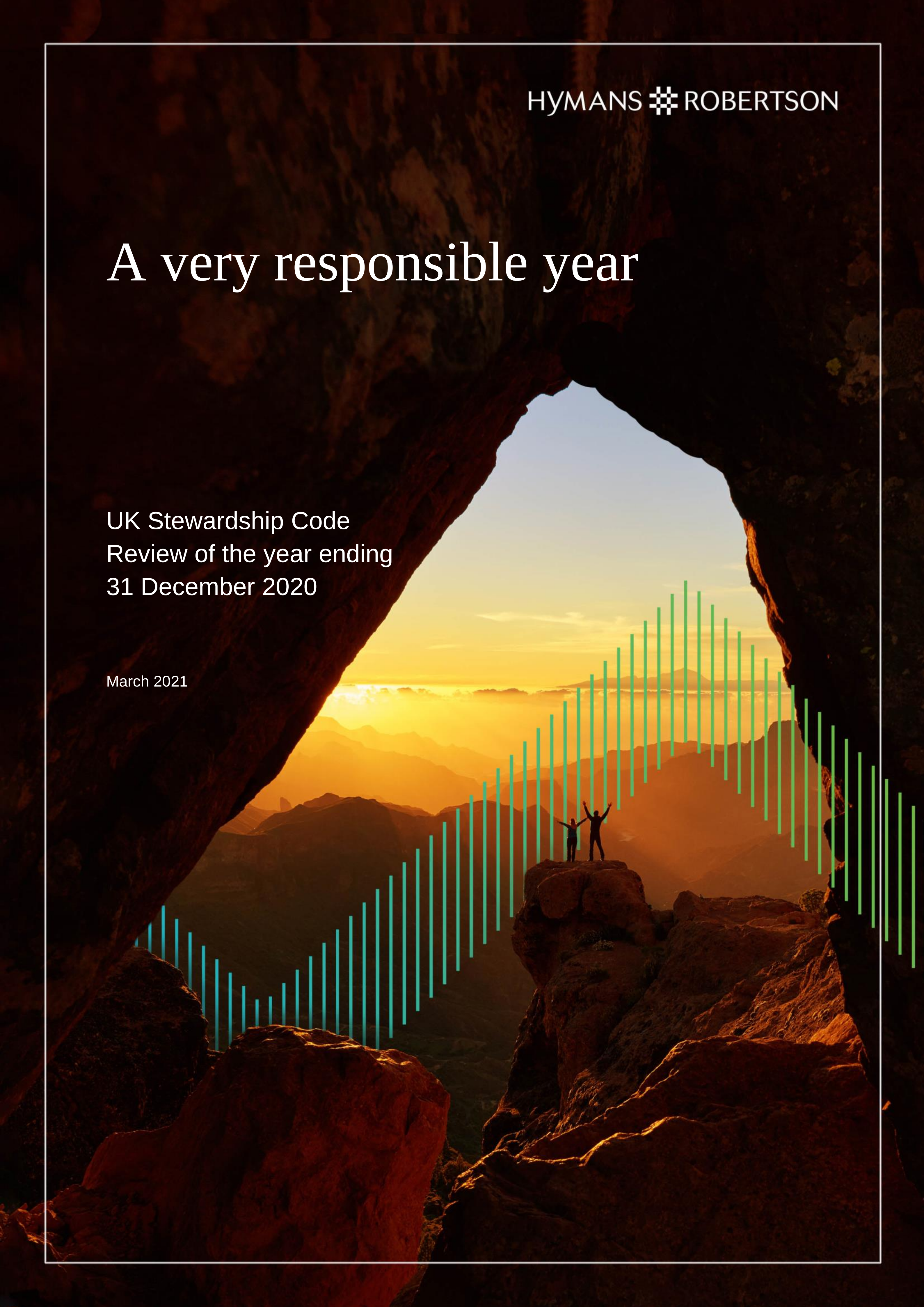


HYMANS ROBERTSON

A very responsible year

UK Stewardship Code
Review of the year ending
31 December 2020

March 2021

Introduction

For 100 years, we've been embracing change, innovating and navigating uncertainty. Over the last century, we have seen considerable change in our services, our clients and our supporting tools and solutions. However, perhaps the greatest change we have seen is in the environment around us and the fragility of the systems that sustain us all.

As we headed into our 100th year, we made our climate pledge. Within our pledge we stated that "*our greatest potential impact is through the way we influence the stewardship of £300bn of assets*". We committed to helping our clients to manage their investments more successfully by treating climate risks as an integral part of our advice and services and to create positive change by raising awareness of the implications of climate risk on financial planning.

Climate change is not the only issue that our clients need to be aware of in exercising stewardship over their assets but it is the most important, with the potential to affect all aspects of our lives and the lives of those whom our advice and services will ultimately benefit. Changing what we do is important - but telling others what we are doing and the impact that we have had is how we demonstrate leadership. This is core to our role as advisors. This is how we help to create change.

The 2020 UK Stewardship Code set a high standard for the financial services industry and a standard that we will strive to meet. In this report we set out the actions that we have taken over the course of 2020 in fulfilment of the six principles for Service Providers and the outcomes that have arisen. Our work in this area is ongoing, but 2020 was a year in which we continued to embed responsible investment into our day-to-day activities. In particular, over the course of the year:

- We invested to increase the level of ESG, climate and voting data that we have available within the firm and are working to embed this into our research, together with our reporting and advice to clients. We also consulted with our clients on the form of reporting that would work for them and have developed our reporting templates to meet their needs. This will allow us to have more informed dialogue with clients on stewardship issues.
- We have completed the process of assigning responsible investment ratings to managers and strategies in which our clients invest and embedded this in our regular reporting to clients. We have also provided feedback on our ratings assessment to managers. As a consequence of this exercise, we have:
    - Held follow up discussions with a number of managers to demonstrate why we came to the conclusions we reached, thereby challenging them to improve;
    - Shared our views with clients, creating a further avenue for discussion with their investment managers and points of challenge;
    - Extended our approach to the assessment of other providers such as insurers and DC platforms, embedding this into our advice to clients;
    - Commenced a review of our process with the intention of evolving our approach to improve consistency and facilitate more granular client reporting.

- We expanded our Climate Change Working Group and progressed projects to evolve our approach to climate scenario analysis, delivered education internally and externally, and embedded climate risk assessments into all our activities and advice to clients. The work of this group will be further leveraged across our business in 2021.
- We supported our clients in the exercise of their stewardship responsibilities and preparation of Implementation Statements. We actively encouraged dialogue between clients and their managers through our stewardship survey and the tools that we developed to help our clients improve their understanding of the activities that their providers undertake.
- Finally, in developing our own Hymans Robertson Staff Pension Plan, we adopted all the principles that we have raised with our clients, embedding sustainably focused funds in our default arrangements, reducing the carbon footprint of our members' assets and challenging ourselves and the managers we employ to do more.

2021 presents a year where we will strive to do more. Whilst regulatory change will inevitably mean that the focus on climate change continues, we will continue to work with our clients at all levels to ensure that they address climate risk. We will continue to challenge investment managers and providers on issues such as climate change, diversity and working practices so we can hold them accountable for their stewardship practices And we will focus our research on a broader range of potential solutions, recognising that our trustee DB clients are continuing to move capital away from equity investment. As we grow our business to work with the retail market, we will ensure that our thinking is embedded in how we build portfolios for this market.

Shireen Anisuddin

Managing Partner

Simon Jones

Head of Responsible Investment

David Walker

Chief Investment Officer

For an on behalf of Hymans Robertson LLP

How we work

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 everything we do.

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 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.

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 customers, us, our communities, and a more sustainable future for generations to come. Sustainability and supporting our clients in the exercise of stewardship over their assets is at the heart of what we do.

To us, ESG integration means that issues are being systematically considered in all aspects of our advice. The integration of ESG considerations into our core offering is being pursued by trying to create behavioural change.

Understanding responsible investment

We recognise that language has been one of the barriers to the effective consideration of responsible investment. We therefore believe it helpful to maintain a consistent definition of responsible investment in our dialogue, both internally and with our clients, ensuring that there is a focus on financial outcomes. In this regard, we consider responsible investment to have two 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.

We strive to ensure that our communication on responsible investment issues reflects these two dimensions wherever possible and note that many of our clients have adopted this definition. We recognise that the UK Stewardship Code articulates a more complete definition of responsible investment, whilst also adopting the term "Stewardship" as an all encompassing term. We recognise the interchangability of these terms although, in this report, we continue to make reference to responsible investment in line with our own defintion.

We have, for many years, supported the need for our clients to establish their own beliefs as they relate to responsible investment activity. We have undertaken numerous workshops with clients to understand their thinking and discuss how beliefs are articulated. We also seek to encourage our clients to both periodically review their beliefs and ensure that beliefs are appropriately referenced in the development and implementation of their strategy.

Case study: Using beliefs to reinforce advice

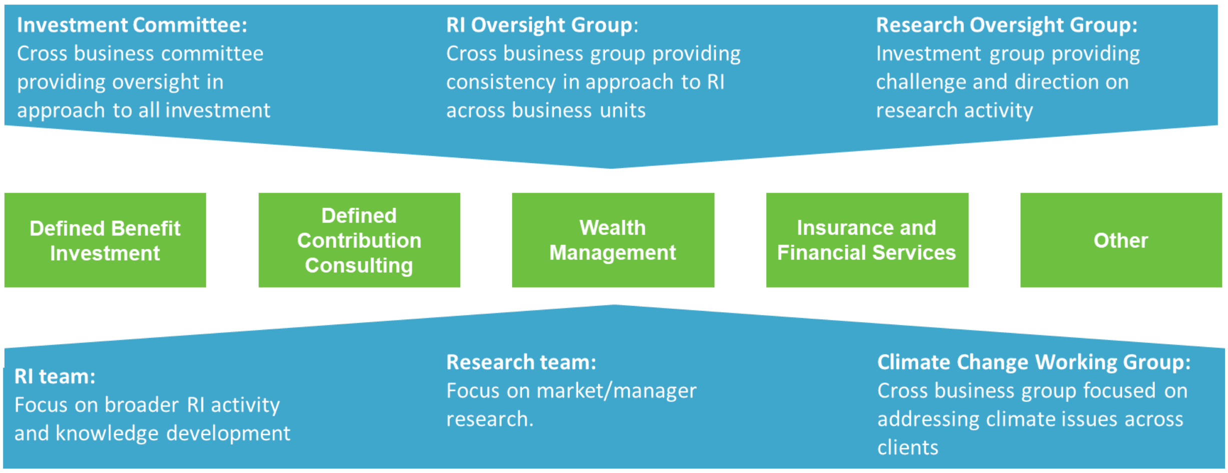
Our client has a stated belief that "climate change and the expected transition to a low carbon economy represents a long-term financial risk to outcomes and should be considered as part of the Committee's fiduciary duty".

During the year, we have discussed several "climate aware" strategies with our client and been challenged on the reasons for this. We have ensured that the agreed belief is featured in our advice, but also that we clearly address the potential financial impacts of climate change in doing so. Our client has agreed to make the recommended changes to their strategy and begin embedding climate risk considerations.

Leadership and resourcing

We see responsible investment in its broadest sense as having two dimensions: the sharing of knowledge and skills is relevant across all areas of our business, whilst our clients have their own particular needs and requirements.

Our governance structure has oversight and accountability at the core, recognising the need to provide consistency in approach and stretching across all aspects of our business. 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.



Responsible investment is recognised as a priority consideration at the most senior level of the firm. Our Management Board has fully supported the firm's intent to become a signatory to the UK Stewardship Code, and our activity is sponsored by owning partners of the firm. There are several key groups within the firm:

- Our firmwide **Investment Committee** has responsibility for ensuring that investment views are consistently represented across all business areas. Whilst focusing generally on research and market considerations, this Committee also provides a high-level overview of responsible investment issues. The Committee is currently chaired by our Chief Investment Officer, David Walker.
- The **RI Oversight Group** provides a direct focus on responsible investment matters, considering emerging themes, the development of relevant processes and broader resourcing requirements. This Group is populated by senior members from each underlying business unit and is chaired by Simon Jones, our Head of Responsible Investment.

Day-to-day activity is delivered through our responsible investment team which provides specialist input and works in conjunction with our broader research team. The RI team is also led by Simon Jones and resourced by people from across business units, most of whom dedicate a proportion of their time to RI activity.

Recognising the systemic importance of climate change, we have created a separate Climate Change Working Group (CCWG). This group is led by Lisa Deas and draws resource from across our business. We expand on the role and activity of the CCWG later in this report.

The level and diversity of resource available is illustrated below.

RI team	2 partners, 3 consultants, 3 analysts	38% 62%
Research team	3 partners, 9 consultants, 7 analysts	32% 68%
Climate Change Working Group	6 partners, 11 consultants, 6 analysts	30% 70%

Note that some resource works across multiple teams

The resource committed to responsible investment and climate change has grown over the course of 2020, recognising the growing importance of the area to the firm. We plan to grow this resource directly over the course of 2021, whilst also further embedding RI considerations into the day-to-day work of consultants and researchers.

Addressing climate change

Our culture permits an open dialogue with all stakeholders and, over the course of 2020, we engaged with our owning partner group to develop our climate vision, pledge and beliefs. By gaining the input and support from senior members of our business, we are able to demonstrate to both our staff and our clients that this is an area of importance and one that will influence our decision making and advice over years to come.

Climate vision: A net-zero carbon future

Climate pledge

- Our firm will be carbon neutral from 2021 and will halve our 2019 carbon footprint* by 2025.
- We will be 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.

This pledge was launched internally in September 2020 and externally in January 2021 where it forms the cornerstone of activities in the first quarter of our 100th year. Of the six underlying beliefs to our climate pledge, perhaps the most important states that

> *We believe our greatest potential impact is through the way we influence the stewardship of over £300bn of assets. We will help our clients to manage their investments more successfully by treating risks such as climate risk as an integral part of our advice and services. This includes influencing financial product designs, selecting asset managers and holding them to account.*
>
> *We will create positive change by raising awareness of the implications of climate risk on financial planning. By helping clients understand their exposures, they will be able to update their strategies and disclose how they are managing their climate risks. We will develop the tools our clients need to act and build them into our core services.*

This commitment is the standard by which we will hold ourselves accountable to both our clients and to the industry as a whole. We have committed to embed climate risk considerations into our advice, and also to seek the support of our clients to leverage our voice. These commitments are addressed later in this report.

We also recognise that our pledge is both outwards and inwards looking, placing commitments on our own firm. We cannot ask our clients to change if we are not prepared to do so ourselves, and we will report on our actions through our annual CSR reporting through which we will also report in line with the requirements of the TCFD.

Supporting and educating our people

We empower teams across the firm to consider and properly integrate RI thinking into their advice, providing guidance and support where necessary. This reduces the risk that RI will be considered as an add-on. We also recognise that there is a need to continue to educate our people and provide both internal training and encourage attendance at third part events.

Investment consultants are required to develop and agree appropriate CPD objectives annually, and progress against objectives is monitored with People Managers as part of the annual evaluation process. There is no minimum number of hours training requirement and ESG training is not compulsory. We acknowledge that the knowledge and development requirements for individual staff vary with experience. We do however make recommendations as to appropriate ESG topics that could be included as development objectives.

Ongoing ESG training sessions are developed and provided on a quarterly basis and recorded to be accessible to staff who are unable to attend. Over the course of 2020, we held sessions on Alternative

Index Solutions, Impact Investing, regulatory change and stewardship, and proxy voting. We also held broader sessions across our business focused on climate risk. In order to support CPD requirements, we maintain details of all training materials on our Intranet site.

We provide support for our people who wish to study external qualifications and actively support the CFA Certificate in ESG investing, with two people having completed the qualification during 2020 and others having signed up to complete the Certificate during 2021. We also recognise that there are alternative means of providing development, as illustrated below.

Case study: Secondment as a development opportunity

One tangible benefit of our approach to developing our people has been our ability to support our clients and meet their needs, whilst also recognising the development opportunities that arise. During 2020, several members of our team were seconded to a large UK life insurance company to provide support on a strategic RI project.

Our people supported the policy development, the development of ESG integration, monitoring and collaboration practices and the development of an external assessment framework for the firm. They also helped educate the client's internal teams. Focusing on the development of our own people has clear benefits in allowing us to work with clients in various different ways. However, being able to take up such opportunities also conveys benefits back to our firm through the experience our people gain from working in a different environment and solving different challenges.

In incentivising our employees, we promote the inclusion of stewardship and responsible investment objectives, particularly amongst our investment teams, when setting individual development priorities each year. These are framed in a manner relevant to an individual's role and their ability to influence these areas, with specific measures of success identified at the outset. Success relative to these objectives inform the performance review for individuals, with consequences for reward.

Investing in systems and processes

As a firm, we have invested in building our analytical capabilities over 2020. We completed the procurement of a third party ESG and climate data provider, having undertaken a detailed due diligence exercise. We have worked to embed this information in our research and reporting processes, with the latter being progressively rolled-out over the course of 2021.

Access to greater levels of information offers us and our clients a new lens through which to analyse portfolios and create dialogue with investment managers. For example, in our research, we are using data to identify individual portfolio positions for discussion and challenge, allowing us to gain additional confidence in managers' processes. This in turn will affect our overall assessment of managers, and consequently the flow of client capital.

We see the role of greater information in client reporting as having a similar outcome to our own research. Our goal is to encourage dialogue between our clients and their managers, and we increasingly expect to use our reporting to identify areas of potential concern to help facilitate this dialogue. To support this, during the year we held several webinars where we promoted the idea of stewardship "starting with a question" and, following these online sessions, developed a simple guide for asset owners.

To further support our stewardship work with clients, we subscribed to a third-party proxy voting database during 2020. We believe that having access to more detailed information on managers voting practices will allow us to test the outcomes being created by managers through their voting activity. Output has been incorporated into stewardship reviews that we have undertaken for clients and will be integrated further into our revised manager assessment process, as described later in this report.

Managing conflicts

We take the management of conflicts of interest seriously and recognise that it's not only vital to ensuring that we are acting in the best interests of our clients at all times – but also to ensure that we are complying with our regulatory and professional obligations. We don't see this as a 'box ticking' exercise – it's at the heart of what we do, and how we interact with our clients.

The identification and management of potential/actual conflicts of interest is embedded in our client take-on process, and 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 a significant part of our considerations when developing new propositions.

We have a Mandatory Policy in place which colleagues across all of our group companies are required to follow (both in spirit and in strict compliance with its requirements). At the heart of this is ensuring that:

- all potential, perceived, and actual conflicts are identified as early as possible;
- 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/the firm.

Case study: Managing conflicts between providers and clients

The changing nature of the defined contribution market means there may be circumstances where we advise clients and also the providers they use. To manage this conflict, we have separate teams advising clients and providers. Our provider research and advisory areas of the DC business are distinct, and the relationship is at arms-length. One appointment for a project during the year saw us appointed to undertake a research project for a provider. The team which carried out the research was not involved either in advising providers or clients participating with them.

Case study: Managing conflict with asset managers

We may also come into conflict in working with defined benefit funds where we may advise a client to invest with an asset manager who may also be a client of ours. Our approach to this varies; on occasion we have made the strategic decision not to work with certain entities given the potential nature of the conflict and during the year, we turned down the opportunity to tender for certain pieces of work. In other cases, we viewed the potential conflict as manageable, but disclosed to our clients the potential for conflict to arise, particularly when commencing a manager selection exercise.

We have dedicated and trained Conflicts Champions for each of our Business Units, who are responsible for providing their respective Business Units 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).

Our approach to managing conflicts is available on our website here.

Collaborating and leading within our industry

We recognise the benefits of collaboration in driving forward all practices in responsible investment and are happy to support industry wide groups. Over the course of 2020, we participated in several working groups, including the PLSA Voting and Implementation Statements Working Group and several Working Parties of the Institute and Faculty of Actuaries.

Over 2020, we were pleased to provide industry leadership in several areas:

- Simon Jones, our Head of Responsible Investment, was Chair of the IFoA Sustainability Board for the 2019/20 session, overseeing the ongoing focus of the Board on climate change as a key consideration for actuaries;
- Patrick Bloomfield became Chair of the Association of Consulting Actuaries during 2020 and has since established climate risk as one of the ACA's policy priority areas and created the ACA's own Climate change Working Group to co-ordinate and integrate climate risk thinking across all of the ACA's sub-committees.
- We are also members of the new LGPS Scheme Advisory Board Responsible Investment Advisory Board with our representatives including our CIO David Walker.

During 2020, we were delighted to become a founding member of the Investment Consultants Sustainability Working Group ('ICSWG'), now a group of 17 UK consulting firms, and an example of how we work collaboratively across the industry with our peers on a consistent approach to managing key sustainability issues.

Within the ICSWG, we deliberately selected involvement in workstreams that would be most relevant to our clients' needs, focusing on reporting, asset managers and stewardship activity, in addition to being represented on the Steering Committee. Some of our initial involvements have included contributions to the development of standardised data gathering on voting and engagement activity from asset managers, seeking to ensure a consistent approach across the industry. We have also engaged with the ICSWG on Diversity and Inclusion.

2020 was a year in which various groups sought to develop best practice standards in responsible investment and sought input from industry stakeholders through consultations and engagement. We believe it is incumbent on us to influence best practice as it can directly or indirectly affect our clients' activity. We were therefore pleased to respond to various consultations, including:

- DWP consultation on 'Taking action on climate risk';
- Institutional Investors Group on Climate Change's Net Zero Investment Framework;
- PCRIG guidance on "Aligning your pension scheme with the TCFD recommendations";
- CFA consultation on ESG disclosure standards.

Where possible, we publish consultation responses on our website. We also ensure that these responses are included in regular communications, so our clients are aware of our position. Further, we have evolved our communications so that they are directly tailored to the nature of our client base so they know that we only send them relevant information.

How our structure serves the interests of our clients

We have progressively grown the resource that we have committed to support our clients' engagement with RI and stewardship issues over recent years. The work of our CCWG serves to support the commitment in our pledge to make climate risk an integral part of our research, advice and services. We believe the growing knowledge and expertise in this field will be leveraged across our client base over 2021 and beyond, as climate risk becomes an issue that we proactively encourage our clients to address.

We recognise that, done well, RI has the potential to feature in all discussions that we have with our clients. Although we accept that there were, and still are, barriers to change across the financial services industry and that no single approach is sufficient, our structure seeks to both encourage dialogue and action by identifying themes for discussion, equipping consultants with the knowledge and skills to engage in those discussions, allowing them and our clients to draw on our expertise as necessary. We continue to work towards an approach where responsible investment considerations are wholly embedded in our day-to-day advice but acknowledge that this will take time.

The primary link to our clients is through the day-today contact that our consultants have and, whilst this structure supports consultants and the delivery of advice at a general level, it does not directly address the individual needs of clients. This is an area in which we believe we can continue to improve. Over 2021, we will therefore be focusing further on the needs of individual clients. This will take place through consultant surveys and one-to-one discussions with members of the RI team in order to better target our work. The aim is to support our consultants in developing more tailored agendas with clients and ensuring that activities on RI and stewardship are appropriate to each clients' own governance needs.

We work across multiple business areas, so the need for consistency in the development and application of our work is essential. Our governance structure supports this by creating forums for discussion and challenge, although responsibility and accountability for the implementation of our ideas is delegated to individual business units. All of these business units draw on the same research, ultimately creating efficiency in how we deliver our advice, but also allowing us to represent our collective client assets through our engagement with providers.

Using this weight of our client assets is an area we also believe can be improved. Our structure has focused on researching investment managers and other providers although, as we discuss later in this report, we recognise that an ongoing dialogue and exchange of views can have value. Over 2021, we will be focusing further on our engagement with providers and investment managers, focusing on particular issues that we can raise with our clients. Our current structure supports this focus on engagement, and we will be stepping up our efforts and the associated reporting by our research teams.

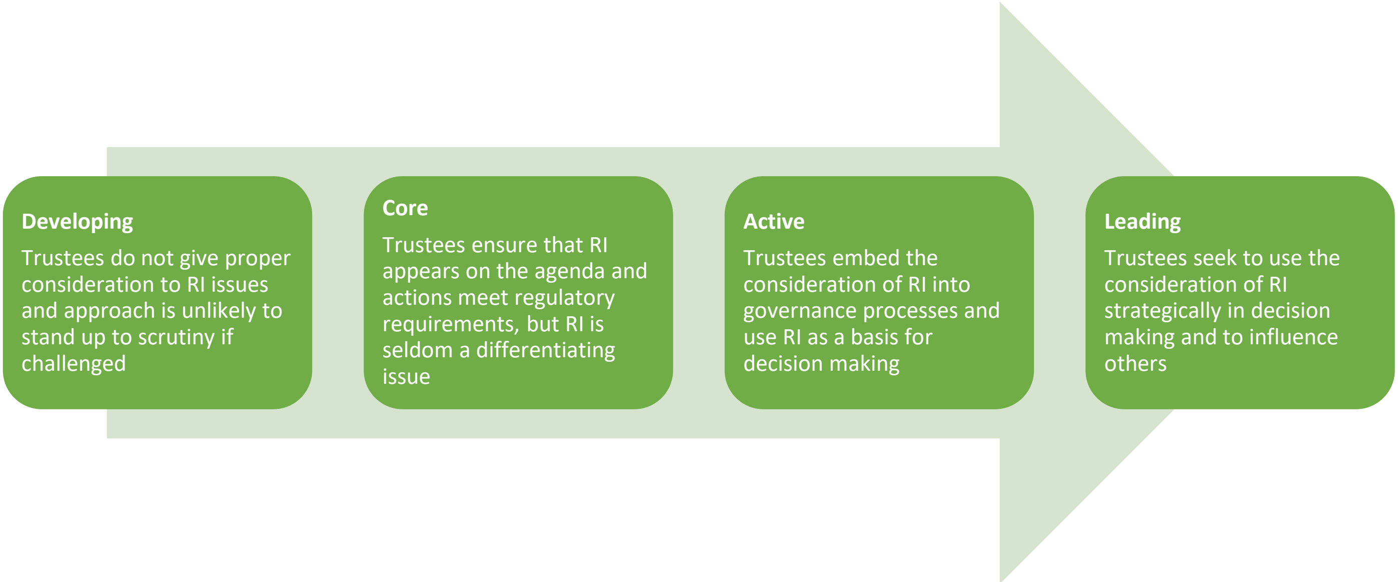
Working with our clients

Our clients

Our clients are the trustees, sponsors and committees which govern defined benefit and defined contribution pension arrangements. We also work with endowments, insurers and other financial services institutions which are responsible for asset pools. As we progress into 2021, will be working with independent financial advisers and individual investors. In outlining our activities below, we have focused primarily on our actions within the pensions markets; our work with other clients in this area is developing.

Articulating the RI journey

Our objective is to change the behaviors of our clients and the managers they invest with in order to move them along what we term the RI spectrum. This reflects a growing maturity in how our clients embed RI thinking into their approach. To help support our consultants and our clients, we developed a consulting framework which is built around the RI spectrum. This spectrum, illustrated below, reflects the journey that our clients may take to embed the consideration of RI into decision making.



The relationship between our consultants and clients is key, and progress along the RI spectrum relies on a regular dialogue between clients, consultants and asset managers. We do not pre-judge our clients but, by using this framework as a means for identifying potential actions that clients may take, we promote the steps that our clients may wish to take to further embed responsible investment practices into their governance.

Our clients generally respond well to the RI spectrum as a communication tool and have recognised that they can both evaluate themselves against a given position and use this as a basis for taking further action.

Embedding climate in all that we do

Helping clients identify risks impacting their investment and funding strategies lies at the centre of our business. While this often involves the analysis of shorter term, client specific risks, given the long-term nature of many pension schemes, this also includes significant consideration of long-term, systemic risks which could lead to a significant impact on clients' ability to achieve their objectives.

We consider systemic risks through our dedicated research team whose role includes identifying and analysing market-wide economic risks and providing up to date commentary and advice to both clients and the wider Hymans' consulting team. We also have a dedicated modelling team who have the expertise to model scenarios relating to systemic risks. Through such analysis, we engage with our clients to further understand potential risk exposures, including how different risks may be correlated and work to manage and, where possible, minimise the risks to our clients.

2020 was a year in which systemic risks were placed at the forefront of our clients' requirements with both the coronavirus pandemic and Brexit having operational and market impacts on our clients' activities. The pandemic also tested our own firm's resilience as we swiftly migrated into a pattern of home working whilst continuing to support our clients during a period of considerable uncertainty. Against these risks, we also sought to address the growing focus on climate change.

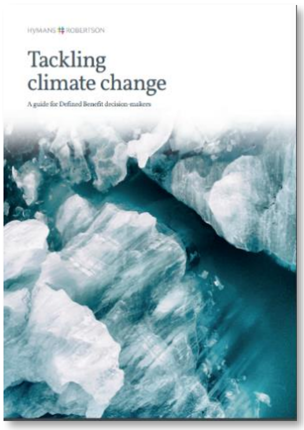
Addressing climate change in our advice

As we addressed in our climate pledge, climate change represents a systemic risk to our economy, financial system, and way of life. In order to coordinate efforts internally across the firm, in 2019 we created our Climate Change Working Group populated by people from different business across the firm, recognising that climate change has the potential to affect more than just asset markets.

The goal of the CCWG is to identify how our clients may be impacted by the physical and transition risks arising from climate change and the growing regulatory response to these changes and develop appropriate support and advice for our clients. Over 2020, we created several underlying workstreams to address our response to climate change. These have been focused as follows:

Education

Building knowledge on climate change is a fundamental requirement for both our clients and our staff. Over 2020, we sought to enhance knowledge and understanding through internal and external webinars and the production of supporting materials.



In particularly, we engaged with Professional Independent Trustee firms as a key group of influencers, running several climate focused training sessions on the subject. We also ran these sessions internally and, as we moved into 2021, we developed and are implementing a more comprehensive educational programme for our people.

Recognising that decision makers need a clear place to start with tangible actions that they can take, we also published separate guides to tackling climate change for both DB and DC decision makers to help them build plans to address this issue and have used our recommendations as a basis for our ongoing engagement with clients.

> It's so important that we help trustees to distil and understand this increasingly complex area as the regulation ramps up and the risks are ever present. I think your guide is clear, informative and most importantly, actionable!
>
> Feedback on DB climate guide

Scenario Analysis

We developed our initial approach to climate scenario modelling in 2019 to help explore the possible scale of climate risk with our pension scheme clients. Over the course of 2020, we employed this analysis with a number of clients to support discussion on climate risk during the course of actuarial valuations and strategic reviews. This ensured that climate change was considered as an integral element of funding and investment discussions.

There are limitations to this approach and, as we begin to better understand climate risk, so the tools that we employ in advising our clients need to evolve. During 2020, we began a project to review our approach to climate risk modelling which will allow us to more directly embed the consideration of climate risk into funding valuations and investment strategy review exercises. We anticipate concluding this exercise in mid-2021 and further engaging with clients on this subject thereafter.

Climate risk analytics

For a number of years, we have assisted our clients in undertaking climate risk portfolio analysis with the support of third parties. Following our engagement of a third-party data provider, we are now able embed this capability in-house, broadening the services that we can provide to clients and our increasing our ability to integrate the consideration of climate risk more directly into our advice. Our analytics workstream has been focused on developing our understanding of different climate risk metrics and the various data challenges that emerge with this capability beginning to be integrated into our advice.

TCFD reporting

Hymans Robertson completed its first TCFD report for the 2019/20 financial year. This began the project to develop our support for clients who are either required or wish to report in line with the TCFD framework. We've developed a suite of tools to help our clients understand the current gaps in their approach.

Dealing with the impacts of COVID-19

We quickly recognised Covid-19 as a potential systemic risk to the financial system and prioritised its consideration in our assessment of client portfolios and our ongoing engagement with clients. Throughout 2020, we advised clients and engaged with managers on managing the risk presented by Covid-19. This involved providing strategic advice to minimise the impact on funding positions and ensuring our clients were able to meet their ongoing obligations.

Risk management

We focused on meeting the short-term needs of our clients, ensuring that our clients had access to adequate levels of liquidity, whilst providing reassurance on the appropriateness of our clients' strategic allocations. Given the majority of our clients invest for the medium to long-term, we sought to achieve a balance between discouraging short-term change unless this was necessary and capturing opportunities which were aligned with their strategic plans.

Understanding how portfolios were being impacted by Covid-19 was critical. We engaged with managers extensively to understand their risk exposure to Covid-19 and how they managed and adjusted portfolios to reflect the changed economic outlook. During the height of the pandemic, dialogue with managers was taking place on a weekly basis.

Scenario analysis

We recognised that the rapid spread of the coronavirus would inevitably have a material impact on the rate of global economic growth in 2020 and beyond. However, the timing and shape of any rebound is uncertain and depends on containment of the virus and the effectiveness of policy responses. We employed scenario analysis to help our clients make more informed decisions around managing risk and identifying opportunities by considering a range of potential outcomes, focusing on the shape and pace of a recovery.

Opportunity identification

As we began to emerge from the crisis, we noted that at some stage there would be opportunities to be sought in the wake of the coronavirus and its impact on markets. We worked with a range of asset managers to understand which opportunities were most likely to provide genuine accessible investments for investors, with sustainability a key consideration. We highlighted these opportunities to our clients through a webinar and publication.

Effective Communication

Underpinning all our work during the pandemic was the need for clear, effective and regular communication. We ensured that clients had current information on which to base decisions. Discussions with clients became more frequent to ensure that emerging questions could be addressed.

Demonstrable outcomes of this have been strategic changes implemented by our clients in the last year, particularly around cashflow management where many clients have taken measures to improve their liquidity position and avoid being forced sellers in stressed market conditions.

Evolving client strategies

We articulate two ways by which our clients can effectively exercise stewardship: the reallocation of capital and by working to change behaviours through engagement. Over the course of 2020, areas where our clients have redirected capital have been varied although within equity and infrastructure allocations, our advice has been focused towards more sustainable solutions.

Within equity mandates, our preference is to employ alternative index solutions although we are cognisant of the substantial evolutions in data availability over 2020. Our research has indicated a preference for strategies that include forward looking data metrics. A number of clients reallocated into such solutions during the course of the year, including our own Pension Plan as illustrated in the case study below. We expect to see significant further allocations in 2021 as this remains an area of focus.

Similarly, we have focused research on actively managed, sustainably themed equity strategies where capital is directed towards companies providing solutions to social and environmental challenges, with our clients allocating c£1bn to such strategies during 2020.

A final area of focus has been on renewable energy infrastructure where our discussions with clients were built on work that we published late in 2019. Our approach - of highlighting trends in markets which build client understanding of and consequently investment in an asset class - is increasingly being rewarded with multiple clients now having made allocations to mandates of this nature.

Case study: Hymans Robertson Pension Plan

In September 2020, Hymans Robertson implemented a new pension scheme arrangement for our staff and partners. The objectives behind implementing the new arrangement were threefold:

- To provide a more competitive offering in terms of fees and overall services
- To deliver a pension arrangement that could take our members both to and through retirement, allowing them to benefit from low fees and greater support after the point of their retirement
- The ability to deliver, both initially and on an ongoing basis, an investment strategy that could reflect the firm's wider views on Responsible Investment, and climate change in particular.

Our new default investment strategy was launched at the same time as the new Plan. The aim was to create a strategy that was future proofed in terms of its structure and reflected our members' feedback and the firm's view on Responsible Investment. Our newly implemented investment strategy incorporates two ESG-tilted factor-based equity funds within the growth phase of our lifestyle strategy as well as a re-designed pre-retirement strategy.

By implementing these changes, we were able to reduce the carbon footprint of our Plan by around a third while improving the projected retirement outcomes for all our members. Our analysis on outcomes was based on insights from our market-leading Guided Outcomes model. The Governance Committee's stated aim is to continue to develop the investment strategy over time as new opportunities arise.

Building on the move to a more sustainable investment strategy, we will be giving regular updates to our members on the key ESG measures relating to the funds we use as well as the engagement our managers are having with the companies they invest in. We'll also be providing some "good news" stories of where our managers have used our members' money to drive positive change in company behaviour. Over the summer of 2020, the Plan signed up to the Investor Statement on the Coronavirus, again showing our proactive approach to responsible investment.

Throughout both the default strategy and our self-select range, we have selected only fund managers which are either positively rated by our Responsible Investment Team or which our team are working closely with to improve their overall rating. Over 90% of the assets of the default strategy are invested with investment managers who have that positive or preferred rating. We see this move as part of an ongoing journey to a more sustainable pension plan and our ambition over the coming years is to move to a net zero portfolio as fund availability and cost allow us to do so.

Assessing investment managers credentials

At Hymans Robertson, we undertake research on the RI credentials of the asset managers that our clients are invested in alongside our broader research efforts. We gather information from managers on a qualitative basis in order to be able to explicitly consider how RI matters are addressed and integrated within decision making processes. We use questionnaire responses, discussion with managers and associated policy documentation to assess managers' credentials.

We assess how managers evaluate and understand the risks and opportunities that are posed by individual investments within the context of their own policies and how these are then captured in portfolios. Our RI ratings framework considers four criteria being: culture, integration, stewardship and transparency. It informs our broader assessment of manager capability. We apply a constraint whereby any manager rated as 'Weak' on RI practices cannot then be rated 'Preferred' through our broader research process. This has the effect of stopping our clients' capital flowing towards managers who cannot demonstrate appropriate practices.

During 2020, we completed the integration of this approach into our broader manager assessment framework across all remaining asset classes. Whilst we see this as enhancing our approach to the evaluation of asset managers, there have been several beneficial outcomes for our clients. Notably, our ongoing client reports now include RI ratings as a clear metric for our clients to monitor managers' capabilities over time and with tangible points of engagement with managers. We have seen increased dialogue with clients on manager credentials following the introduction of this reporting and a desire for greater understanding. This is an area we are working to address as noted below.

Case study: Creating client engagement through disclosure

The disclosure of our RI ratings to one client presented a desire from them to better understand the process that we undertook to reach these conclusions, particularly in light of our clients' knowledge of their investment managers. We had a detailed discussion with the trustees, outlining our methodology and the various inputs to our process. This provided both reassurance and a desire from the client to challenge their managers to do more.

We provide feedback on the conclusions of our evaluation to the investment managers we assess. As transparency is one of the criteria against which we assess managers, we accept that the provision of information and assessment must be a two-way process and have therefore provided both general and manager specific commentary on the conclusions that we have drawn. Our experience is that this has been very well received and inevitably led to further dialogue with investment managers seeking to understand what actions they then need to take to improve, driving positive change.

Whilst we can acknowledge that managers may be seeking to improve their assessment for the purposes of securing client assets in future selection exercises, to us this has highlighted the potential we have to drive improvements in behaviour and the importance of ensuring our processes remain robust so we provide our clients with clear, informed advice.

Expanding and evolving our assessment framework

Asset managers are not the only participant in the market that our clients engage with and we have therefore sought to extend our methodology and the assessment frameworks we employ to different areas of engagement across our business. These include pension providers, fiduciary managers and insurers, all of whom we expect to take on some level of delegated responsibility for client assets. This represents a natural extension of our desire to ensure that the consideration of responsible investment is embedded into all aspects of our advice and that we challenge all market participants to do more.

Further, since we established our framework, we know that practices have moved on and it is essential that we keep pace with changing best practice. Over the latter part of 2020, we instigated a project to review our own processes and ensure that our assessment framework remains fit for purpose. This updated framework is being implemented and will be effective within our research process from 1 April 2021. The enhancements we are making include greater consistency across asset classes, improved communicability of our research findings to both managers and our clients, and improvements to the efficiency in how our manager ratings are maintained.

Understanding and reporting on ESG exposures

We recognise the growing availability of, and potential role, ESG and climate data will have in our own advice and our clients' decision making and this led us to complete the procurement of a data provider during 2020, as noted above. Whilst undertaking this exercise, we consulted our clients to gain input on the information that they would find useful to ensure that the format of our own reporting would be beneficial In particular, we are keen to ensure that our reporting and the metrics that we present to our clients are helpful to them in making informed decisions.

Case study: Taking client input to develop our reporting

We consulted with a client to better understand the role that reporting could play in helping them manage and monitor the Climate and ESG Risks within their fund. Following the consultation exercise, we developed a template report that would meet their requirements. We also hosted two training sessions to ensure that they fully understood and were comfortable with the metrics that we proposed for inclusion.

One of the goals of the exercise was to encourage and foster the client's belief in proactive engagement with their investment managers and underlying investee companies. Through discussion with our client, we have developed reporting that highlights engagement priorities drawing on a series of metrics which help our client to focus their discussions with managers.

Education plays a vital role in helping our clients achieve their Responsible Investment objectives. Therefore, we hosted two dedicated training sessions with our client prior to delivering their report. The training sessions were important in ensuring that our client fully understood and was comfortable with all the metrics used in the report.

Building a solid knowledge base prior to providing a 'real figures' report meant that the client was better placed to interpret all of the insights and consider the actions points identified in the report. The training sessions were also invaluable as an additional feedback forum. Following the session, we were able to further refine the monitoring report to address the client's requirements.

Supporting stewardship activity

The evolving regulatory environment has required us to both assist our clients in developing their stewardship policies and report on their compliance with these policies. Over the year, discussions with each of our clients took place in relation to updating policies, with feedback sought and policies tailored to reflect individual client needs and views. This created conversations on stewardship with trustees (e.g. around how a significant vote may be interpreted) and emphasised the importance of stewardship within an investment strategy.

Our support to clients in the exercise of their responsibilities has been varied. For example, at a simple level, we introduced an ongoing "stewardship policy checklist" which has ensured stewardship remains on our clients' agendas and policies are adhered to. Our stewardship reporting for clients is increasingly becoming thematically focused, looking at the pattern of voting activity relative to particular themes, such as environmental or diversity related issues.

Case study: Supporting a thematic approach to stewardship

We assisted our client in developing 'Core Themes' at a group scheme level which covered ESG issues, including the identification of norms violators, climate risk laggards and governance breaches. Following this, a third party ESG service provider screened our client's equity and multi asset portfolios to identify stocks invested in companies which breached the Core Themes. Using this analysis, we assisted the client in establishing a list of stocks to use as a basis for investigating what stewardship activity the respective asset managers were undertaking on their behalf. We also provided a framework for stewardship reporting which enabled the client to monitor activity in relation to these particular stocks of concern.

Our client was more informed of where significant ESG risks lay within their equity and multi asset portfolios, the level of engagement activity being undertaken on their behalf to resolve the identified issues, and whether voting activity with respect to these stocks supported those engagement efforts. Where this was not the case, the client was able to directly address these issues with the asset managers.

To supplement our activities, we appointed a third-party voting data provider, allowing us to investigate managers' voting practices in greater detail and provide more granular analysis to clients. We ensure appropriate levels of engagement in relation to corporate governance issues through dialogue with clients, encouraging trustees to regularly question their managers on their voting policy, and providing questions that can be asked.

One means of supporting our clients on evolving practices is through our quarterly "RI News and Views". This publication seeks to capture current issues and convey our thoughts to clients, assisting them in the exercise of their stewardship activities. We have also sought to better understand industry level practices through our triennial stewardship survey which we published in June 2020. We found that despite promising signs, investment managers still need to do more to keep pace with changing demands.

We also made recommendation to asset owners (as set out below) and used these findings to inform both the development of our services and our advice to clients. For example, in considering the need for clients to hold managers to account, we have featured the importance of engagement during several webinars and produced our guide to effective stewardship, aimed at supporting our clients address their ongoing stewardship responsibilities.

Implementation Statements

Regulation now requires pension scheme trustees to produce and publish Implementation Statements. Whilst the actions set out above have all been in support of meeting this reporting requirement, we have also undertaken internal and external training on this stewardship requirement whilst also promoting the opportunity that our clients have to treat stewardship as more than just a "tick box" exercise through our quarterly Investment Perspectives.

Implementation Statements have brought with them the need for increased information and we joined the PLSA Working Group to develop guidance to trustees and an associated data collection template. We have adopted this template for our own data gathering as we believe the focus should be on the interpretation of data and the outcomes that can be achieved. Through the ICSWG, we have also been working to develop an associated engagement template.

What should asset owners do?

Whilst the focus of our research has been on the practices of asset managers, asset owners such as trustees, pension committees and IGCs can also consider the actions arising from our key findings. We recommend that asset owners do three things:

- Continue to demand greater levels of transparency from your asset managers and be prepared to challenge your managers if their disclosures are inadequate.
- Look beyond the numbers. When it comes to voting, it can be informative to look at the extent to which asset managers vote against company management, however it is more informative to understand what issues asset managers are voting against management on.
- Hold your managers to account over their voting and engagement practices. Managers should be able to explain why they have taken the actions they have on issues such as climate change and if they can't answer questions adequately, keep asking.

Evolving our approach to stewardship

As we look forward and work to embed our climate commitments into our ongoing work, there is one clear area of focus: demanding accountability from managers. Our own engagement with managers during 2021 will therefore be focused on three core themes: climate change, diversity and inclusion and working practices, as we have communicated to clients. We will seek to understand what managers are doing through their own work with investee entities, challenge them where we do not believe their actions are sufficient and report the outcomes of our dialogue to our clients. We will also use the output from these discussions in our ongoing manager evaluation framework.

Reviewing and developing our approach

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. We understand how our clients operate and aim to meet their needs. Our research and tools are all geared towards providing our clients with better, more relevant information from which they can make decisions.

We believe that we have been successful in this over the course of 2020 and, in light of the change in circumstances arising from the pandemic, have seen increased engagement from our clients with their managers on stewardship and RI issues. We anticipate this trend continuing into 2021.

In considering how we have addressed systemic risks, we believe our approach to addressing Covid-19 was positive through the various steps that we outlined. We also believe that this offered an opportunity for us to continue to address the risks posed by climate change. In this, we have taken positive steps forward, particularly through the adoption of our climate pledge which seeks to engrain the consideration of climate change into our culture.

We further believe that the investment that we have made in our systems and processes is increasingly supporting more informed dialogue. In particular, we would highlight the following developments over the course of 2020, as outlined in this report as proactive steps to improve.

- Our approach to manager assessment has been updated with the creation of a new framework. In undertaking this review, we sought input from the potential users of the updated framework and tested its use with a sample of asset managers. The framework was also reviewed by an internal committee.
- We are updating our approach to climate scenario analysis. Our methodology will be subject to internal and external review during 2021.
- Our investment in third party data is now informing our research and client reporting. We have worked with our clients to develop the information they would find helpful, informing the way in which we will report.

In all cases, the introduction of new or updated processes is subject to the challenge of “how will this be of benefit to our clients, and help effect positive change?” In respect of the review of our manager assessment process, we have sought to embed consistency of approach and ease of communication as key requirements of the process. This informed both the development of our approach and the potential format of our client facing outputs. We have tested these outputs both internally and externally with positive feedback.

As a consulting firm, we are continuously exposed to the ideas and requirements arising from others in the market, including our own clients. We recognise that our approach needs to continually evolve and that our processes must be subject to regular review and scrutiny.

Our approach to responsible investment and the policies, and processes we employ, are subject to regular internal challenge and review through the governance structure outlined in this report. Our approach is also subject to external scrutiny through our engagement with clients and other market participants such as professional independent trustee firms. Our participation in external surveys and responses to questionnaires and tenders offers the ability to gain useful feedback and comparisons with our peers. We participated in two external surveys during 2020 with feedback being provided post year end.

On a continuous basis, we must test our approach through our responses to tenders for new business. Within these tenders, the questions being asked challenge different aspects of the services we provide to clients and the processes we use. We aim to create transparent structures that allow challenge to take place.

One area of feedback that will result in change is in our approach to manager engagement. We have noted a need to consider stewardship outcomes in our dialogue with managers and ensure that we are better at holding managers to account. As noted above, one of our priorities for 2021 is to develop our manager engagement programme to achieve this.

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