HYMANS ROBERTSON

The next steps on our journey

UK Stewardship Code
Review of the year ending
31 December 2021

April 2022

Introduction

In 2021 we celebrated our centenary and in how far we have come as a firm to protect savers and help ensure they have a world worth retiring into. The ongoing pandemic has reminded us not only that the world is subject to a broad range of risks and uncertainties, but that our industry has a key role to play in tackling the issues of today. We know we must demonstrate leadership both to our clients and in how we operate as a firm.

We were delighted to be accepted in the first cohort of signatories to the FRC Stewardship Code in 2021, but this is not a position we take for granted. Our clients deserve evidence of our unwavering commitment to stewardship. In this report, we outline the actions and initiatives we undertook in 2021 in fulfilment of the six principles for service providers.

With the UK playing host to the world for COP26 during 2021 we focused on climate change as one of four core themes for our firm during the year. Our climate pledge made at the beginning of the year emphasised the importance of collaboration and we were delighted to be one of the 12 founding members of the Net Zero Investment Consultants Initiative (NZICI). We were equally delighted to take other opportunities to collaborate during the year. For example, we joined Pensions for Purpose and have been working on the development of the case for investment in place-based impact initiatives which can be used to target social needs in the UK.

We launched our own Climate Impact Initiative in collaboration with an existing client and a range of industry leaders such as Pensions for Purpose, the Impact Investing Institute and Make My Money Matter the purpose of which is to exert pressure on platform providers to ensure a Climate Impact Fund is available to members of all work-place pension schemes.

As we have helped our clients prepare for the regulatory requirements of the Taskforce for Climate related Financial Disclosures (TCFD), our consultants have worked with clients at the vanguard of these changes, but also taken the opportunity to share what we have learned with our clients and the wider pensions community, helping to move the industry forward.

This approach of sharing our experiences and encouraging others to share was a key part of our centenary celebrations. Diversity & Inclusion, Wellbeing and Technology were also key themes and we were pleased to be able to host events to share our knowledge and our experiences with current and prospective clients, with our own people and with the wider industry.

While we were delighted to be listed as one of the inaugural signatories of the UK Stewardship Code in September 2021, we've continued to invest in our approach to responsible investment (RI) because we want to do more. We want to raise our ambition for the outcomes we intend to achieve and we can help our clients to achieve.

Over the course of the last year, we have:

- Continued to grow our responsible investment team, completing the recruitment of five new members to the team by the year-end. One of our new joiners, Mhairi Gooch, will be leading our work on meeting our net zero consulting commitments.
- Integrated our enlarged RI team into our Investment Research team, seeking to ensure that expertise is effectively leveraged throughout the business and in advice to clients.
- Launched our Climate Impact Initiative, gaining support from both our clients and industry bodies in doing so. This Initiative calls on DC pension providers to launch products which will allow savers to invest in climate-impact solutions, helping to improve engagement and return potential and to support progress towards global net goals.
- Updated our manager ratings framework to make it more consistent across different asset classes and more transparent for reporting and feedback purposes; this new framework is applied on an ongoing basis by our Investment Research team.
- Supported our clients on various RI issues ranging from supporting those aspiring to become Stewardship Code signatories to those looking to evolve processes and meet regulatory requirements.
- Invested in training our people on understanding and consulting on climate change, developing and running a series of internal educational sessions.
- Reviewed and updated our approach to climate scenario analysis, more directly integrating our approach into our existing modelling capability.

2022 is a year that will see our clients increasingly wanting to, and also being required to, implement and report against the requirements of TCFD. We want our clients to see this as an opportunity to make a change, either by the way in which they allocate their capital, or through the way in which they exercise their ownership responsibilities. We will play an important role in helping our clients understand the issues they face and explore the opportunities that climate change presents.

Key among our ambitions for 2022 is the goal of “making better stewards”. Regulation is increasingly focusing on the need for asset owners to exercise stewardship, but this needs to be undertaken against a backdrop of knowing what good stewardship looks like. We will help our clients understand the value and impact of effective stewardship, we will help them challenge their managers and providers and we will ensure that we and they demand higher standards of stewardship

Shireen Anisuddin
Managing Partner

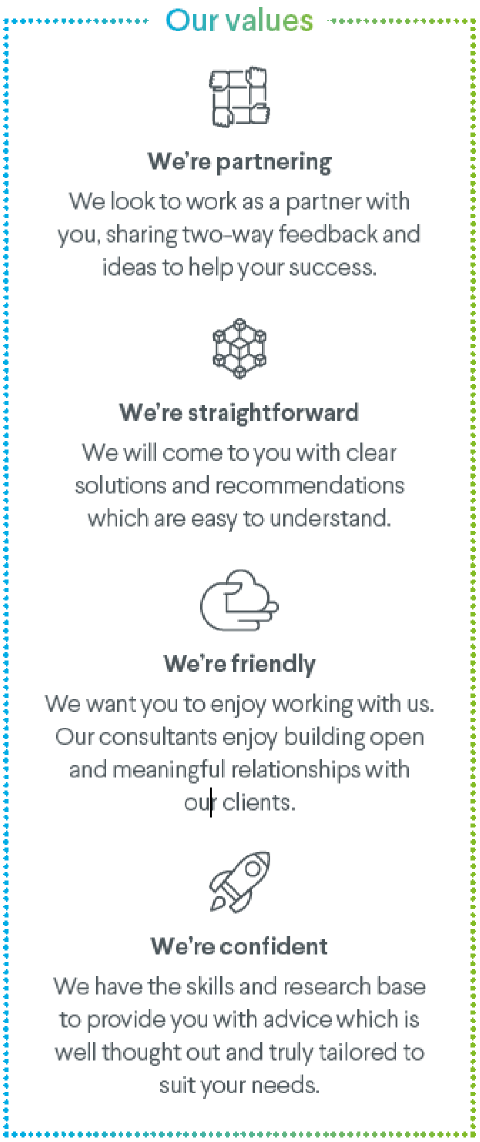
Simon Jones
Head of Responsible Investment

David Walker
Chief Investment Officer

For and on behalf of Hymans Robertson LLP

Principle 1

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



Founded in 1921, Hymans Robertson is one of the longest established independent actuarial and consulting firms in the UK. 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, and capital management and investment, and, through Hymans Robertson Investment Services, discretionary fund management services to independent financial advisers (IFAs);
- personal wealth, where we provide and financial wellbeing advice and guidance to individuals.

Our business is a Limited Liability Partnership, wholly owned by our working partners. As 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.

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" for our clients and communities, and a more sustainable future for generations to come.

Our culture embeds four key values: friendly, partnering, confident and straightforward. We are 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 in our dialogue, both internally and with our clients, which we set out in our responsible investment policy. We consider responsible investment to have two key dimensions:

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

In this report, we use the term responsible investment (RI) in line with our own definition, as an all-encompassing term, capturing all aspects of what the FRC defines as "stewardship".

Sustainability and supporting our clients in the exercise of stewardship over their assets is at the heart of what we do, and ESG integration means that issues are being systematically considered in all aspects of our advice. We are continuing to develop our core offering toward making 'better stewards' and integrating ESG 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

2021 was a special year for us, marking 100 years since the birth of our company. As we mentioned in our introduction, we championed four key themes to advance internally over the year – Diversity and Inclusion (D&I), Climate Change, Wellbeing and Technology. Each of these reflect our firm's culture and important issues to us and our people. We will be reporting on these issues in our CSR report later this year, but set out some highlights of each below:

- On our **Climate Change** theme, following the launch of our climate pledge, we've worked to assess and make plans to reduce our firm's carbon emissions through changing our own behaviours, particularly around how we travel. We also integrated carbon offsetting into our benefits package for all employees, an option that over 150 people took up.
- A highlight of our **Diversity & Inclusion** theme was our webinar, "Together, building a more diverse and inclusive future", where we were able to share some of our experiences and learn from the experiences of others. We have established partnerships with the Social Mobility Foundation, UpReach, STEM Learning and the Women Returner Network. We also appointed our first D&I Business Partner.
- On our theme of **Wellbeing**, we recognised that Covid-19 has taken its toll and therefore sought to support our people with their mental, physical, social and financial wellbeing across a range of activities. This included re-launching our Mental Health First Aider scheme, offering free weekly live meditation classes, webinars to offer support on managing anxiety and finances, as well as awareness-raising campaigns and competitions to encourage social connection and physical activity.
- On **Technology**, we launched our podcast series 'the FinTech Feed', which explores the role technology can play in building better financial futures for generations to come, and also hosted a suite of on-demand webinars on technology and diversity, ethical issues and other topics all available on our website.

Focusing on these four themes help us shape the organisation we are and the organisation we want to be. They reflect the culture of our firm, and they also allow us to use our own knowledge and experience to help influence others. It is therefore no coincidence that three of these themes were also reflected in our external stewardship themes for the year (climate, D&I, working practices) and we reflect on some of the actions we have undertaken in Principle 5.

The technology theme has been reflected in much of the other work we have undertaken on stewardship over the year, particularly in recognising the growing challenges of addressing RI-related data. We expect to continue to focus on this theme going forward. We address this under Principle 4.

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 are 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.

Much of our strategic focus on RI over the course of 2021 was influenced by this pledge, ranging from our support for the NZICI, to the development of our climate-scenario modelling (that will be deployed within our actuarial valuation process in addition to supporting our clients make their TCFD disclosures), and to the expansion of our team. We also recognise the need to grow our knowledge and experience and have therefore invested in training our people, a project that was overseen by our Climate Change Working Group.

Our Climate Vision

Our purpose at Hymans Robertson is 'Together, building better futures' and there's no bigger risk to all our futures than the impact of climate change. We know that building a sustainable future for generations to come means acting now to tackle climate risk. That's why we're committed to delivering our vision of a net zero carbon future and have made the following commitments:

Our Climate Pledge:

- We'll halve our 2019/20 carbon footprint* by 2025.
- We'll be carbon neutral from 2021, and
- Lifetime net zero carbon by 2025.
- Climate risks will be an integral part of our research, advice and services - and how we run our firm.

Our Climate Beliefs:

Here are the beliefs that underpin our climate vision and pledge. They shape not only how we run our business, but also the advice we give to our clients.

1 Climate risks are real, and we must act now.

Evidence of climate change and systemic climate risks is irrefutable. The transition from a carbon-based world economy has already begun, but much more change is needed. In response to the physical impacts of climate change, society will demand changes to national and international policies. The slower governments are to react, the more severe the eventual policy changes will need to be. By planning for change now, we will advise our clients and manage our firm more successfully (regardless of whether policy is fast or slow to change).

2 The impact of climate risks will affect asset values and returns.

As economies transition away from carbon, there will be widescale reallocation of capital. Businesses and governments that manage climate risks effectively are expected to out-perform those that don't. This will affect the returns and risks of their bonds and equities. It will be the same for investments in general. The timing of transition away from carbon is uncertain. The trend will continue over the medium to long-term, but the impact on asset prices may happen sooner. Empirical evidence supporting this trend will increase as climate related financial disclosures become mainstream. Our research will remain evidence-based, using the most up-to-date information available.

Our broader focus has been on continuing to embed RI considerations across our business, ensuring that we can deploy our expertise where it will be most valuable and impactful. Recruitment during the year has allowed us to create designated leads for both stewardship and net-zero within our RI team. This will allow us to be more focused in how we are able to ensure accountability, engagement and change with both our clients and with those who manage assets on their behalf. We have also utilised multi-disciplinary teams from across different areas of our business to provide support for clients.

How we have served the best interests of clients

In our report for the year ending 31 December 2020, we set out several areas of focus for us over the year.

- We wanted to update our climate-scenario analysis. As noted later in this report, we completed this exercise, embedding our analysis into our modelling capability and thus ensuring that we can help our clients meet their TCFD requirements.

- We wanted to make greater use of our investment in third-party data to incorporate this into our reporting. We have drawn on this data to formally report to an initial 20% of our clients, creating more informed and engaged clients, but using this data to also inform our research.

Further, we have built an understanding of data and its limitations among our consultants which has allowed for more informed dialogue.

- Increasing our focus on stewardship outcomes through the use of three core external stewardship themes and being able to share the outcomes achieved with our clients. While we have increasingly helped our clients have these discussions, we recognise that there is still more that we can do – something that our additional resource will support in 2022.

More generally, our investment in recruitment and training has allowed us to focus on 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. This not only serves our client needs, but also allows us to embed knowledge and skills into different parts of our business.

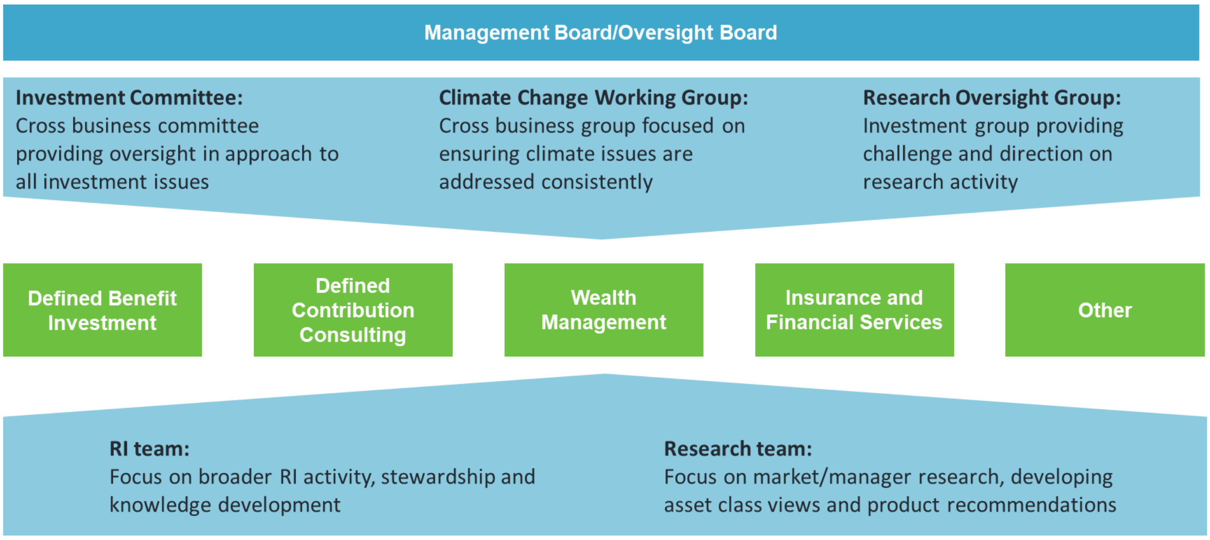
This report sets out a range of different case studies, highlighting examples of work done by different consultants with different clients. They illustrate the breadth of the work that we have undertaken to help our clients improve their own RI outcomes. Given our clients all have different objectives, different beliefs and different experiences, we believe that we have the ability to serve the needs of all our clients given the depth and breadth of experience we have built.

Principle 2

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

How our governance structure supports RI

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



We made three changes to this resourcing and governance structure during 2021:

- Recognising that there was considerable overlap between the remit of our Investment Committee and our RI Oversight Group, we consolidated the responsibilities of the two groups, with the Investment Committee taking a greater oversight role on responsible investment matters. Emma Cameron, a partner in the firm, took on the role of Chair of the Committee following her return from maternity leave.
- We integrated our expanding RI team into the investment research team so that the RI team can provide specialist input to our asset-class researchers, in addition to providing direct support to client teams.
- We have shifted the emphasis of the Climate Change Working Group (CCWG) to be 'top-down' and the CCWG now has oversight of all of our activities relating to climate change, ensuring that our knowledge, advisory services and the tools that support them are developed in a collaborative manner. The CCWG also provides links to our internal Professional Committee and Management Board, allowing us to demonstrate we meet our broader commitments.

The CCWG was first established in 2019 to address climate-risk considerations and progress the development of consulting capability. We are now of the view that the CCWG has been largely successful, with individual business units in the firm increasingly taking responsibility for their own activities. Providing the CCWG with this top-down remit to share activity and developments and ensure that insights are effectively shared with our clients is a natural evolution of our governance structure.

Responsible investment continues to be a priority at the most senior level of the firm. Our Management Board has fully supported the firm's work to become a Stewardship Code signatory as well as supporting our commitment to the Net Zero Investment Consultants Initiative. It receives periodic updates on progress and the actions that are being taken in fulfilment of our commitments.

How we have resourced our RI activity

We resource our RI activity using specialists within our RI and Investment Research teams, as well as educating and providing internal training to all of our client consultants and analysts across the business.

Improving our research focus on RI

Through 2021, we worked to ensure that the consideration of responsible investment issues is wholly integrated into our research processes. As a result, the responsible investment team is now part of the broader investment research team, working more closely with the asset-class researchers to provide specialist input, in addition to providing direct support to client teams.

We also significantly expanded our responsible investment team, recruiting five new members of the team, allowing us to create more specialist areas of focus. As previously noted, one of our responsible investment team members will lead on implementing the advisory commitments we have made under the NZICI, while another will lead on developing and implementing our approach to stewardship and engagement. The broader team will help to develop our consulting in this space providing both research and client support.

The seniority and diversity of resource available is illustrated below.

RI team	2 partners 7 consultants 4 analysts	62%	8%
Research team	2 partners 13 consultants 7 analysts	32%	68%
Climate Change Working Group	8 partners 17 consultants 7 analysts	38%	62%

Note that some resource works across multiple teams

Developing specialists within our team

Different client projects have afforded our people a broad range of opportunities to learn and develop in the field of RI. We're fortunate that we have people who are willing to take on new challenges and showcase below two examples of how our people have embraced these opportunities.

Amy Sutherland, Associate Climate Change Consultant

Amy transferred to a full time RI role from the DB pensions actuarial team during 2021. Her development was strongly supported by individuals across the firm, who helped Amy develop her knowledge of climate risk and access to various resources that helped her gain a solid grounding in the subject. Amy was encouraged to draw on this burgeoning knowledge and take responsibility for delivering internal and external training sessions and presenting on several of our webinars, empowering her to develop her own knowledge and broaden her skill sets.

Amy has been a member of our Climate Change Working Group since its inception and took responsibility for our TCFD reporting workstream, gaining a solid grounding of the reporting requirements of TCFD. She has put this knowledge into practice with several clients who wanted to understand the gaps in their approach, developing their understanding as well as writing Hymans' own TCFD report. With this grounding, Amy increasingly began working with public and private sector pension funds and insurance companies, primarily focusing on the development and implementation of responsible investment and climate risk policies. She is now regarded as a subject matter expert on TCFD and increasingly involved in helping clients address climate risk.

She is also involved in a number of industry working groups, including the Net Zero Investment Consultant's Initiative reporting workstream and the IFoA Sustainability Early Careers Board.

Gerard Anderson, Insurance and Financial Services Consultant

Since joining Hymans in 2020, Gerard has had a primary focus on climate-risk management, responsible investing, and stewardship. He has helped clients develop their responsible investment policies and frameworks, completed TCFD reports, developing climate and stewardship training for senior stakeholders, and undertaken climate scenario modelling.

Gerard's development has been supported by several secondment opportunities. He completed a secondment in the responsible investment team of one of the largest UK based insurers where he managed tasks such as developing their stewardship framework, implementing this stewardship framework across their business, and developing their manager stewardship due diligence processes.

He has also recently undertaken a similar secondment with another large insurer, taking responsibility for drafting their 2021 FRC Stewardship report, including engaging with the client's asset managers to obtain relevant data required for the report, conducting a gap analysis and planning future actions the business could take to further implement its stewardship beliefs. He also spent time developing and implementing new voting guidelines to be shared with their asset managers.

He is actively involved in climate work with the IFoA and is a member of several climate change related working parties, including chairing the ESG Integration and Stewardship working party over 2021 and being a member of the Life: Climate Risk working party. He is also involved in the wider industry discussion on this topic and has spoken as a panellist at several seminars and conferences.

As climate change is a developing field, we have sought to provide experience and support to those who wanted to explore the opportunities that were available. Both Gerard and Amy are among those who have sought to build their knowledge and skills in different ways, and both are valuable members of our broader team.

Developing our consultants to be able to advise on RI issues

Everyone who joins our investment team receives appropriate RI training as part of their formal induction. Fortnightly training sessions about RI issues and developments in the broader market through our regular Investment Consultants' Briefings keep consultants' knowledge fresh.

Investment consultants are required to agree appropriate Continuing Professional Development (CPD) objectives that have requisite training hours to demonstrate progress, and which are monitored with People Managers as part of the ongoing evaluation process. Although RI training is not 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.

In 2021, we identified two primary areas for the development of our people which were linked to areas we wanted to raise with clients. These were:

- **Understanding and communicating ESG/climate metrics**. This was linked to both the growing availability of ESG and climate data and the need to effectively communicate the relevance of different metrics.
- **Providing advice on TCFD and climate risk**. Recognising both the regulatory changes and our climate pledge, we needed to ensure that our consultants were well placed to support clients and put in place the right processes and monitoring activities.

Recognising the growing importance of climate change and the overlap in these two priority areas, our CCWG developed a comprehensive training programme for all consulting staff covering policy developments, scenario analysis, climate metrics and investment considerations, with a total of 10 separate training sessions being held over the year. This programme was informed by an internal survey where we asked our people to self-assess their knowledge of and confidence in addressing climate issues.

Case study: Surveying our people to establish training needs

To establish a baseline, we asked our actuarial and investment consultants to self-assess their knowledge of and confidence in addressing climate risk on a scale from 1 (low) to 4 (high). The average score of 2.3/4 reflected knowledge of and confidence in talking to clients about the basics but acknowledged that specialist support would be required in more complex areas. We intend to repeat this exercise during 2022 to inform our development programme.

Knowing the baseline level of our people's knowledge allows us to target improvements through further tailored training sessions. It also supports the broader investment we have made in expanding our team and developing our own climate specialists, thereby improving the overall quality of the services we provide to our clients.

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 have prioritised RI, individual objectives and incentives will reflect this, although we also recognise that different clients (and therefore different consultants) have different requirements and therefore a “one size fits all” approach is not always 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 with regard to 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. Below were key areas of focus in 2021:

Our specialist data and reporting team facilitates better stewardship

We continued to invest in building out our research and client management tool, ‘Hyve’, which provides granular detail on how all our clients assets are invested. Our data and reporting team maintain this and are continuing to explore ways of more effective data capture, reducing the time spent on data transfer and reconciliation and allowing time to be spent on value-adding tasks. We will be exploring the automatic capture of voting data from managers into this system in due course.

From a stewardship perspective, this both enables our researchers to understand where assets are invested so we can improve the speed and detail of communication to our clients, and also facilitates the more focused engagement activity that we will be undertaking over 2022.

Investing in our analytic and reporting capability

We recognise the growing importance of being able to translate ESG issues into measurable metrics, particularly considering regulatory change, and have appointed MSCI to provide ESG data to enable us to benchmark the performance of listed asset portfolios against a variety of ESG and climate related metrics.

Over the year, we have worked with around 20% of our investment clients to provide reporting on climate and ESG issues in different formats to meet their respective needs. This has ranged from meeting the obligations under TCFD to undertaking deeper analysis of individual portfolios to enable manager questioning. We continue to develop our reporting capabilities and regularly seek input from our clients on what they do and don’t want to see in their reporting. Several of our clients have also used our reporting and analytics to inform their own communications to stakeholders.

We set out as a case study under Principle 5 how our reporting has improved our clients’ engagement with RI matters. One of the other outcomes we have identified as a consequence of these processes has been the approach for reporting on private market assets. We’ve identified this as a broader market issue that we address under Principle 4.

We have developed the second iteration of our climate-scenario modelling

We launched the first iteration of our climate scenario modelling in 2019. This allowed us to begin conversations with many of our clients on how climate change could impact on longer term outcomes. However, despite the complexity of climate risks, we wanted to evolve our methodology to ensure it remained fit for purpose, particularly as our clients become subject to the requirements of TCFD.

We therefore sought to update our approach to climate-scenario modelling, with the aim that we can test the resilience of a funding/investment strategy and look at the impact of different climate transition scenarios on members, rather than just illustrating what the outcome may be under a particular set of assumptions. We've made our approach:

- **Simple**, in that it doesn't rely on a huge number of new assumptions, making it easier to explain and justify to stakeholders
- **Integrated**, in that it fits seamlessly into existing strategy modelling work and isn't merely an "add-on"
- **Familiar**, in that it gives quantitative answers in terms that clients will already be familiar with, such as likelihood of success and downside risk; there is no need to explain new concepts to stakeholders
- **Comparable**, in that it allows comparison of stress-test results directly with the core results to demonstrate the resilience of strategy decisions without worrying about differences in methodology.

We are already integrating this analysis into current client projects with both our defined contribution and defined benefit clients. The case study below illustrates on such example.

Case study: Integrating climate scenario analysis into contribution advice

We have worked with one of our LGPS clients to develop our advice on their contribution strategy, using our asset-liability modelling tool to support our advice against the fund's success and risk objectives. While the standard output from our model demonstrated that the fund's objectives would be met, we were also able to apply our three climate scenarios to stress-test the output of this modelling work.

The three climate scenarios differ in the timing and strength of the world's response to climate risk, but all are designed to test the strategy in difficult periods of extreme volatility. In this case, the climate scenarios demonstrated a worsening of the outcomes that were being modelled, albeit not to the extent where the strategy being considered needed to be adjusted. Consequently, the fund took reassurance from the outcome that the combination of their contribution and investment strategy demonstrated a level of resilience to climate risk.

A key outcome is that our clients are better able to engage with climate risk and understand the potential impacts on their funding and investment strategies. Although fulfilling regulatory obligations, we also recognise that this form of analysis is allowing our clients to ask increasingly detailed and challenging questions as they seek to better understand the potential impacts of climate risk. We therefore recognise the importance of continuing to invest in our modelling capabilities and have begun to plan the next iteration of our approach.

Ensuring our fees are appropriate

We are 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 will provide fixed fees for all items which we expect to deliver on a regular basis. In addition, we will provide quotations for any material pieces of work required on an *ad hoc* basis. In instances where the scope cannot be defined in advance, we agree a budget and provide early notifications on progress against this budget.

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 is by equipping our consultants with the knowledge and skills to make these judgements, changing behaviours to ensure that appropriate questions are asked of others at the right time, and providing decision-useful information that offers both context and the ability to effectively challenge that will allow us to achieve this.

In seeking to achieve this goal, we believe we have been broadly successful. Our internal survey of the discussions and work that our consultants have with clients illustrates that the vast majority have taken some action during the year, even if that has just been a manager engagement or a training session. More closely aligning our RI and Investment Research teams has allowed for much greater collaboration and a clear alignment of processes.

We know that consultants still need to draw on the expertise of our RI team, but the involvement of specialists increasingly demonstrates that discussions have moved on to be more involved, more focused, and more specialist in nature. That our consultants have gained the knowledge and skills to address the basics demonstrates that we are increasingly embedding RI into our consulting capabilities. We will continue to invest in training our people to ensure that this continues.

Where we know we can still improve is in leveraging the weight of our clients' assets through engagement with managers. The development of our client-manager database has facilitated a detailed understanding as to how assets are invested, and we know we can do more. The appointment of a stewardship lead within our RI team creates an increased focus on engagement; as we note under Principle 6, one of our priorities for 2022 is on "making better stewards".

Principle 3

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

It is vital for our business' continued success to ensure that we act in the best interests of our clients at all times. The identification and management of potential and actual conflicts of interest is embedded in our client take-on process right at the start of the 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.

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 up-front 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 as early as possible, documented and mitigations to manage the conflicts are agreed;
- we will only act where we can do so without inhibition and in the best interests of our clients;
- we are 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 are complying with any professional/regulatory obligations we may have).

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 who are responsible for providing their teams with advice, guidance and training on conflicts-related issues. In addition, we have clear escalation points for more complex issues (whether to a member of our Management Board, Senior Actuary or legal team).

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

Case studies: Dealing with conflicts

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

Ensuring clients receive sensitive information at the same time

On our list of recommended strategies was an illiquid credit fund. The manager was making a change to the fund that would affect a large proportion of our clients. We ensured that an explanation was sent to all clients at the same time – the wording was also identical. We also ensured that there was strict confidentiality relating to the responses taken by the clients. This was important, because if one client knew what another planned to do, it could give them an advantage. We created a conflicts log and ensured that the situation was managed appropriately.

Separating client relationships from stewardship activity

We focused one of our manager engagements on one sector, seeking to explore the action being taken by managers to engage with a group of companies on issues of child labour in their supply chain. We noted that this group of companies included at least one client. In this case, the actions of the companies concerned was the catalyst for our engagement activity and the target of our engagement was the actions being taken by managers, rather than by the companies concerned. Our client relationship was independent of the reason for the engagement, and we progressed our investigations accordingly.

Using different teams to avoid conflicts

The changing nature of UK pensions provision, particularly through consolidation activity, means that we may advise both providers and those who may invest with the provider. Our approach to addressing this is to ensure that all parties involved with each client are aware of the potential conflict and that teams are kept separate to avoid any potential competitive conflict.

We took this approach following our appointment by the Trustee of a Master Trust during the year, where the team advising the Trustee maintain a conflicts log which identifies potential conflicts and how they are managed and are not involved in provider research. This conflicts plan is also shared with the client.

We also maintain separation between our investment research team and client consulting teams, with the independent investment research team being responsible for manager ratings and recommendations.

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. This became increasingly important as we launched our Discretionary Fund Management business during 2021, drawing on the same views and research that serve our institutional client base.

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.

Potentially significant market-wide issues that we considered over the year included the consequences of improving funding positions within pension funds on illiquid strategies and the disconnect in performance within equity markets, particularly the prolonged underperformance of value stocks. Our two particular areas of focus over the year were inflation and climate risk.

Inflation as a market-wide risk

Foregone spending and generous fiscal and monetary policy, combined with pandemic-induced supply-chain disruption and a shift in consumer spending from services to more capital-intensive goods, contributed to inflationary increasing pressures in 2021. In early 2021, as CPI inflation crept towards the Bank of England's 2% p.a. target, we were concerned that inflation would prove to be more than transitory, and so we considered the potential impact on our clients' assets and ability to deliver better futures for schemes' beneficiaries.

We asked our research team to do some work to understand the extent to which the recent rise in inflation posed a risk to our clients. We ensured that our clients were aware of this risk and provided advice on how to manage it in our regular client discussions. Our proactive approach to address inflation risk by understanding the drivers of change, evaluating how clients may be affected by higher inflation and keeping the subject on client agendas as a risk has been effective in ensuring that clients take the actions necessary for them.

We also published blogs and articles to contribute to the broader debate on the path of inflation to help promote a well-functioning financial system, links to which we provide below.

- June 2021: Blog – Inflation – momentary or momentous?
- July 2021: Podcast – Mid-year market review and inflation inspection
- December 2021: Blog – Things to look out for…

We have built on this on a client-specific basis, preparing specific advice and analysis on inflation hedging. We appreciated that all our DB clients were affected, so we rolled out our tailored paper across clients discussing the drivers of inflation, the balance of risks around the outlook, and the short- and long-term inflation hedging characteristics of various growth, income, and protection assets. This has allowed our consultants to discuss consistently developed thinking with each of our clients and determine an appropriate response.

Climate change

Climate change is a strategic focus for us, as recognised within our climate pledge, and we have continued to invest in the development of our services and support for clients. One of the key areas of focus over the year has been education. We have sought to both engage clients on the need for action, but also provide guidance and direction on the actions that they can take.

Our work in pension markets

We focused on "Getting ready for TCFD", recognising that many of our clients would be subject to mandatory disclosure regulations from October 2022 and would need ample training and time to prepare. To support our engagement with clients, we held an initial webinar and developed an online guide and checklist that clients could use to familiarise themselves with the subject. Feedback on our guide was positive with one industry practitioner commenting, *"I just wanted to commend you on your TCFD guide for trustees. It's really clear, well structured, and I like the steps you recommend."*

We also worked with a small number of clients who were earlier adopters of the TCFD requirements, to build both their and our own knowledge and evolve processes. We recognise that this is an area where sharing learning experiences will be valuable to make the market-wide impact needed, so we co-hosted a roundtable with other early adopting clients and subsequently ran a webinar in conjunction with one of our clients to share early learning experiences on TCFD adoption.

In addition, we continued to evolve our analytic capability to enable our clients to better understand climate-related risks and our consultants to communicate the impacts of climate change to our clients. In particular, we have developed and launched the second iteration of our climate-scenario analysis and continued to build our climate analysis and reporting tools, as we outlined in Principle 2.

Beyond TCFD, we have also developed our thinking on net zero and how clients can develop longer-term strategies. We hosted an initial webinar to introduce the concept to clients and subsequently published thinking for asset owners on developing a roadmap to net zero. In this, we have sought to emphasise the importance of focusing on real world emissions reductions, rather than reported emissions within portfolios.

Case study: Developing a climate strategy for an LGPS Fund

Our client had an existing RI policy that met regulatory requirements, but they had an ambition to be more proactive on ESG matters. We helped them clarify their RI priorities which were to reduce climate risk while also ensuring that other, specific ESG risks were properly considered in the investment process. We explored the implications of different Net Zero target dates and alignment with their Pool's objectives.

We also helped our client develop interim objectives to reduce emissions and exposure to fossil fuel reserves and presented a comprehensive road-map to underpin these objectives. The client now has a robust climate strategy and has begun to reallocate capital in line with this strategy.

Our work in insurance markets

Within our Insurance & Financial Services (IFS) business, we have 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 have worked to support clients on projects that include board training, TCFD reporting, data gathering, analysis of metrics, climate scenario analysis and the framing of a 'net zero' strategy. In total, 14 of our staff were involved in insurance-related climate projects during the year.

We built our knowledge on the progress the insurance industry is making to address climate risk through our second climate change survey, which considered a range of issues including barriers to making change, data availability and collaboration. We view initiatives such as this and the subsequent panel discussion that we hosted as critical means for engaging with the industry and identifying where we can innovate and provide support.

We supported the launch of the Net Zero Investment Consultants Initiative (NZICI)

In January 2021, we made our climate pledge. It articulated a vision of a "net zero future" and a clear aspiration to make climate risk part of our services, advice and research. Among the beliefs that underpin our vision was a statement that we will "*achieve greater change sooner by collaborating with others who are tackling climate risks*". Recognising that our pledge needs to be backed up by tangible action, we were pleased to work with other firms in the development of the commitment and were delighted to be among the 12 founding signatories to the group. Within the NZICI, we are members of the Steering Group and have been represented on the reporting workstream.

Four of the nine NZICI commitments relate directly to how we work with our clients. Acknowledging the need to evolve our consulting capabilities, we have strengthened our team, hiring Mhairi Gooch to lead our net zero work. We expect to report on our compliance with the commitments later this year.

We engaged with regulators on climate change

We have engaged regulators on climate change over the course of the year, in particular, on the need for climate-scenario analysis in reporting by asset managers and the use of different portfolio alignment metrics. We also discussed policy development and positioning with different regulators, particularly focusing on the desire for consistency of approach.

More formally, we responded to various consultations on climate related issues including:

- the Department of Work and Pensions (DWP) consultation on "Taking action on climate risk"
- the DWP consultation on "Guidance on governance and reporting of climate-related risks and opportunities"
- the Financial Conduct Authority's consultation on "Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers"
- Institute & Faculty of Actuaries (IFoA) thematic review on climate change in consulting.

We published our own TCFD report

As a supporter of the TCFD, we believe it's important to demonstrate our own compliance with the TCFD standards. We published our second TCFD report for the year to 31 March 2021 during the year, a copy of which can be found here.

We are aiming to influence product development through our Climate Impact Initiative

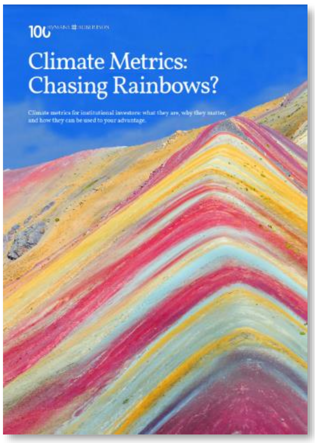
We think that the transition to a net zero-carbon economy presents some of the best potential opportunities for defined contribution (DC) savers to enhance their retirement outcomes. Impact investing also provides an opportunity to engage much more effectively with DC savers, by demonstrating the positive impact their money is having to address the issues they care about. We further believe that many small and medium-sized pension plans would struggle to offer a climate-impact fund to their members due to cost and governance implications. Consequently, there could be as many as four million pension savers who do not have access to the investment option they desire

Acknowledging that many pension providers have made great strides and others have plans to, 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.

> *"A group of pension plans will have the greatest voice, and pool of assets, to compel providers to make a climate impact option available to members."*
>
> *Callum Stewart, Hymans Robertson, Climate Impact Initiative*

We were delighted to get the support of both Pensions for Purpose and the Impact Investing Institute alongside one of our clients, the Reach Pension Plan in launching this initiative. We have continued to promote the initiative during 2021 to garner support from others and expect to take the next steps on this collaboration during 2022.

Recognising data availability as a market-wide risk



One market-wide risk we see is the lack of comprehensive data on climate risks, this being particularly highlighted by the need for pension scheme trustees to disclose this for TCFD purposes. While the measurement of carbon emissions is becoming more common, it is by no means universal and levels of disclosure, particularly within private market assets, is still relatively low.

As we have noted in this report, we have invested in listed market data sources to support our own research and client reporting. We have also provided internal training for our consultants, and to our clients, to ensure that they understand what the data means, and what it doesn't mean.

Consequently, our clients can make more informed decisions using the data that is available to them and can ask questions where data is unavailable. We outlined this issue in our Chasing Rainbows publication during the year, written in collaboration with Storebrand Asset Management.

We recognise the gaps in data and the need to ensure that what gets measured, gets managed – particularly where there is a need to actively ensure that climate risks are being addressed. We are wary of approaches that merely fill data gaps with proxies without also trying to ensure that data is being collected, believing that this remains an unmanaged risk, and have therefore supported clients who have selected data quality metrics for TCFD reporting.

Case study: Developing an understanding of data quality

We have worked with one of our largest clients whose assets are invested primarily in credit and real asset strategies on the gaps in the data their managers can report, particularly given assets are held in segregated accounts. We spoke with all their managers, creating a detailed assessment template of the current position, the availability of data and the capability of the manager to fill gaps in reporting. We have also helped our client develop a scoring basis to allow them to set goals for their managers to fill data gaps.

Although our client is at the early stages of addressing TCFD requirements, we have helped them frame stretching targets to help drive industry reporting forward.

Improving the quality of disclosures is therefore an important outcome, and we were happy to work via the Investment Consultants Sustainability Working Group (ICSWG) on minimum data standards for managers to improve levels of transparency. We also initiated our own piece of work on data quality and reporting within private market assets to understand the current state of play.

We developed our own data quality questionnaire, sought responses from all managers with whom our clients were invested as at the year-end, and will be analysing responses and reporting publicly on our findings. We anticipate making this a significant part of our manager engagement activity over the year.

What outcomes have we achieved?

We believe the most significant outcome we can measure is the extent to which our clients have acted to address systemic risks, this serving to demonstrate the effectiveness of our approach.

Focusing on climate change, we have evaluated the progress our clients have made to 31 December 2021 in addressing climate risk. We found that 90% of our defined benefit investment clients and all our defined contribution clients had taken some steps to understand or address climate change. Across both markets, one-third of our clients have taken more concerted action to better understand how climate risk is impacting their assets or making change to their strategy.

We also helped 10% of our IFS clients take steps to improve their responses and approach to climate change, including making their first TCFD disclosure, improve metrics data quality, coverage and consistency across their business, education, and scenario analysis.

> *Over 90% of our DB and DC investment clients have taken some steps to understand or address climate risk*
>
> *Hymans Robertson, Internal Survey*

Principle 5

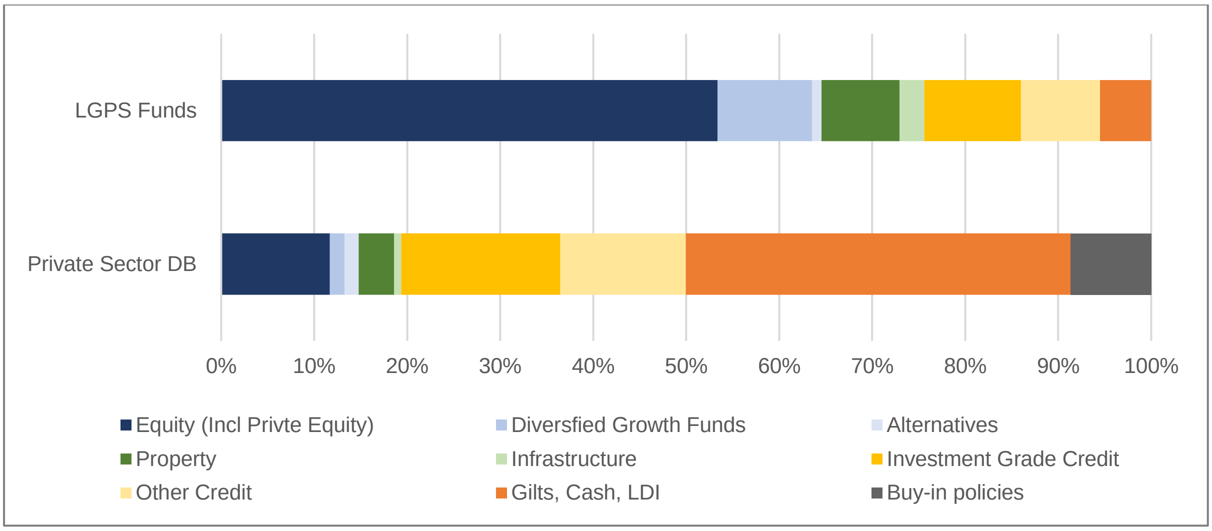
Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

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

Over the course of 2021, we also launched a discretionary fund management business, Hymans Robertson Investment Services (HRIS), which provides asset management services to the IFA market, and an advisory business, Hymans Robertson Personal Wealth.

In total, we provide direct investment advice to clients with approximately £278bn of assets, of which £217bn relates to DB clients and £61bn relates to DC clients. Through HRIS, we manage over £350m of assets for retail clients, an amount which is growing rapidly.

Whilst 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 chart below provides a breakdown as to how our DB clients assets are invested.



Source: Hymans Robertson, Data as at 31.12.21

We have not shown an equivalent chart for our DC clients as they comprise both individual clients implementing their own strategies and providers which as responsible for the entirety of assets invested across their platform.

Our aims over the year

Our objective is to change the behaviours of our clients and the managers they invest with to move them along what we term the RI spectrum, reflecting the growing maturity in how our clients embed RI thinking into their approach. Although our clients all sit at different stages of their responsible investment journey, we sought to ensure clients and consultants had the right focus by positioning potential RI activity within our consulting framework and prioritising four areas over 2021.

1. **Build understanding**: We wanted to ensure that our clients are up to date on current thinking with regards to RI, building a base level of knowledge where needed, but also supporting those who have made greater progress continue to develop their knowledge.
2. **Investigate**: Seeking to make more use of the information that is available to clients, providing greater insight and analysis on client strategies, manager policies and building insight
3. **Implement:** We wanted to identify potential areas for change where it was in our clients' best interests to do so. Exploring the developing options in alternative equity indices was one particular area of focus, although we also devoted resource to helping clients implement change in credit and real asset mandates.
4. **Monitor and engage:** In addition to wanting to make more use of the implementation statement process as a means of driving engagement with managers, we wanted to help our clients have more informed dialogue with their managers, particularly focusing dialogue on a small number of key themes.

We sought to gauge the success within our core focus areas at the year-end by assessing the extent to which our clients had engaged on different issues and set out more detail on this below.

Building understanding with our clients

On the issue of climate change, better data leads to more informed decision-making. For trustees, who have a requirement to report on climate risk in their portfolios, high-quality data is invaluable. We recognised that patchy and inconsistent data made it materially more difficult for our clients to fulfil their obligations as effective stewards, but also that clients need to be given context for the information that can be reported. Consequently, we recognise that educating our clients is just as valuable as providing them with data.

We provided formal training on RI matters to 70% of our DB and DC clients during the year although know that there were informal conversations with many more. Our HRIS business has also engaged and provided training to all our IFA clients on RI issues, recognising this part of the market is just beginning its journey.

Further, over the course of 2021, we prepared formal reporting on ESG and/or climate metrics to 20% of our investment clients. We also worked to ensure that, where appropriate, this included reference to the climate and ESG characteristics of portfolios so as to provide context and an additional lens for comparing different investment options. What we did however find was that the combination of training and reporting leads to better outcomes, as illustrated below.

Case study: How better reporting has driven client engagement

The trustees of one client initially saw RI as a secondary consideration. Although meeting their regulatory obligations, we believed it was important for them to build their knowledge to better manage ESG risks within the Scheme. To maintain the dialogue, we incorporated the discussion of ESG issues in the agenda for the trustees' quarterly manager meetings and ensured that the subject featured in training sessions.

In June 2021, we ran a RI focused training session and presented a scheme-specific climate-risk report to the trustees. This helped the trustees to better understand some of the risks associated with their mandates whilst also generating discussions about the financial risks associated with various assets (such as physical and transition risks). This, in turn, has prompted the trustees to immediately seek explanations from their managers on the most significant issues identified.

Beyond these most pressing issues, the trustees also identified agenda points to raise with managers at meetings in 2022 illustrating how giving our clients clear information and providing the right context can allow them to ask more challenging questions.

The case study provides an illustration as to how this client used better information as a means for engagement with their managers. Although we haven't formally surveyed our clients on our reporting, anecdotal feedback from clients via their consultants has been positive and we have had constructive discussions with various clients on how reporting can continue to evolve.

We have helped our clients implement change

Our research has focused both on building our understanding of how asset managers are integrating the consideration of RI issues into their investment processes, an evaluation that we convey through our RI ratings, and by exploring the development of new mandates allowing capital to be allocated as client needs demand. We updated our RI ratings process during the year and address this under Principle 6.

Particular areas of research focus over the course of 2021 included alternative equity index mandates, impact strategies which included renewable energy infrastructure, and sustainability-oriented credit strategies, which we have begun to introduce to clients through the year. We also worked with clients to understand the implication of the issuance of green gilts and the existence of a "greenium" during the year, advising clients on how to reflect this in their LDI portfolios

We recognised that the development of alternative index products, particularly those that incorporate ESG or climate-related tilts was rapid during the year, and we updated our clients on our thinking through an Investment Perspectives article. Rather than selecting a single strategy and provider, we sought to identify a range of strategies that reflected what we believe to be prevailing best practice and which could allow clients to take what was often a first step in the implementation of an ESG or climate-themed mandate. Over the course of the year, around 20% of clients implemented changes to their index equity strategies.

Our research team has worked more broadly to explore the evolving opportunities for clients to reallocate capital in a manner which both met their strategic needs and which addressed their emerging suitability objectives. Whilst one notable area of focus has been through allocations to renewable energy infrastructure where we continue to believe there is long term, systemic change, our approach in other asset classes is more closely tied to evolving strategy, as the case study below illustrates. Around 10% of clients made changes to other mandates.

Case study: An RI aware buy-and-hold credit portfolio

As our private sector DB clients' portfolios mature, so strategies are becoming increasingly focused on income-oriented assets, as illustrated by the average asset allocation of our clients. We worked with one client last year to implement a new buy-and hold credit mandate, ensuring that proper consideration was given to RI issues.

Whilst in this case the Trustee initially considered setting explicit guidelines, we worked with both our client and their investment manager to explore the potential issues that this may cause. The solution we helped them develop included a series of high level ESG guidelines which restrict the manager's ability to invest in bonds issued by certain companies unless these companies have clearly defined and tangible plans for improvement. By being pragmatic in their approach, the Trustee has been able to ensure the manager gives explicit consideration to ESG risks.

More detail on this case study can be found on our website.

Building our focus on effective stewardship

We continued to build our focus on stewardship and the emphasis on manager engagement that we have sought to create over recent years, beginning with the publication of our guide to effective stewardship in January 2021.

To improve our approach to stewardship, one feature we introduced over the course of 2021 was to focus on a small number of stewardship themes, recognising that this would improve the quality of dialogue whilst providing areas on which we can focus our discussions with clients. We have also encouraged our clients to follow a similar approach and set their own stewardship themes as a means of creating this focus, recognising that they could also draw on our activity.

We created three core stewardship themes, being Climate Change, Diversity & Inclusion and Working Practices, these having a significant amount of overlap with both Hymans 100th birthday themes and the work we had undertaken in previous years. We shared these themes with our clients through our quarterly *RI News & Views* and have referenced our themes in other communications during the year.

We set out below some of the actions undertaken and the key outcomes achieved.

Climate change

- We seek to ensure that all managers are requiring disclosure by the companies in which they invest, both listed and unlisted, and that our clients have access to appropriate levels of information to allow their own analysis and disclosure.
- We supported the ICSWG approach to standardising climate and ESG metrics for disclosure by managers for listed markets, noting that this will supplement our own analytics.
- We began the process of evaluating disclosure by managers in unlisted/private market strategies with a view to establishing an initial benchmark of manager disclosures.

- We promoted the Investor Agenda statement to Governments on Climate Change, with a number of clients signing up to support the statement. Where others did not support the statement, discussions with clients were a mechanism for promoting advocacy as a tool for driving change.
- We have considered how insurers take climate risk into account as part of our broader evaluation of providers when advising on risk transfer solutions.
- We also used COP26 as a means of raising awareness of climate change and the need for action through a client webinar. This webinar had five streams, each focused on the goals of different clients.

Diversity & Inclusion

- We welcomed the industry initiative on diversity disclosures and through the ICSWG, one of our research team was a member of the working group that developed the industry standard D&I questionnaire, which was a clear outcome.
- We will be collecting data from manager disclosures via this questionnaire during 2022 and working to further embed these considerations into our own manager evaluation.
- We also published thinking on diversity during the year and we'll also be working to embed this into our ratings process.

Working practices

- We undertook an exercise to establish the nature and quality of manager engagement on the issue of child labour in the cocoa supply chain, publishing the outcome of our engagement as an article in our Investment Perspectives publication. These articles are regularly discussed with clients, offering us the opportunity to cascade our engagement and more importantly the learnings from it across our client base, offering our clients suggested ways of questioning managers.
- Separately, we used working practices, this time in the textile industry, as a theme in one of our regular Investment podcasts.

We've continued to encourage our clients to adopt a similar approach to frame their own stewardship preferences, with multiple clients having set and used stewardship themes as a basis for engagement. We are encouraged that our consultants are using different approaches with clients to frame engagement themes. Whilst some have sought to establish more enduring themes, drawing on frameworks such as the Sustainable Development Goals, others select issues on an annual basis and seek input from managers.

Case study: Updating themes annually to challenge manager stewardship

As part of an annual review of RI policies and practices, one of our clients selected the themes of net zero alignment, governance and social concerns in China and the social response to Covid-19. Managers were invited to comment on how each issue was affecting investment decision making, the policies they have in place and the actions they were taking. This formed the basis of the trustees' dialogue with their managers during the year.

Case study: Helping a DC client engage more effectively

We carried out a manager stewardship review for a large DC client, where we supported the Trustee to engage with each manager and assess how well managers were aligned to the Trustees' beliefs and stewardship policies.

We worked with the client to establish stewardship priorities for each underlying manager and plans to engage with each of them on at least an annual basis to assess progress and ensure suitability for inclusion within the client's investment strategy.

As part of this, we issued questionnaires to each manager, met with them to understand their credentials and capabilities, and challenged them on areas they could improve on. We then reported to the client our assessment of managers' responses to our questionnaire and how well they meet the Trustees' policies. We also suggested next steps for future engagements.

Whilst this captures many of the actions we have undertaken to successfully help clients to develop their knowledge, their ability to develop engagement themes and challenge managers, we know there remains more for us to do. We know we can better support our clients on integrating stewardship and investment and appreciating the value of effective stewardship. We want to demonstrate to clients how they can strengthen feedback loops between engagement results and investment decision-making, in particular through their engagement with asset managers. This is work we will continue to develop in 2022/23.

At an industry level, we were members of the ICSWG Stewardship Working Group during the year and have supported the development of the industry standard engagement questionnaire. We expect to deploy this in our own research during 2022, helping to standardise the way in which we capture data.

We communicate with our clients through varied channels

We share our latest thinking on both RI and investment issues more generally through a range of regular publications. Our quarterly *Investment Perspectives* contains more detailed articles on topical investment issues whilst our quarterly *RI News and Views* provides a more concise summary of RI focused issues.

Other articles, blogs and publications are published on an ad hoc basis in response to market developments, regulatory change or following our own research. We ensure that our clients receive information which is tailored to be relevant to them through our monthly publication, *The Edit*.

Over the course of 2021, we enhanced our *RI News and Views* to include detail on significant votes, aiming to provide trustees with an alternative source of information when preparing their Implementation Statements. We also seek to identify the "so what" associated with everything we write, identifying the stewardship action our clients could consider, making our publication as helpful as possible.

Our primary means of communicating with our clients lies in our consulting relationships. Our consultants regularly engage with their clients through both formal meetings and informal discussion, ensuring both that actions are being undertaken, and that new areas for further consideration can be explored in detail. As every client relationship is different, so the frequency of communication will vary from daily to weekly or even monthly.

Getting feedback from our clients

As our case studies illustrate, the way in which our clients work can vary significantly and the actions that are appropriate for one client may not meet the needs of others. Whilst we have 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.

To ensure that our research efforts are being focused correctly, members of our research team meet regularly with senior members of our consulting team to discuss prevailing investment priorities. In this way, areas of potential interest to clients are prioritised for further investigation. We have also agreed to share these priorities with asset managers through a publication which we launched following the end of the year, thereby ensuring that client requirements are cascaded through to product providers.

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 are to persuade or influence them to make RI and stewardship a priority. In our 2021 client survey,

- 96% of our clients said they would recommend us to their colleagues
- 96% said we kept clients informed of changes in best practice and regulation
- 98% rated us for the quality of our services.

We also maintain Guardian Partner roles with around 25% 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. Over the course of 2021, we held in excess of 80 Guardian Partner meetings, with feedback being cascaded to our client teams.

Finally, we also regularly engage with other service providers, particularly professional independent trustees (PITs), as key stakeholders, which 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.

As a firm, our purpose is to help our clients deal with the challenges and risks they face. We know that our clients need help in understanding these risks, evaluating the solutions that they may employ, and then making change. Our research and tools are all geared towards providing our clients with better, more relevant information from which they can 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 are regularly able to test the validity of our approach.

We carried out the following activities to review our policies and processes over 2021.

We reviewed our core investment beliefs

Some of our clients start with strong views already in place, whereas others have not fleshed out their core investment beliefs, which means they need guidance and support from us. The advice we ultimately offer will generally reflect our clients' investment beliefs but will also be informed by ours.

In 2021, we reviewed our core investment beliefs to ensure they remained fit for purpose in the context of our overall advice. This exercise was undertaken by Research Oversight Group, drawing input from others within the research team and more broadly around the firm. Whilst they have not changed substantially, we have been able to continue to justify our reasoning for holding these beliefs.

Our investment beliefs

- Objectives provide investment context
- Risk should be rewarded (i.e. risk premia exist)
- Responsible investment affects risk-adjusted returns
- Diversification improves stability of returns
- Markets are dynamic and offer opportunities
- Extreme outcomes can happen
- Implementation should be efficient
- Governance capacity should influence the implementation solution

Our Investment Committee has reviewed these beliefs, providing challenge and internal assurance that our beliefs are appropriate across all clients. We are also completing a review of our equity investment beliefs which will be concluded during the early part of 2022.

We evolved our approach to climate scenario modelling

As noted in Principle 2, we have updated our climate scenario modelling capabilities and integrated this directly into our existing modelling for both DB and DC clients. This process was undertaken by our Insights & Analytics team, working in conjunction with one of our public sector actuaries who took overall responsibility for the project.

We sought external input and feedback on our approach from an independent sustainability actuary. This provided valuable feedback on the approaches used by others within the market and provided assurance that our approach was broadly consistent with the current models in use.

We updated our RI ratings framework

With effect from 1 April 2021, we updated the process we use to assess the way in which managers address RI considerations and by which we then assign RI ratings to products. This process was undertaken by members of our RI and Research teams, drawing on their own knowledge and experience of assessing managers, and our understanding of market practices.

In updating this framework, we also shifted responsibility for the application of this process to our investment research team, with oversight from our RI team. The outline of this framework is illustrated below. The underlying factors within our framework were also reviewed and updated, with a standard set of criteria being applied across asset classes and our expectations of what “good” looks like being more clearly defined.

Since the ratings framework has been changed, we have been progressively migrating our ratings onto the new framework with oversight being provided both by our RI team, which has provided peer review of the application of this process, but also our Manager Ratings Committee which has had direct sight of the output of this process and been able to provide challenge. We have also updated Hyve, our client-manager database, to incorporate our ratings history.

We were also able to assess the detail of our framework against principles developed by the ICSWG, providing reassurance that our approach was broadly consistent with market practice. In line with our commitments under the NZICI and our focus on Diversity & Inclusion factors, we will be undertaking a further review of the criteria within this framework during 2022.

We continue to evolve our reporting

We have 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 with clients and regularly offer suggestions for improvement.

In particular, following the success of reporting for DB clients and feedback from clients and consultants, we created a framework for reporting for our DC clients, launching this in 2022. Our DC reporting in particular included a stewardship section, to better enable our clients to regularly monitor and engage with their managers.

Ongoing review has helped us frame our priorities for 2022

Our process of learning, review and development is continually leading us to aim to do more. Shortly following the year end, we launched our “Research Roundup” newsletter for investment managers, allowing us to communicate our expectations for the year ahead more clearly. We’ve already given notice of some of these issues set out in this report, and which we outline below. From a broader RI perspective, our five key priorities for 2022 are:

Stewardship

Our ambition is to “make better stewards”. We will be placing more focus on what good stewardship looks like and helping our clients both understand and see the value in stewardship, thus addressing the growing regulatory focus on stewardship by asset owners. We will be reviewing the information on stewardship activity which is conveyed to clients with a view to creating more challenge and better questioning around key themes and building focus on real world outcomes.

Accountability

Linked to our Stewardship priority is a goal of demanding accountability. Our increased resource has allowed us to designate a Head of Stewardship, Olivia Mooney, who will be developing our engagement programme. We want 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. Where appropriate, we will report our dialogue and views back to clients in an extension of the current research oversight we provide. We will also be undertaking our triennial manager stewardship survey which will be published later in 2022 and will continue to work with managers on how data can be improved.

Climate change

We will continue to help clients meet climate change regulatory requirements and put net zero at the heart of our advice. As signatories of the Net Zero Investment Consultants Initiative, we recognise the need for us to provide leadership to our clients, advising on how net zero journeys can be understood, objectives set and pathways for change developed and implemented. We also recognise the importance of improving standards so we will frame our own expectations of managers and other providers in addressing net zero goals and work to hold them to account.

Journey planning

We want to help our clients take the next steps on their RI journey. We will ensure that our clients have the context and knowledge for their decision making through a more granular assessment of their managers and portfolios. We will continue to provide simple but effective education to improve understanding and provide a roadmap, through the evolution of our Core-Active-Leader framework to clearly demonstrate what clients can do next. Finally, we want to ensure that all clients can effectively embed RI considerations into their decision making so will be developing solutions for smaller schemes.

Identifying opportunities

We want to continue to identify and implement opportunities to evolve client strategies. We will be looking to identify areas where clients can deploy capital in rules based, credit and real asset strategies and working to ensure all our clients are aware of the opportunities that exist.

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 2021, our success in becoming Stewardship Code signatories and those who will be working with us over 2022 as we continue to build.

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Together, building
better futures.

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