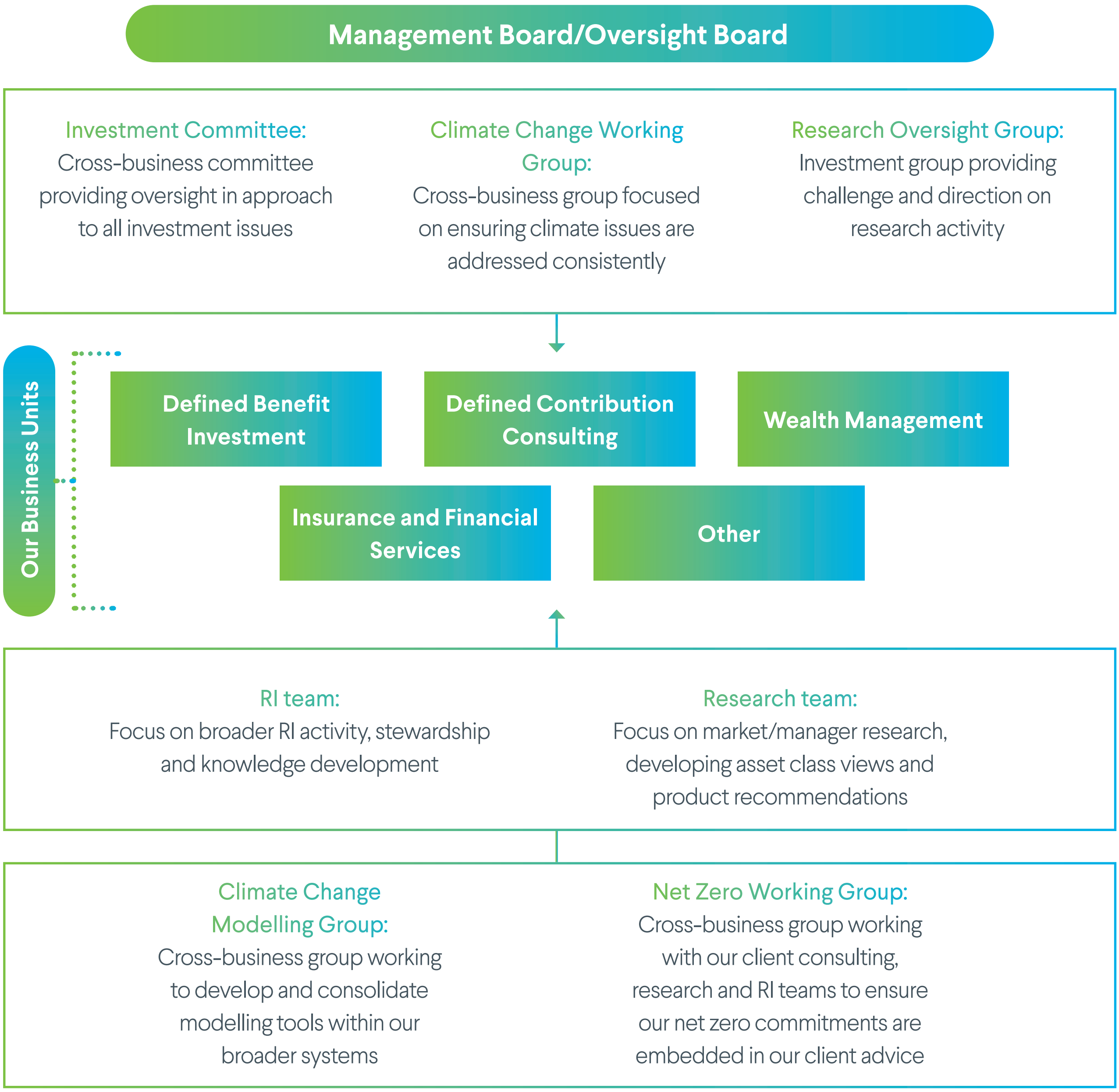
This report sets out a range of different case studies, highlighting examples of work done by different consultants across a variety of clients. They illustrate the breadth and depth of work that we've undertaken to help our clients improve their own stewardship outcomes.

Principle 2

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

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. Our governance structure, as it relates to our focus on stewardship, is illustrated below.



There have been two changes to this governance structure in 2022, with the other changes made last year now consolidated into business as usual.

- We have put in place our **Climate Change Modelling Group** (CCMG). The CCMG has taken ownership of our climate modelling and scenario analysis capabilities and will work to develop and consolidate modelling tools within our broader systems. The initial work of the CCMG has been to interview key stakeholders and frame key workstreams, the first of which is focused on developing narrative climate scenarios , as we consider further under Principle 4.

- We've also created a **Net Zero Working Group** (NZWG), which is tasked with working with our client consulting, research, and RI teams to ensure our net zero commitments are fully embedded into our advice to clients.

As noted last year, the Climate Change Working Group (CCWG) has become a top-down committee, focused on ensuring consistency of approach across the business. Issues discussed with the CCWG have included the firmwide review of climate modelling and the role of the CCMG. A risk and modelling consultant has joined the CCWG.

The CCWG, which continues to be chaired by Lisa Deas, has also discussed our review of RI ratings and how climate change has been embedded, considered progress against our NZICI commitments, and undertaken a self-assessment against the Investment Consultants Sustainability Working Group (ICSWG) climate consultant competence framework. The CCWG plans further discussions about where we could develop our advice in future, including universal ownership, sector-level analysis and tracking the impact of client action.

Our Investment Committee, which continues to be chaired by Emma Cameron, considered issues such as sustainability labels, including the recent Financial Conduct Authority (FCA) consultation, the consistent use of ESG and climate data across the firm and the development of investment beliefs.

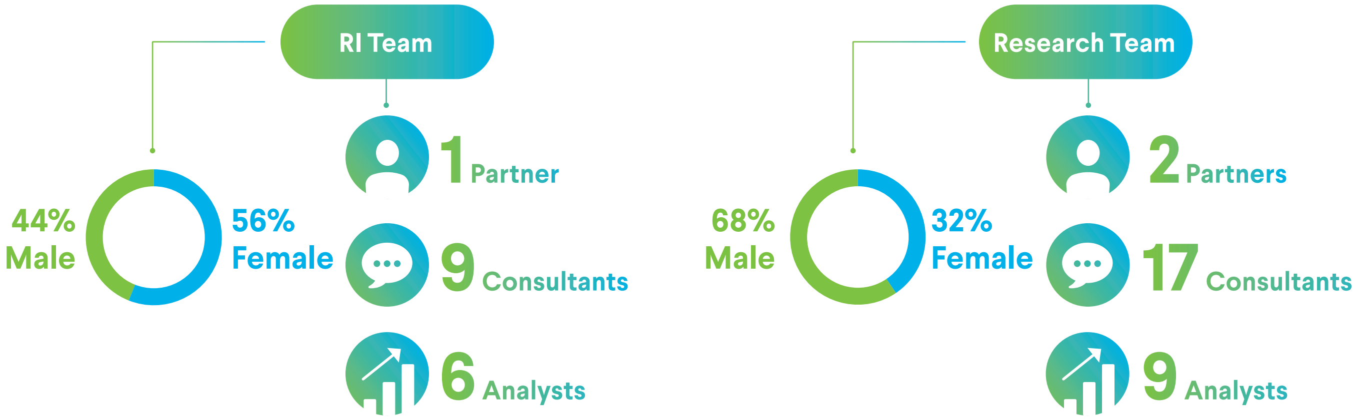
Beyond the actions being taken to address matters of corporate social responsibility, our RI team had three formal engagements with the Management Board on stewardship over the course of 2022. These addressed our annual review of stewardship activity, our approach to managing climate risk and support for the NZICI, alongside a broader update on sustainability issues, the current market outlook and the actions being taken within our business.

Engaging our broader partner group

While the Management Board has formal oversight of our work, our broader partner group meets fortnightly to consider issues relevant to the ongoing development of our business and provides a rich ground for gaining support and challenge of activity. The partner group received a formal presentation on stewardship during the year in addition to other, more informal updates on business activities. The partner group has also discussed broader issues related to sustainability during the year, including a workshop on business ethics during one of our bi-annual partner conferences.

How we've resourced our RI activity

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



We've significantly grown our responsible investment team over the last 18 months, with six new joiners to the team over the course of 2022 alone. This has allowed us to develop specialist areas of focus within the team, for example, with individuals now taking direct responsibility for issues such as Taskforce on Climate-related Financial Disclosures (TCFD) requirements, net zero and stewardship. More broadly, the extended team has taken responsibility for insurance company oversight and biodiversity-related research.

Further, we've continued to integrate the work of our RI and research teams as far as practicable, recognising there is a shared skillset and often a need to collaborate. Where it's appropriate to do so, members of both RI and research teams will attend research meetings to ensure that managers are scrutinised from multiple perspectives, and we form a broad view of manager capability. This has also offered opportunities for team members to evolve their own roles.

Focus on people:

Jaid Longmore

Associate Responsible Investment Consultant

Jaid joined the firm in January 2022 from GLG and took up a generalist role, aiming to provide support on a broad range of RI issues. Jaid initially gained involvement in scrutinising the efforts of fiduciary managers and took time to build out detailed profiles in a format that was then widely deployed. With a broader team in place, we worked to build consensus on what 'good' looks like for our manager ratings framework, a project Jaid took ownership of.

As she built her experience over the year, Jaid was able to take on several other roles, including a client secondment where she focused on manager stewardship and engagement while increasingly engaging with the broader research team. Following a change in the research team, Jaid has moved into a hybrid role across both RI and research teams, with a primary focus on challenging the sustainability and stewardship characteristics of managers across multiple asset classes, positively reinforcing the close working relationship that has been established over the last 12 months.

Finally, within our graduate programme, we generally align new joiners with one of our proposition areas to ensure that they get exposure to different parts of the business. Two of our graduates were aligned with our RI team over 2022, both of whom contributed to our NZWG. We were further supported by one of our summer 2022 interns, who worked on a project to assess sustainability-related indices.

Developing and engaging the team

It's imperative that our team can develop both their own areas of expertise and their broader skillsets while working directly with clients. Where there's a particular client focus on RI issues, we'll typically include a member of the RI team within the client team to provide specialist input, but also to develop consulting experiences.

We're also keen to support broader initiatives, and a number of the wider team are members of industry working groups, allowing them the chance to learn from others. For example, in addition to the ICSWG and NZICI working parties, two members of our team sit on the IFoA Sustainability Early Careers Board, providing support to the main board and helping to embed thinking on sustainability issues into the mindset of young actuaries.

Developing our consultants' RI knowledge

While our RI and research teams provide subject matter expertise, people working across our Investment, Defined Contribution Consulting (DCC) and Insurance & Financial Services (IFS) business units also advise our clients on all aspects of responsible investing. It's therefore essential that we stay at the cutting edge of these issues while continuing to support our broader consulting base on climate issues.

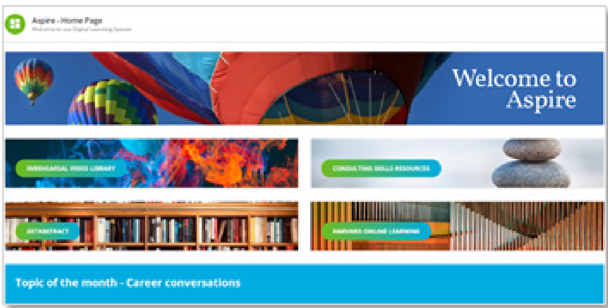
Investment consultants are required to agree appropriate Continuing Professional Development (CPD) objectives that have requisite training hours to demonstrate progress, and which are monitored by our people managers as part of the ongoing evaluation process. Although RI training isn't compulsory because the knowledge and development requirements for individual staff varies with experience, we make recommendations as to appropriate areas of development and support on RI. We proposed that colleagues focus on the following areas during 2022.

Theme	Learning goal
Stewardship/ Engagement	Build an understanding of stewardship processes (outcome-driven goals) and the mechanisms by which stewardship can be implemented. Explore through discussion with managers and the consideration of case studies how effective engagement can impact on the risk/return prospects of investments. Understand how clients can develop engagement themes, improve the exercise of stewardship with their managers and the different ways in which stewardship issues can be raised.
ESG/Climate Data	Develop a detailed understanding of different ESG and climate-related datapoints and how these can be integrated into research and advisory processes. Build an understanding of the sources of ESG data and the limitations of proxy climate data. Develop an understanding of which metrics it may be appropriate for clients to measure now and in future, and how those metrics can be influenced by client action.
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	Learn what is meant by 'net zero' from an investment perspective, how to set a carbon journey plan and the factors that need to be considered in setting a net zero target date. Understand the different elements of the IIGCC net zero framework and how these can be applied in setting climate-related objectives and developing an approach to engagement.

Fortnightly training sessions about RI issues and developments in the broader market through our regular Investment Consultants' Briefings keep consultants' knowledge fresh. We also held a range of specific training sessions supporting consultants over the year, which included:

- Stewardship
- Net zero journey planning, considering a case study of our 'fair share' methodology, by which we establish a pathway for a fund's holdings to follow in order to align with 1.5-degree targets.
- Approaches to decarbonisation within different economic sectors and its application within equity mandates.
- TCFD regulations, portfolio alignment and ESG metrics.
- Assessing asset managers and understanding what 'good' looks like.
- Investment in timberland and the potential use of carbon offsets.

Training is provided both by our in-house team and by external specialists and asset managers, where appropriate. We record training sessions and make them available to all staff through our internal learning system, Aspire.



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

Finally, we continue to support colleagues through the CFA ESG Certificate, with two of our consulting team having completed the certificate during 2022.

Feedback informs our development programme

The CCWG's climate-change survey was issued to consultants across our business during quarter four of 2022. This is an annual exercise that we use to track general views about how our consultants rate their knowledge on climate change, allowing us to gauge progress on upskilling consultants across the business on climate-related issues.

On a scale from 1 (weak) to 4 (strong), our consultants collectively rated their knowledge of climate risk as 2.3 compared with a maximum score of 4. While this is in line with the results from our 2021 survey. We were pleased that our people felt their knowledge had improved over the year, with 75% referencing internal training as a primary source of knowledge.

79% of respondents indicated that their knowledge had improved over the previous 12 months

We expanded our 2022 survey to understand both the extent to which consultants were having to consult on climate issues and to identify topics for future training. With around 60% of our consultants saying they have had to provide either detailed or general consulting input over the last 12 months, continuing to build and embed knowledge on climate-related issues will remain an imperative for us. Given that respondents came from a range of different business units, it was perhaps unsurprising to see climate scenarios and scenario analysis as a key potential area of training need.

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, although 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 to translate the increasing amounts of data that are being generated within the RI field into decision-useful information for our clients. Our investment in our systems and processes seeks to ensure that we can continue to be efficient in this. These were our key areas of focus in 2022:

Net zero journey planning

To enhance our core climate analysis and reporting for our clients, we've developed a net zero journey plan model to provide our clients with a forward-looking assessment of how well aligned (or misaligned) their investment portfolio is expected to be through time to a net zero target.

The objective of this approach is to provide an appropriate and tangible path to measure a scheme's net zero journey against, and to encourage analysis of the investment in the transition, rather than simply reducing exposure to high emitters. Another aim is to move beyond assessing the journey based on the emissions picture today and beyond comparisons to standard market-cap benchmarks that we know aren't on track to deliver a net zero future.

This approach enables our clients to make more advanced judgments about whether individual portfolios fully or partially follow a 1.5-aligned pathway. The model is designed to work across asset classes, so isn't limited to listed equities and bonds, and it can be aggregated to the sub-portfolio and total-portfolio level, providing a comprehensive assessment of the alignment of a scheme's strategy (subject to there being sufficient emissions data for the asset classes included).

We've designed this to reflect our core belief that, to consider the real-world implications of a net zero strategy, we need to look forward, focusing on actions that actively reduce emissions, rather than only tilting portfolios away from the high emitters of today. Asset owners need to think about investing in the transition that's going to be delivered by many of the companies our clients are already invested in changing their practices. Therefore, we include real-world change as a parameter in a net zero journey plan.

We've provided this analysis to several clients to support their net zero journeys, primarily to inform engagement priorities across asset classes, across mandates, and within mandates at the stock or holdings level.

Excerpt from net zero journey plan report

Data and reporting

We have a specialist data and reporting team, which has responsibility for the collation, synthesis and reporting of performance on client portfolios, through financial, economic and sustainability lenses. By incrementally streamlining the underlying data capture and validation processes, more time can be spent on understanding the output and ensuring that reporting focuses on the 'So what?' factor.

This evolution has also involved engagement with our development team, which brings additional rigour to data processing. This means we can regularly provide feedback to our data suppliers on inconsistencies in information and gaps in the data provided, thereby allowing the underlying data to be improved as a form of public good.

We've also sought to broaden the range of tools employed internally for data visualisation. We've developed pilot climate and ESG dashboards using Power BI that allow comparison between multiple funds and portfolios, thereby giving consultants a means of cross-checking expectations. We see this as a growing area of focus that will continue to enhance the service we deliver to our clients.

Finally, we continue to evolve the way we gather, process and report on stewardship data to ensure this is as valuable as possible in supporting asset owners to prioritise their limited resources. We illustrate this in the following example:

Case study:

Supporting a large master trust client to prioritise significant issues

We partnered with a prominent master trust client to pioneer a proactive approach for informing stewardship priorities based on data. We gathered and processed data from multiple sources, including the Transition Pathway Initiative, ShareAction, Red Line Voting and various metrics sourced by MSCI. After applying our findings to the client's actual holdings, we were able to support them in prioritising onward engagement based on holding size, or on the potential for progress at the underlying corporate level.

Based on our approach, we were able to support the client in engaging with and challenging their asset manager for holding a small number of companies, with negligible allocations, which fell short on a range of metrics from various sources. As a result, the asset manager is reviewing its exclusions and positive inclusion policies, and we'll continue to support the client with ongoing engagement on this basis.

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.

To ensure consistency across our clients, we have developed an internal fee modeller that allows pricing for given tasks to be calculated in a manner that reflects different variables. We also provide pricing guidance to consultants on an annual basis.

How our approach serves our clients' needs

A measure of success is that RI is considered as a matter of course in every piece of client advice and discussion. Its relevance to each situation will vary, but it's by equipping our consultants with the knowledge and skills to make these judgments, changing behaviours to ensure that appropriate questions are asked of others at the right time, and providing useful information that offers both context and the ability to effectively challenge that will allow us to achieve this.

Our approach to supporting clients is also flexible, as team members are often seconded to clients, particularly within our IFS business, to meet their short-term needs. However, we've also been prepared to invest in resource to directly support our clients' requirements, as illustrated below.

As the needs of our clients develop, so we expect to continue to evolve the way in which we resource stewardship activity, building the necessary specialist skills and expertise within our business, as we have done over recent years. Our willingness to understand our clients' needs and work with them to help them achieve their stewardship and broader objectives reflects our core value of partnering. One of these client objectives has often been becoming stewardship code signatories, and we've been delighted to have worked directly with six clients over the course of 2022 to help them meet the high standards that have been set.

Case study:

Recruiting to provide direct client support

We provide oversight and advisory services to a large public sector client, which has an objective to build its approach to RI and stewardship. While we've worked with them for several years in developing their current approach, they expressed the need for additional resource to allow them to meet their goals.

Given their requirements, we proposed a secondment arrangement whereby we would recruit additional resource that would then be primarily dedicated to supporting them in the delivery of their RI objectives. We completed this recruitment in May 2022, and our new analyst, Rachel Barrack, has since provided direct support to our client in several priority areas. She has created an implementation and monitoring framework for stewardship priorities, increased their engagement with providers, and improved internal reporting to stakeholders.

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 to ensure 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, 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, which 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 managing conflicts of interest. There are representatives from all business areas.

Case studies

Examples of how we've managed conflicts during the year are set out below.

Case study:

Managing relationships with interconnected parties

Hymans Robertson provides oversight, advisory and project-management services for one of the eight LGPS pooling organisations. We're also retained as investment advisers (and fund actuary) to several of the underlying funds. While there are collaborative relationships between the pool and each of the underlying funds, and each fund is represented within the pool, conflict could arise where the investment advice provided to each party leads to different views or objectives being set.

To mitigate any potential conflicts of interest, the advisory relationships are disclosed to all parties and managed by ensuring that the team responsible for advising the pool isn't the same as those advising individual funds. Further, the high level of collaboration and consultation ensures that views and input are cascaded in both directions, ensuring that the views of all parties are considered.

Case study:

Dealing with advice to providers and potential investors in the DC market

We provide defined contribution advice and consulting services to a range of clients, including trustees, corporates, master trusts, pension providers and asset managers. Recognising that our involvements span a wide range of stakeholders in the defined contribution market, there is the potential for conflicts to arise. We have a robust approach for navigating this, meaning that we are confident we aren't involved in any conflicting relationships. Our potential for conflicts is managed in the following way:

- We test for all of our involvements that we expect our role to contribute to an improvement in member outcomes (our overriding and unbiased measure of success).
- Our research and advisory functions operate independently. This includes both our research of pension providers and managers and their investment solutions.
- Before proceeding with an appointment, we test for potential conflicts with all employees in the firm.

Case study:

Managing conflict between clients on a fund extension

We provide investment consulting services to multiple clients who were invested in a fund maturing in 2022. The fund manager contacted investors to assess whether there was an appetite to extend the fund's life by several years. For a vote on this proposal to pass, a minimum proportion of investors needed to vote and, of those who voted, at least a certain proportion needed to vote in favour.

The potential conflict arose as the way individual clients might vote had the potential to have a detrimental impact on other investors in the fund. This detriment might be reduced returns from the investment if the vote didn't meet the threshold for approval, or it could impact client journey plans if they were unable to liquidate the investments when expected.

To address this conflict, we set out a plan for managing the potential conflict between the clients invested in the fund, which included:

- Full transparency with clients that we have other (unnamed) clients invested in the fund who might choose to vote differently.
- Independent peer review of any advice guiding clients on how they might wish to vote ('independent' meaning separate from any client team with exposure to this fund).
- Discussions with the fund manager on alternative options for how long the fund might be extended and the impact that these might have on returns were led by members of the research team, who are independent of client teams.
- All clients were made aware of the proportion of the fund represented by Hymans Robertson clients and that similar communications would be issued to all clients highlighting the potential return impact the outcome of any vote might have.

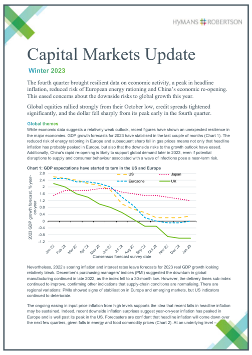
Principle 4

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

As investment advisers, one area of focus for our investment research team is to develop our outlook on market-wide and systemic risks for capital markets.

Addressing the emergence of market-wide risks

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


Capital Markets Update
Winter 2023

Our Capital Markets Update is issued quarterly

Significant market-wide issues that we considered over the year included the potential of further monetary tightening for longer than expected, as core inflation remained a key risk; geopolitical issues relating to the impact of market volatility of DC savers; and the effects of the UK government's mini-budget on gilt markets and liability-driven investment (LDI) funds. Our clients' strategies are developed to be largely resilient to market-wide risks, given the diversification and other risk-management tools employed and, consequently, input seeks mostly to inform and highlight the potential actions needed, rather than the imperative to act.

Inflation as a market-wide risk

In 2022, inflation rose further and for longer than most market participants expected in many countries, including the UK. Strong demand, ongoing supply-chain constraints and stark energy and commodity price inflation continued to push prices higher. As the cost-of-living crisis affects us all, the issue of inflation was unavoidable for us and our clients. To communicate our position better, we published a series of notes/articles/papers in our regular Capital Markets Update and monthly briefs.

We also introduced our quarterly publication specifically tackling the issue, Inflation Watch, which offers our perspective on the inflationary environment. Its aim is to help clients assess the outlook for inflation, by providing updates on the latest position, consensus forecasts on future inflation rates and our view on whether the risks to the consensus view are tilted to the upside or downside.

Ukraine

The war in Ukraine saw an immediate response from asset owners, all of whom sought to understand their exposure to the region and many of whom chose to divest holdings as far as possible. Our own response to this was to actively support clients seeking information and considering their approach, while noting that exposures were generally low. We encouraged our clients to engage with their own managers (while also engaging ourselves) to establish the steps being taken and highlighted the near-term risks that emerged.

We also considered the broader systemic issues arising from this conflict, noting in our quarterly Capital Markets Update the potential knock-on impact on inflation, given resource constraint. More fundamentally, we also encouraged clients to revisit their investment beliefs and objectives and to consider how these are ultimately reflected within investment decision-making.

Gilt/LDI market crisis

Our clients and the wider pensions industry faced a challenging environment in the final months of 2022, given the gilt-market volatility associated with the mini-budget. We view the work we did to minimise the impact of these extreme market movements on our clients as a good measure of our performance. Following the gilt market's reaction to the mini-budget, our consultants contacted all clients affected to explain what was happening in markets and discuss actions the schemes needed to take. Where appropriate, we helped clients with:

- organising the pre-payment of contributions with their sponsoring employer(s)
- obtaining corporate loans, either with their sponsoring employers or third-party providers
- proactively topping up cash allocations, to ensure sufficient liquidity in the event of market turbulence
- demonstrating proof of assets in transit, which provided further leeway in collateral positions.

Finally, we acted quickly and efficiently when some of our clients reached de-risking triggers as yields spiked, locking in gains and securing them against potential future adverse market movements.

Throughout this period, we engaged with a wide range of stakeholders, which included our competitors, investment managers and the Bank of England (BoE). We worked closely with individual clients and tailored our approach to their circumstances. This included innovative approaches where appropriate to minimise forced selling, such as considering credit repos, demonstrating proof that funds were on their way and setting up corporate loan facilities. All of which helped to reduce the potential for mass selling in specific asset classes.

Our Chief Investment Officer joined calls with the BoE both in early October, to advise and explain the systemic risks the crisis presented, and again in December 2022, to discuss the progress pension funds in general had made to manage collateral positions. The initial meeting was around the time of the BoE's quantitative tightening measures/the withdrawal of the support mechanism. We alerted the BoE to what we were seeing, encouraging them to take necessary actions to stop the market becoming dysfunctional or collapsing – this was a genuine demonstration of our firm responding to systemic risk.

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We did whatever was needed to support our clients through the process, irrespective of time of day or week. We engaged with LDI managers about what was needed and what was being experienced. We've also conducted a full special one-off review of our LDI manager ratings.

Communicating excess market volatility

As the above events of 2022 reminded us, markets can be unpredictable and volatile. While headline reports and statistics were well trailed in the financial press, these messages typically lacked a member focus or 'So what?' from a DC perspective. Using our forward-looking Member Outcomes Tracker, we supported our clients through the turmoil by putting market distortions into a member context, based on different cohorts. We provided comfort that younger members were generally unscathed in terms of their long-term projected outcomes and helped with clear messaging to members closer to retirement.

Crucially, very few of our clients were significantly exposed to gilt and wider bond markets, which were impacted most heavily in 2022. Our advice to clients since the introduction of Freedom and Choice has helped them transition their default strategies away from annuity targets to cash/drawdown targets. The impact of this advice was a relative improvement in retirement outcomes by up to 25% during 2022.

We shared recommendations in our DC Investment Market Update publication, recognising these could be helpful for the wider industry to consider how best to support their members during a challenging time.

Evolving how we address market-wide risks

We recognise that market-wide risks can and do occur, as events have demonstrated, but believe that the way in which we help our clients develop and implement strategies offers significant resilience. That said, we continue to explore mechanisms of monitoring the emergence of such risks and are working on projects to both develop a dashboard of potential financial stress and, as noted below, continue to evolve how we consider systemic risks through scenario analysis.

Climate change

We recognise that climate change is the biggest systemic risk faced by our environment, our society and our economic and financial systems. 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.

As a result, and with climate change being a strategic imperative for our firm, we were a founding member of the Net Zero Investment Consultants Initiative in 2021. We have continued to expand the resource focused on addressing climate-change issues across our business, as covered elsewhere within this report. We've embedded climate-change risk and opportunity as a priority across our business.

Early in 2022, we appointed Mhairi Gooch as Net Zero Lead and established the NZWG, with representatives across the business, focused on delivering our consulting commitment. Through this group, we've established our beliefs on what 'good' net zero looks like, drawing on external frameworks and our existing climate beliefs, and communicated this to key stakeholders within the firm.

We've been working with clients to set net zero targets and policies and to develop and implement strategies. We've created a five-step approach to help frame our consulting. Under each step, we've built up precedent material and case studies to support our consultants, which are available to all via our dedicated net zero hub. Consultants assess their clients at least once a year to establish where they are on their net zero journey and assess 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.

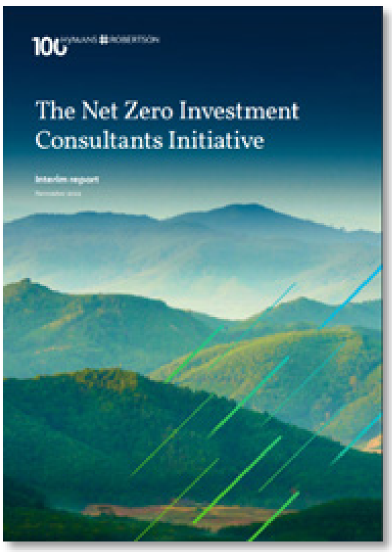
To help our clients with this, we've developed our proprietary modelling approach and reporting to help assess how aligned they are with a net zero target. This approach encourages real-world change and a 'best in class' mindset, where individual holdings are compared with their direct peers within sectors and geographies. This is preferable to disinvestment from the highest emitting sectors, which remain vital to the economy and to achieving a successful transition.

We're currently working on further modelling enhancements and have appointed an internal Climate Change Analytics Lead, who will drive these efforts, supported by the broader Climate Change Modelling Group. We've updated our manager assessment framework to integrate climate change and net-zero considerations. We're developing our view on the credibility of stated ambitions by asset class and will use this to determine best-in-class products. Nature-based solutions are a current area of focus for our research team.

We also continued our climate training programme for all consulting staff across our actuarial, investment and insurance businesses, covering subjects such as policy development, scenario analysis, climate metrics and investment considerations. Training sessions are available to all at any time through our training hub.

Within our IFS business, we've grown our resource and expertise to support clients in addressing climate risks, recognising that one of the key industry gaps is the need for requisite knowledge and expertise. Drawing on the broader skills of our business, we've worked to support clients on projects that include board training, TCFD reporting, data gathering, calculation and analysis of metrics, climate scenario analysis and modelling, and the framing of a net zero strategy.

The majority of our client projects have some element of ESG considerations, so our whole IFS team is up to speed on the latest developments. Most of our staff were involved in insurance-related climate projects during the year. Towards the year-end, we prepared to issue our third climate-change survey, which has been expanded to include non-life insurance clients, and we will be engaging with the industry on the results during the course of 2023.



Details of all the progress that we have made against our NZICI commitments were reported during the course of 2022.

Biodiversity

Biodiversity is a systemic risk that is intrinsically linked to climate change. As with other such issues, our starting point has been to educate both ourselves and our clients on the subject, familiarising ourselves and commenting on the draft TNFD framework, and exploring the actions that can be taken. To support these efforts, we've appointed Andre Ranchin as our biodiversity lead.

Over the course of 2022, we published several articles including a high-level introduction to the biodiversity crisis and contributed an article on biodiversity to the Pensions Management Institute's (PMI) 2022 ESG report. This was also the focus of our presentation at the PMI conference in December on effective stewardship relating to biodiversity and nature.

A key element of our biodiversity focus is considering relevant data and metrics that will support our clients' understanding of the subject. Recognising the complexity of the subject, we've initiated a research workstream to gain insight from industry thinkers and asset managers, looking to gain insight about their approach to addressing biodiversity, particularly considering capital allocation, stewardship and data. One such line of work has been with Global Canopy on deforestation.

While we've focused significant effort on investment in timberland, which itself brings biodiversity benefits and which we comment on separately under Principle 5, we've also helped one of our master trust clients take an initial step by supporting their investment in a biodiversity fund, helping them improve the sustainability characteristics of their offering.

Over the course of 2023, we expect to expand our consideration of biodiversity issues through further partnerships and research, but also by identifying further opportunities to allocate capital into this area.

Case study:

Working with Global Canopy to understand deforestation

We partnered with Global Canopy to develop an action-oriented briefing note on deforestation, as part of our focus on building knowledge. Global Canopy is a data-driven organisation that targets the market forces destroying nature, through improving transparency and accountability.

We have also used Global Canopy's Forest 500 dataset to assess whether the companies in clients' portfolios were aligned with best practice in supply chains exposed to deforestation risk and are exploring the best ways to report this to our clients. This type of assessment will become more commonplace as it becomes both a part of EU regulation and is embedded within the TNFD framework.

Engaging private markets managers on climate data

In our 2022 report, we identified ineffective measurement of climate data within private markets as a potential systemic risk.

Given the need for our clients to begin TCFD reporting, the lack of standardisation, and opacity of methodology and sources used, not only hinders the understanding of those that the metrics are calculated for, but can also cause subjectivity in interpretation.

This causes problems for those who wish to use ESG metrics to help inform strategic decision-making, predominantly due to concerns about the reliability and accuracy of those metrics. This is particularly true of private market assets, which lag their public market counterparts on data collection and verification.

During the year, we completed a research exercise exploring the availability and quality of climate data across four private market asset classes, gathering information from a range of managers and funds. We used this research both to improve our understanding of where the industry was and establish the steps that asset managers needed to take.

We will be repeating our survey of managers during 2023 and reporting on the progress that has been made.

Outcome:

What we have done as a consequence of this research

Asset managers should continue to work with underlying investee entities to improve data availability.
In addition to sharing the findings of our research with asset managers, we have highlighted our findings to managers during research meetings and our expectations for improvement. We have also encouraged clients to raise questions on data quality and how this is being improved.

Asset owners should consider adopting a data quality or data availability metric within their TCFD governance framework.
The adoption of a data quality metric for TCFD purposes has been a core recommendation to our clients. These data targets for managers set out expectations for improvement and the timescales in which to achieve those expectations. We encourage additional engagement with managers to drive forward progress and incentivise quick action on improving data coverage.

Asset owners, when selecting managers for new private markets mandates, to consider the use of minimum standards for climate data reporting to differentiate between providers.
The consideration of climate data quality and reporting is now included in our evaluation of managers. We've also taken opportunities to raise the issue of data quality in various forums, including a roundtable discussion with LGPS funds on 'The ESG of Private Markets', which we chaired.

Influencing change through our Climate Impact Initiative

In July 2021, we launched our Climate Impact Initiative to ensure all members, regardless of the size of their scheme, can gain access to a climate-impact option. Our goal is to address this mismatch by creating the demand for pension providers to make available a climate option for members, so savers across the UK can choose for their money to have more of a positive impact to address climate change.

One key change made to our own processes has been to add climate impact as an element of our evaluation process when researching providers. We use this as a scoring element of our assessment but also as a basis for challenging providers. We note that some have made progress on this issue while, for others, its inclusion is a lower priority. This influences our assessment of them and consequently our propensity to put providers forward for new mandates.

Outcome:

What happened since we established this initiative?

A year on from launching the initiative, our research suggests around **10%** of DC savers now have access to a climate impact investment choice, with some providers exploring the role of impact strategies in their default arrangement.

Meanwhile, nearly half of master trusts offer an impact choice to members: **47%** have introduced some form of impact investment option, with a further **11%** having a clear plan to introduce impact investment.

Addressing the limitations of climate scenario modelling

In previous reports, we've highlighted the ongoing development of our approach to climate scenario analysis and the deployment of these analyses in our advice to clients to fulfil TCFD requirements. We've now used this tool with over 40 clients, which has supported dialogue on climate change and the uncertainty that climate change can introduce to funding and investment outcomes.

As is consistent with the work that we've previously undertaken on evolving our scenario analysis, we continue to explore mechanisms to make our methodology better. Over 2022, we engaged with industry on some of the limitations of scenario modelling and held discussions with regulators including the PRA and the Institute & Faculty of Actuaries on this issue. Building on these discussions, we published a series of blogs on this subject:

- Blog 1: Climate scenarios omit lots of the risk
- Blog 2: If climate scenarios did capture the risks, what would they look like?
- Blog 3: If climate scenarios fully captured the risks, how could they be useful?

Our approach to scenario modelling highlights another potentially systemic risk, that of groupthink, a concern that we've repeatedly highlighted in our consultation responses. It continues to suggest to us that different approaches are needed to drive action forward. We've put in place a project team to explore the next iteration of our own scenario modelling approach and expect to launch this with clients over the course of 2023.

Responding to industry consultations

We believe it appropriate to represent our clients' interests in the development of policy and regulation and, over 2022, responded to a number of relevant consultations in order to support our beliefs, work with clients and influence policy outcomes.

Department for Levelling Up, Housing & Communities (DLUHC): TCFD for the LGPS

Our response to the DLUHC was shared with the LGPS funds we work with, to explain our thoughts and approach, thereby enabling them to better understand potential implications for themselves and to inform their own response. We also worked with other LGPS stakeholders to help them shape their own responses to the consultation. We've since taken forward the expected requirements with our LGPS clients to help them to prepare in an efficient and timely manner.

Financial Conduct Authority: Sustainable disclosures

We submitted a response to the FCA on the Sustainability Disclosure Requirements (SDR) and investment labels consultation, believing the proposals to be relevant across our businesses. Our response acknowledged our strong support for the intention of the proposals to build guardrails to protect consumers from the potential harms of greenwashing, which erodes trust in financial markets. We also provided some recommendations for the FCA's consideration to make the regime more effective, particularly from a retail consumer's point of view.

SEC consultation on climate disclosures

We've previously highlighted our support for improving climate-related disclosures and, given our clients invest globally with significant US exposure, there is a need for better data. Our response to the consultation was supportive, although we noted the importance of aligning with evolving standards, the importance of disclosing Scope 3 emissions and the imperative to avoid making elements of reporting voluntary.

Engagement with The FRC Lab

We contributed our insights as advisers on both stewardship and corporate net zero reporting to input into their research, which in turn strengthens the regulatory environment.

Relating to stewardship, we were interviewed by the Lab to inform the FRC's development of the UK Stewardship Code and any future consultation by better understanding how stewardship reporting is used by asset owners and those that advise them. The FRC Lab report included our insights on net zero corporate reporting. This report provides users (including us as advisers and our clients) with sufficient information to better discern companies' GHG emission reduction commitments and their ability to deliver net zero targets.

Collaborating with others

Working with the ICSWG

We were one of the founding members of the ICSWG and are represented on both the Steering Committee and several underlying workstreams. Over 2022, we participated in various activities, including contributing to the dialogue on ICSWG strategy, following which Alison Leslie was appointed to lead the 'Raise the Bar' workstream, which aims to improve standards in stewardship and engagement. We also led the ICSWG's consultation response to Make My Money Matter on their guidance on deforestation for pension funds, which was published during 2022.

Working with the NZICI

We're one of 10 consulting firms represented within the NZICI and have participated in dialogue within the group. A key focus of the group was the development of the reporting framework for firms, both individually and collectively. We published our first report demonstrating compliance with the nine principles in December 2022. Another substantive area of focus has been the GFANZ Portfolio Alignment consultation. We contributed to the group response to this consultation, with our collective response seeking to steer guidance towards a more practical outcome for clients and away from an initial focus on the more technical aspects. We also responded separately to this consultation, emphasising the group response.

Professional Independent Trustee (PIT) firms

We have broad relationships with PIT firms and often engage on specific subjects, providing training and examples of actions that we've taken to help them understand what they could do. Over the course of 2022, roundtable discussions with PIT firms included discussions on climate change, TCFD reporting and the exercise of stewardship. We have also held preliminary discussions with several PIT firms on how we can support their exercise of stewardship across multiple clients.

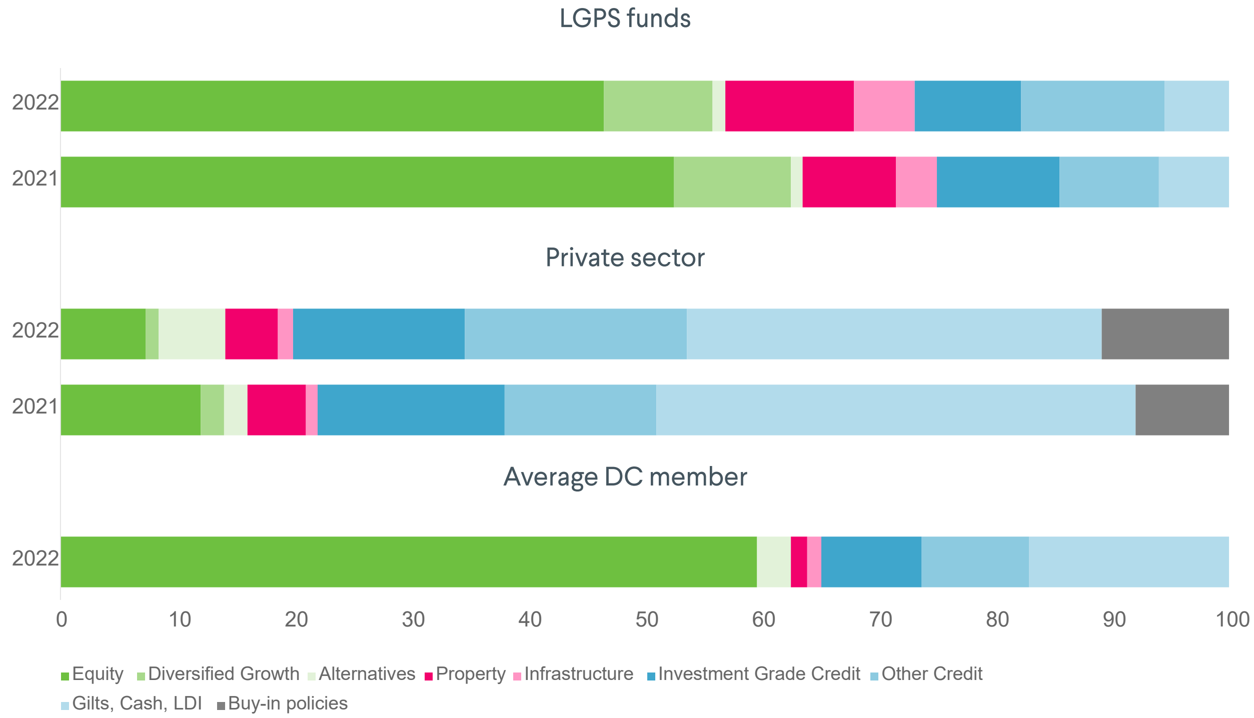
Principle 5

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 £266 billion of assets, of which £186 billion relates to DB clients and £80 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 2021 and 2022 together with an illustration as to how our DC clients' assets are invested.



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

DB client allocations moved slightly over the year, mainly because of the significant shifts in interest rates seen in 2022. The needs and investment timeframes of private and public sector clients are therefore different, which is reflected in our approach to providing advice to clients.

Our DC clients comprise of 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 above represents the allocation of the median member. Our advice to clients influences the asset-allocation journey that individuals take, the nature of the default arrangements, the underlying constituent elements, thestewardship of assets and how issues are communicated to members.

Helping our clients be 'better stewards'

A key focus over the course of the year has been supporting clients on becoming 'better stewards'. In practice, this meant developing both our own internal systems as well as our outputs and value-add to clients. Olivia Mooney joined the firm in February 2022 to lead our efforts in this area.

Building knowledge on stewardship

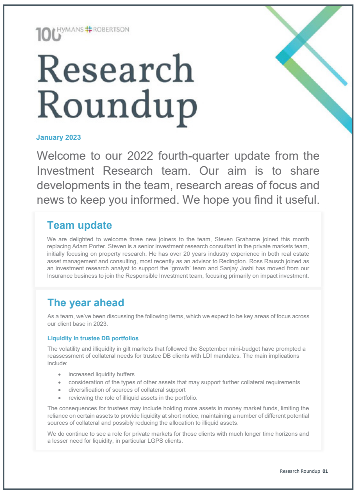
We continued to educate clients on the value of stewardship, using practical demonstrations of stewardship to support this. In particular, we updated and republished our stewardship guide, which encourages asset owners to treat stewardship as an ongoing dialogue and to take the opportunity to dig into the detail of particular issues or themes.

We also promoted this focus on stewardship through other channels, such as our Hymans Robertson On... podcast, gaining support from third parties like the PRI for our messaging. Further, through our dialogue with PIT firms, we've provided educational sessions on stewardship, highlighting the different ways that asset owners can engage with their managers and the effectiveness of engaging in a systematic manner.

Using voting practices to challenge managers

We've encouraged clients to use the information within their Implementation Statements, and particularly the differences in voting on specific 'key votes' among their managers, as a basis for more constructive and meaningful engagement.

Our 'RI News & Views' always includes detail of forthcoming votes that can be considered by asset owners in scrutinising their asset managers, with our Q3 edition providing a detailed example of how two managers voted on a particular resolution. 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.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Research Roundup

January 2023

Welcome to our 2022 fourth-quarter update from the Investment Research team. Our aim is to share developments in the team, research areas of focus and news to keep you informed. We hope you find it useful.

Team update

We are delighted to welcome three new joiners to the team, Steven Grahame joined this month replacing Adam Porter. Steven is a senior investment research consultant in the private markets team, initially focusing on property research. He has over 20 years industry experience in both real estate asset management and consulting, most recently as an advisor to Redington. Ross Rausch joined as an investment research analyst to support the 'growth' team and Sanjay Joshi has moved from our Insurance business to join the Responsible Investment team, focusing primarily on impact investment.

The year ahead

As a team, we've been discussing the following items, which we expect to be key areas of focus across our client base in 2023.

Liquidity in trustee DB portfolios

The volatility and illiquidity in gilt markets that followed the September mini-budget have prompted a reassessment of collateral needs for trustee DB clients with LDI mandates. The main implications include:

- increased liquidity buffers
- consideration of the types of other assets that may support further collateral requirements
- diversification of sources of collateral support
- reviewing the role of illiquid assets in the portfolio.

The consequences for trustees may include holding more assets in money market funds, limiting the reliance on certain assets to provide liquidity at short notice, maintaining a number of different potential sources of collateral and possibly reducing the allocation to illiquid assets.

We do continue to see a role for private markets for those clients with much longer time horizons and a lesser need for liquidity, in particular LGPS clients.

Research Roundup 01

Our RI News & Views is issued to clients quarterly

Case study:

Challenging equity managers

A great example of how we supported a client came with one of our trust-based DC clients, which uses different equity managers within the default arrangement and the self-select fund range. One of the 'key votes' was a resolution on whistleblowing for Alphabet (the parent company of Google), which took place in June 2021. The resolution called for an independent review of whistleblowing policies and practices following a high-profile sacking from the company.

From the Implementation Statement it was clear that, while some of the plan's managers had voted for the resolution, some had voted against it. To explore this difference in voting practices, we invited three of the plan's managers to their next investment meeting to address issues such as how they had been engaging on whistleblowing, why they voted the way they did and what follow-up action had been taken.

It became clear to the trustees that there were different approaches being taken by the managers and the session sparked a robust debate revealing some aspects of their managers' policies that the trustees had not been aware of. The meeting prompted further investigation and engagement, with the chair of the trustees commenting that:

"This was an innovative, informative and practical way of engaging with our investment managers, which threw up a number of differences in their approaches in terms of engagement with companies and, in particular, previously unknown nuances in their voting policies. In turn, this helped to make our Implementation Statement more than simply a tick-box compliance document and brought it to life for the Trustee Directors."

Helping clients implement their own voting policies

Beyond helping our clients understand how their votes are being exercised, we have also helped several of our larger clients implement their own voting policies, thus ensuring that their own views are being properly expressed.

Case study:

Working with an insurer to develop and implement voting policy

Two members of our team spent time working with the pensions investment team of a large insurer, helping them define and implement various ESG-related processes. This included an exercise to define their own voting policies, coordinate with the asset managers to have these voting policies implemented, develop tools to analyse voting data and ensure that their policies were being appropriately implemented.

We are separately working with a large public sector client to support the ongoing implementation of their voting policy. This has included coordinating with both voting provider and asset managers to agree the approach to voting on contentious issues.

Creating systematic approaches to engagement

While education has been a first step and ensuring there is appropriate collateral for a meaningful discussion a second, we believe stewardship works best if properly structured. We've also sought to help clients develop a consistent ongoing engagement process with their managers, generally following the approach set out in our stewardship guide, but also informed by our clients' own priorities and objectives.

Our goal here has been twofold:

- To create consistent ongoing dialogue where actions and outcomes are tracked, and
- To allow clients to assess the ongoing progress arising from their discussions.

We've worked with multiple clients to both develop and implement their engagement policies, recognising both clients' resource constraints and their desire to fully embed these processes into their day-to-day activity.

Case study:

Embedding core themes into an engagement framework

We're working with an LGPS fund that has a broader ambition to meet the requirements of the UK Stewardship Code. Our brief was to help with engagement, drawing on the key themes that they had already set.

Our approach was to first agree the process, including the approach to managers that the trustees should take, via our 'Approach to Engagement' document, which set out the roadmap for the Framework for Engagement. This includes a five-stage milestone system, outlined below, to document the process and track progress of engagement activity.

Our client has put in place a Working Group with responsibility for the engagement for which we've provided support. Several meetings have been held and documented, with follow-up actions having been logged and identified to managers. While subsequent meetings are yet to take place, our client is well placed to challenge their managers against the expectations that have now been created and build accountability. If adequate progress is not made, then the process allows for escalation.

The Fund is happy with the progress made to date, recognising that this creates a formal ongoing process in place of the informal dialogue that had previously occurred, but importantly aligns the engagement with the goals they are seeking to achieve.

We've undertaken similar work with other clients at varying scales, ranging from ensuring that manager meetings which were previously part of a normal trustee meeting are now being held separately and given an appropriate focus, to developing a full engagement and monitoring framework with a client that has subsequently demonstrated it meets the requirements of the UK Stewardship Code.

Building accountability through manager engagement
We've worked to better coordinate and integrate regular meetings between asset class researchers, the RI team and managers to discuss their approach to RI and stewardship at both a firm and product level.

Together with our updated RI ratings methodology, our internal knowledge base and scrutiny of managers has been improved. We've used better-quality information achieved via engagement with managers and our ratings methodology to offer more detailed and rigorous scrutiny of managers for our clients, ensuring that manager activity supports their stewardship and investment objectives.

Over 2022, our research team held over 400 meetings with over 100 different asset managers. Topics discussed ranged from reviewing existing portfolios to carbon emissions to providing feedback on ratings decisions. We began a process of more tailored engagement with a small number of managers with whom we have larger relationships over the course of the year. Discussions focused on understanding stewardship processes, voting actions around climate change and disclosure and reporting expectations. We expect this programme of engagement to expand during 2023.

2022 also marked the launch of our 'Research Roundup' publication. Targeted at asset managers, this quarterly newsletter sets out both our current thinking and areas of research focus, but also our expectations of asset managers. For example, we've communicated our private markets data research through this channel as well as areas of forthcoming research.


100 HYMANS # ROBERTSON

Research Roundup

January 2023

Welcome to our 2022 fourth-quarter update from the Investment Research team. Our aim is to share developments in the team, research areas of focus and news to keep you informed. We hope you find it useful.

Team update

We are delighted to welcome three new joiners to the team, Steven Grahame joined this month replacing Adam Porter. Steven is a senior investment research consultant in the private markets team, initially focusing on property research. He has over 20 years industry experience in both real estate asset management and consulting, most recently as an advisor to Redington. Ross Rausch joined as an investment research analyst to support the 'growth' team and Sanjay Joshi has moved from our Insurance business to join the Responsible Investment team, focusing primarily on impact investment.

We've been delighted with the positive reception that this publication has received and see this as an important mechanism for highlighting how we'll be allocating research resource.

> *It was great to receive your new Research Roundup today, indicating the key areas of focus for your research efforts this year.*
>
> Executive Director, European asset manager

> *This is great – succinct and genuinely helpful.*
>
> Head of Institutional Business, UK asset manager

Maintaining our focus on climate change

Climate change remained a core theme for the year. We have illustrated throughout this report the various means through which this has been reflected in our work with clients.

Helping clients build and implement net zero journey plans

We've developed our own in-house forward-looking analysis to help our clients set and monitor their net zero investment strategy. A primary output of this analysis is to help our clients prioritise engagement activity on the themes of climate and net zero. Our quantitative approach helps to identify areas that need further exploration.
This is then supported by other data sources such as the Transition Pathway Initiative and SBTi. This work allows our clients to identify the key drivers for emissions in their strategy, particularly those that are least well aligned with a net zero pathway, and to target their engagement with evidence and sector specific insights to support the conversation either directly with their investments or via their asset manager.

Case study:

Net zero journey planning

Our client had already achieved its interim target of 50% reduction in Weighted Average Carbon Intensity (WACI) measured against a market benchmark. To help inform what this meant in absolute emissions terms, and how on track the client was for its pre-2050 net zero target for the whole portfolio, we carried out a forward-looking assessment. This helped to establish the scale of what is still needed for the portfolio to reach a true net zero position, looking at scope 1, 2 and 3 emissions.

Focusing on the period up to 2030 and the level of commitments in place for the underlying assets, we identified engagement priorities for the client both between and within mandates.

We also used this assessment to inform discussion on alternative strategies, including the consideration of climate impact solutions that provide additionality in terms of avoided emissions.

Our client has allocated a portion of the assets to such investments and is looking to increase this. The outcome of our forward-looking analysis is that the client, while meeting its current interim target early, understands the magnitude of work still needed to achieve its net zero target via capital allocation and stewardship activity.

It's also understood that while our clients can push ahead as much as possible in making changes to their portfolio, their ability to meet net zero targets will also rely on global progress in decarbonising economic activities. To achieve net zero in a real-world context, simply reducing exposure to high-emitting assets won't solve this. Therefore, engagement, collaboration and exploring opportunities in climate solutions are also areas of consideration.

Our clients seek to build an understanding of the detailed actions that they can take to address climate risk through stewardship. We are helping them in this endeavour through sector level analysis, as illustrated below.

Case study:

In-depth sector-based analysis

As a result of our net zero journey planning work, we identified exposure to the steel industry as a key driver of future emissions and misalignment to a 1.5-degree pathway at the total portfolio level. We undertook a deep dive of this industry to provide a metrics-based approach for informing specific engagement questions for the client to put to its investment managers. The purpose of this exercise was to provide the client with the insights needed to challenge their managers on a more sector-specific basis, testing the managers' knowledge and planning for the holdings in these sectors.

Meeting the requirements of TCFD

The number of clients falling into the scope of TCFD reporting requirements increased over the year. While we had already helped various clients put in place climate policies and address the broader governance requirements, we continued this work throughout 2022. Considerable emphasis continued to be placed on training, particularly to understand the challenges being posed by data and the addition of a fourth reporting metric.

Our focus has not been solely on pension scheme clients; we worked with several insurance companies on the implementation of TCFD.

Case study:

Helping an insurer address TCFD requirements

We completed a project with a leading life insurer's UK business to help them develop their climate strategy and meet their TCFD reporting requirements.

The work was undertaken in two phases: the first phase covered benchmarking and a gap analysis of where they were against expectations and peers, as well as developing a roadmap and a workshop on metrics to support their goals. The second phase focused on education and setting appropriate metrics and targets, while also supporting them in writing their inaugural TCFD report.

Through the metrics workstream, we helped the client develop a framework to set out the methodology and approach that they should take when calculating their climate and ESG metrics. Given the positive response from our client, this evolved into our team developing processes to calculate the client's climate metrics for each key asset class. This required us to expand our own resource commitment, providing more opportunities for team members to build their climate experience.

We collaborated with the client to identify and evolve detailed climate-related targets across all aspects of the business, with a key focus on areas where they could continue to improve. This included us driving the client to be more ambitious with their goal setting. The project was successfully completed, and our client has begun the steps of integrating climate considerations into their business and completed their first TCFD report.

Continuing to take clients on their RI journey

Our clients are increasingly at different stages in addressing RI considerations within their strategies. One intended area of focus for the year was to develop our approach to engaging on RI issues with smaller schemes, although progress on this initiative continues. Our approach to advising on net zero has also focused on the incremental nature of change, and we have increasingly sought to build net zero into the strategy-setting process.

Many clients have continued the journey they started several years ago, progressively increasing the capital they have allocated to sustainable solutions while also improving their approach to stewardship. One such example of how we have helped a client continue this journey is set out below.

Case study:

Ongoing implementation of a sustainable strategy

Several years ago, we helped our client, a £200 million open DB scheme, frame the long-term vision of a sustainably invested portfolio reflecting their core beliefs. This created a twofold challenge: to help them build a portfolio in line with this vision, while equipping them with the information and knowledge to enhance their stewardship. Training has been a key element of this journey – we've provided it on a range of topics including climate change, stewardship, ESG and climate metrics, sustainable equity and renewable energy infrastructure – and during 2021 they completed the switch of their equity assets into sustainable orientated funds.

As our client has a long-term investment horizon, we identified an opportunity for them to reduce exposure to low-returning bonds while also building an allocation to renewable energy infrastructure. Investing in the transition to a low-carbon future appealed to the client, but they were conscious that this addition would increase the portfolio's overall risk. We ran educational sessions and arranged meetings with several managers, allowing the client to gain a level of comfort with the features and risks of renewable infrastructure while identifying potential managers. They've since committed 5% of assets to one of the funds and continue to explore other ways of raising the allocation to 10%.

Our client has investments in a diversified growth fund within their strategy. While switching assets to a 'sustainable' variant of the same fund was an option they considered, following research, we concluded this was not an appropriate change – primarily because the sustainability goals weren't as ambitious as could be achieved. Consequently, we advised reducing their allocation to support their investment in renewable infrastructure, thereby maintaining an appropriate risk/return balance.

We have also increased our support to our client in their proactive engagement with managers. For each underlying manager, we now report on a range of metrics that explore their portfolios through a climate and ESG lens. This means our client can understand potential outliers in portfolios from both an ESG and climate perspective, which elements of their portfolio contribute to carbon risk, and the extent to which companies are transitioning. Our client uses these reports as the basis of quarterly engagement with their asset managers and maintains a stewardship log, ensuring that actions and outcomes can be managed.

We're now delighted to be working with our client to prepare an initial stewardship code report.

While our ongoing work with clients offers the opportunities to embed the consideration of a longer-term journey, we have equally been focused on pension schemes who are nearing their endgame.

Embedding stewardship into risk transfer

Building on the work we undertook in 2021, we updated our rating benchmark framework to set a higher target for insurers, recognising that the advancements in approach to ESG have set higher expectations of the market standard level. We had discussions with all insurers to capture their latest reporting and ESG activity, including TCFD disclosures, and highlighted some of our thinking in our publication, Spotlight: ESG in Risk Transfer transactions during the year. We've also been working to improve insurers' disclosures – this includes being open on stewardship activities or giving clarity on carbon intensity metrics. We're working with our IFS team, and we've widened the remit to use our ratings and add value in other areas.

By way of example, we've supported clients with existing buy-in policies when they have been reviewing their investment managers. Recognising that buy-in policies are still assets of a pension scheme, we've provided details about what their existing insurers are doing and how they compare to the wider insurance market from an ESG perspective.

While schemes may have less room to directly influence the insurer's approach on ESG, they can apply pressure, especially those larger schemes that might be thinking about subsequent buy-ins. We've also provided additional support to clients, not just at the point of selecting an insurer to transact with, but via earlier engagement to help select a shortlist of providers whose approach to ESG aligns with the trustee's beliefs.

From a stewardship perspective, our focus is predominantly on trying to influence what the insurers are doing, rather than what we're doing to help clients. In setting a rating benchmark that is at least in line with wider market practice, we hope to influence all insurers to maintain focus on their approach to ESG, with those insurers who may lag the pack set to receive additional pressure from trustee boards at the point of being shortlisted for a transaction (and being directly compared with other shortlisted insurers).

Focus on people:

Paul Hewitson, Head of ESG for Risk Transfer

Since joining Hymans in 2020, Paul has advised on buy-in transactions ranging in size from £50 million to around £1 billion, while also building our approach to assessing insurance companies' ESG credentials, drawing on our existing ratings methodology.

Paul's appointment as Head of ESG for Risk Transfer during 2022 recognised the rapidly increasing importance of ESG and responsible investment considerations for trustees and sponsoring employers who have completed, or who are looking to complete, buy-in transactions.

Paul will continue to refine insurer ESG ratings, monitor the insurers' progress towards their net zero targets and push the insurers to improve their ESG positions.

It's been through those dialogues between clients and insurers, discussions with those responsible for ESG within the insurers' investment teams and regular touch points to capture the latest information on ESG developments that we look to push stewardship and ESG further up the agenda for risk-transfer transactions.

Identifying opportunities to invest

Focusing on real assets for a low-carbon world

The process of allocating assets to more illiquid asset classes can take time, particularly where clients need to build knowledge of both the strategy they may want to allocate to, and the solution to invest in. Our approach is to build this knowledge and confidence through time, allowing clients to gain familiarity as they work through strategic decision-making. We approach this by raising potential solutions through our regular publications, such as Investment Perspectives, thereby allowing our consultants to raise potential opportunities as appropriate.

Two areas that we've previously raised with clients as appropriate long-term opportunities have been timberland and renewable energy infrastructure, both of which we see as having attractive risk/return characteristics in addition to meeting broader sustainability goals.

As part of the opportunity set that we've identified to clients, we've continued to share our views on these asset classes with clients through articles and blog posts, particularly highlighting their role in the transition to a lower carbon economy.

- Article on infrastructure prospects
- Article on Forestry

Over 2022, we engaged with various clients on these opportunities as we worked with them to review and evolve their investment strategies. This has resulted in our clients committing capital of around £100 million to renewable energy infrastructure and over £400 million to forestry during the year.

Case study:

Allocating to an innovative forestry fund

Most institutional investment in the asset class has focused on existing income-producing forests. For the most part, these forests are already on a mature harvesting cycle and, while managed sustainably, they won't necessarily be increasing the amount of carbon stored over time.

We worked with a manager who had developed a strategy focused on carbon sequestration through an improved forest management strategy, this being likely to have a more significant environmental impact. Having satisfied ourselves as to the credentials of the manager, the prospective returns from the strategy and the likely impact, we worked with several of our clients who have net zero ambitions and goals to invest for impact, who subsequently seeded the fund.

Helping clients develop solutions in equity markets

Our ongoing dialogue with clients has helped them build an understanding of how they want to invest their capital and develop solutions that are appropriate to their needs. Over the last 12 months, we've seen further progress being made within equity allocations, with over 40% of DB clients now having invested in a sustainably orientated mandate.

Given the broad range of potential index-oriented solutions available and the differing objectives of our clients, we recognise the need to be flexible in our advice. Therefore, we use a framework for evaluating potential solutions. This framework was further evolved over the course of the year to support an exercise being undertaken by our DCC team to assess a broad range of funds for a master trust client. Our approach provided a practical evaluation basis and established a range of preferred attributes while not being overly dogmatic about how they are applied.

Case study:

Working with a client and their asset manager to build a tailored fund

We helped our client, a large LGPS fund, work with their incumbent asset manager to develop a bespoke, rules-based equity strategy. Our client's requirements of the strategy included consideration of the contribution of companies towards addressing climate change and alignment with specific UN Sustainable Development Goals in line with the fund's broader sustainability goals.

Adopting a systematic framework to evaluate the initial proposals highlighted specific areas for scrutiny and allowed us to help the client and their manager evolve the proposals towards an acceptable solution. Our client ultimately seeded the pooled fund and this has now been made available to other investors.

This illustrates the balance that we aim to achieve in providing advice to our clients on the development and implementation of strategy. Where possible, we look to the solutions that the market offers and strive to access the most appropriate solution for our clients' needs. However, where client needs cannot be met from existing solutions, then we're equally happy working with our clients and their stakeholders to develop products that meet their specific requirements.

We've also worked with clients to develop suitable actively managed, thematically focused equity strategies that will allocate capital towards those companies that have some sustainability focus. Under Principle 4, we highlighted our work on the implementation of a biodiversity themed fund. With another client, we worked with their delegated manager to develop an appropriate framework for a sustainable equity fund.

Case study:

Supporting the development of a Sustainable Equity Fund

Our client is one of the eight LGPS pools, with a goal of launching a sustainable equity fund. Through a process of engagement with their delegated manager, we helped them develop and agree appropriate objectives and restrictions for the fund, challenging certain proposals and undertaking research on others to ensure that the solution met the needs of all stakeholders. Issues discussed during this process included net zero goals and the potential role of nuclear power.

When the fund is launched in early 2023, we expect the initial allocation to the fund to be over £1 billion.

The team within Hymans Robertson Investment Services has also sought to meet the varying needs of their clients, working to develop a tailored, sustainability-oriented portfolio, which was launched shortly following the year end.

Looking out for what comes next

We recognise the world is changing and that opportunities for clients to invest in the transition to a low-carbon economy will continue to emerge. One element of our research is therefore dedicated to exploring these emerging ideas, which may begin to appear in asset portfolios. We discussed some of these through our 'Focus on change' blog series.

Over the course of 2022, we address issues such as battery storage, lithium and the just transition, these serving as a basis for further discussion with clients.

Getting feedback from our clients

As our case studies illustrate, 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. While we've sought to standardise the information that we report to our clients through the development of suitable templates, we do gather feedback via our consultants as to what aspects are well received.

Each year, we also 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 2022 client survey, across our DB and DC business units:

97% (2021: 96%) of our clients said they would recommend us to their colleagues

96% (2021: 96%) said we kept them informed of changes in best practice and regulation

99% (2021: 98%) rated us for the quality of our services

We also maintain Guardian Partner roles with around 22% 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 also regularly engage with other service providers, particularly PITs as key stakeholders, as noted under Principle 4. This is coordinated by our 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.

We work with our clients to help them 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 2022.

We reviewed our equity investment beliefs

As we encourage our clients to do, we maintain investment beliefs that guide various aspects of our research and advice to clients. Over 2022, we reviewed our equity investment beliefs, considering the knowledge and experience gained over recent years. While not making significant changes to these beliefs, our Research Oversight Group acknowledged both the potential drawbacks associated with market capitalisation weighted indices and the role that active ownership plays in equity investment.

Over the course of 2023, we expect to review and update our beliefs for other asset classes.

We reviewed potential 'red lines'

The war in Ukraine brought the consideration of exclusions to the fore, with many clients reviewing investment in Russia. Other clients have continued to be challenged over their approach to divestment (from fossil fuels) over engagement. It is, however, clear that multiple stakeholders are interested in this issue, including prospective employees, one of whom sought to understand our view on investment in weapons.

We've undertaken an initial review of our stance to red lines, both in investment decision-making and more broadly as a firm, and believe issues should be judged on a case-by-case basis. Where exclusions from investment mandates are being considered, we can and have advised on the appropriateness of such exclusions but believe that such decisions are ultimately for our clients to take. We'll work with each client to understand their RI beliefs and objectives and form advice accordingly.

We're planning a detailed review of our RI policy over the course of 2023 and will reflect our position on red lines within this updated policy.

We updated our RI ratings framework

As the RI landscape rapidly evolves, so too should the standards with which we assess managers. With the aim of continuing to hold managers to account against evolving best practice, we've again updated our RI ratings framework. The updated framework is more demanding of change, with refined views on what we consider best and acceptable practices. Our new ratings framework also more explicitly distinguishes between firm and product.

We provided training to both our research team and our client consultants on our updated approach, with the new framework being applied to assessments made on or after 1 October 2022.

We're ensuring consistency in our communications

We've ensured our reporting to client is fair, balanced and understandable through seeking ongoing feedback, both from our clients and from our people. Our consultants make use of the publications and reporting that we provide for clients and regularly offer suggestions for improvement.

One change over the year was standardising how we communicate our views on managers to our clients. Reflecting the approach adopted within our manager ratings framework, we've developed a standard template covering the key areas of culture, stewardship and climate change, with views and commentary being reported in a consistent manner between both managers and clients.

Our areas of focus in 2023

The need for a global transition to net zero and a low-carbon, sustainable economy is vital. We want to see asset owners and managers focused on creating impactful outcomes while being able to demonstrate the consequences of capital allocation and stewardship activity. In other words, what we want to see is real-world change. Allied to this goal, our key priorities for 2023 are:

Catalysing action on climate change

As we approach the extension of TCFD governance and reporting requirements to LGPS funds and smaller pension schemes, ensuring that lessons learned from the first round of reporting are captured will be essential, so that TCFD doesn't become simply a 'box-ticking' exercise. The objectives set through both TCFD frameworks and by those who have framed net zero ambitions have to be turned into actions.

We want to see asset managers evolving and implementing transition plans, with transparent reporting on the progress made. Meanwhile, we'll be helping our clients to build their own climate transition plans and take steps to create change, both in their investment strategies and their approach to stewardship. Of particular interest will be the consideration of climate-related opportunities, with the financing gap highlighted at COP27 providing scope for investors. We also expect to see continued interest not only in established areas of investment, such as renewable energy, but also into other emerging areas.

Driving accountability through stewardship

We've regularly highlighted stewardship as a means of creating change, and we expect to see engagement between asset owners and managers continuing to grow in 2023. Greater emphasis will be placed on the outcomes achieved by stewardship activity, with topics such as modern slavery and biodiversity growing in importance, as we highlight below. Alongside the expansion of topics for engagement, we think developments to keep an eye on will include more focus on the influence of beneficiary views and greater scrutiny of the quality and resourcing of stewardship activities.

Our own efforts will be focused on extending the breadth and depth of our dialogue with managers. Building on the steps we've taken over 2022, we'll extend our own engagement programme over a broader range of managers while continuing to support our clients.

Focusing on social issues

Covid-19, climate change and the cost-of-living crisis all emphasise the value of human capital and the need to treat people fairly. Addressed by the 'S' in ESG is modern slavery, which can manifest in many ways, presenting a challenge across what are often complex supply chains. But the prospect of European regulation should place the onus on organisations to identify and address this issue. We'll be exploring how asset managers are engaging with companies on this issue and highlighting to our clients how social issues can be embedded into stewardship.

Expanding our consideration of biodiversity

The agreement at COP15 and the expected finalisation of the TNFD reporting framework are expected to catalyse further action to address nature-related risks. We expect asset managers to assess how these risks can be addressed through stewardship action, particularly regarding issues such as deforestation within supply chains, and better information to be made available to asset owners. While we anticipate product development in a bid to attract capital to nature-based solutions, our initial focus will be on educating and using biodiversity-related data to support our clients' engagement with the subject.

Pushing for more impactful investment

We recognise that our clients are increasingly seeking to achieve impact through their investments alongside securing an appropriate financial return on their investments. We'll increase our focus on impact investment and look to help our clients achieve greater real-world impact.

Ensuring this report is accurate

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.

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 2022, our success in becoming Stewardship Code signatories and those who will be working with us over 2023 as we continue to build.

Alex Geyer
Investment Analyst

Alison Leslie
Senior DC Consultant

Allison Chia
Investment Analyst

Amy Sutherland
Responsible Investment Consultant

Andrew Gilliland
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Asad Rashid
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Callum Stewart
Head of DC Investment

Catherine Bamber
Investment Manager

Chris Arcari
Head of Capital Markets

Claire Cairney
Head of Investment Research

David Norton
Head of Data & Reporting

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Chief Investment Officer

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