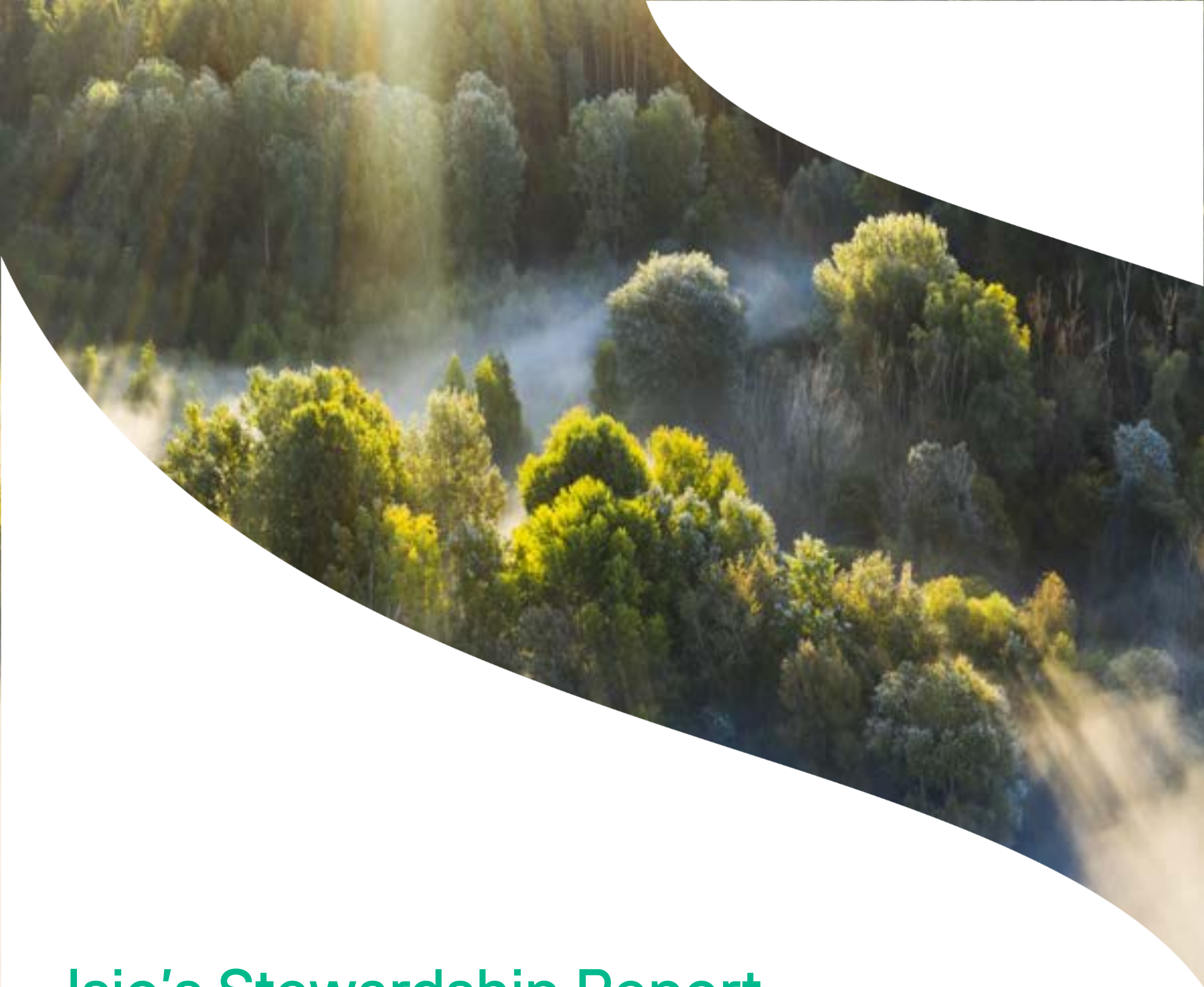


Isio's Stewardship Report

Isio Group Limited | October 2023

Document classification: Public

This is Isio's **third report** on the 2020 UK Stewardship Code principles. In this report, we set out Isio's approach to the six principles applicable to service providers.

Since the launch of the Code and as a new company, Isio has been reflecting on what this means for us as an organisation, and what it means for the clients we work with. We pride ourselves on putting sustainability and stewardship considerations at the centre of our advice to our clients, to manage risk, realise returns, and unlock opportunities.

In this report, we highlight our focus areas over the year to 31 October 2023, as well as actions taken to respond to feedback by the Financial Reporting Council (FRC) on our submission from last year. Some highlights include:

- **Further progress within the standalone Sustainable Investment (SI) Team:** the team consists of eight sustainable investment consultants, alongside two graduates, and the five sustainable investment champions embedded within our asset class research teams. There are also a growing number of directors and partners helping to raise the profile of sustainability, internally, within our research, and with our clients. We continue to grow the team in line with client demand.
- **Regulatory support:** given ongoing developments in the sustainable regulatory landscape, we have focused on engaging with the regulators in this space. For example, providing feedback to the second-round of the Financial Conduct Authority's Sustainable Disclosure Regulations consultation, as well as supporting the data sub-working group of the government's Taskforce for Social Factors.
- **Sustainability services:** we continue to look for areas where our clients might next need support from us. We have contracted with a best-in-class ESG data provider and are developing an in-house analytics model to deliver sustainability reporting to our clients. We have also been continuing to develop assumptions for further climate-aware investment solutions within our climate model.
- **Innovation:** we have worked with investment managers to develop market leading sustainability solutions, where we have not been able to find these in the market. For example, we worked with an investment manager to support the development of a Long-Term Asset Fund focused on low carbon, forestry and social housing allocations, seed funded by a Master Trust client.
- **Sustainability research:** in the last year, we have published a paper on social factors for investors, an introduction to carbon markets, as well as a climate blog series on emerging issues to tackle the climate emergency. We are extremely pleased that our research has been recognised, with our 2022 nature paper receiving the award for Best Environmental Impact Thought Leadership at the Pensions for Purpose Content Awards, November 2022.
- **Manager research:** we have updated our manager sustainability integration assessments to reflect the latest developments in the sustainability landscape. We continue to regularly engage with managers on our clients' behalf to drive sustainability improvements over time.
- **Collaboration:** over the past year, we've continued to expand our collaborative efforts. Cadi Thomas, our Head of Sustainable Investment, now leads the Standardisation Pillar of the Investment Consultants Sustainability Working Group (ICSWG), and Ajith Nair, Head of Research, is also on the Steering Group. Whilst Leah Worrall, Deputy Head of Sustainable Investment Insight, was part of one of the sub-working groups supporting the government Taskforce on Social Factors.

We also know that the sustainability landscape continues to evolve, and so will we respond. This year, we include Premier Group in our reporting efforts, following the acquisition by Isio Group Limited, in October 2022. Moving forward, we will continue to develop our sustainability research and advice, with a particular focus on responding to the multifaceted sustainability risks we all face, as investors.

Emily McGuire, FIA

Partner, Head of Investment Advisory

Table of Contents

Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.

We are a new business but our team and the value we add is long established.

Context

Who we are and what we do

Isio is a leading independent UK provider of advisory and administration services to pension schemes and their sponsors, including private Defined Benefit (DB), Defined Contribution (DC) schemes and Local Government Pension Schemes (LGPS), as well as private capital clients, inclusive of charitable foundations, endowments and private wealth.

We are a new business, having spun out of KPMG on 2 March 2020, but our team and the value we add is long established. We currently have ~ 1,240 clients. All but one of our clients moved across from KPMG with us, and our list of clients continues to grow. In October 2022, we acquired Premier Group, which grew our business exposure to pension schemes, admin and rewards and benefits advice. We employ ~900 members of staff.

Our investment advisory business is a key strategic growth area for Isio. The investment team is now ~ 165 strong bringing deep expertise across the full range of investment advisory services including asset allocation, portfolio structuring, risk management, manager selection, investment research and monitoring. Our team is drawn from a wide range of backgrounds including asset management, insurance, banking, actuarial and consultancy.

We are a truly joined-up pensions advisory business. We have different consulting practices, of which **Investment Advisory** is one. The practices are listed below:

- **Actuarial and consulting**
- **Pensions administration**
- **Investment advisory**
- **Rewards and benefits**
- **Wealth planning**

Our culture

Isio fosters a culture of debate and challenge: We do not impose house views on the details of what should go into a client's portfolio, aiming instead to build consensus by thoroughly debating all new ideas and recommendations across the whole team.

Isio also cultivates a focus on research: We deliver research from the client consulting team rather than operating a separate research function. This brings two clear benefits, firstly our research is focused on our clients' needs, and secondly our consultants are more knowledgeable when taking the research to clients.

We have added additional focus on our research capabilities over recent years, moving individuals into dedicated research roles, recruiting specialist hires with expertise in research areas from equity to real assets, and creating new roles to meet growing business needs, signifying its importance to the business.

Finally, and perhaps most importantly, Isio are independent: We have no competing fiduciary management products to sell and therefore clients can rely on us to provide truly impartial advice.

Our purpose

Our Purpose is to create better outcomes for clients, their members and society, by empowering and developing our people.

At Isio, we've always believed that good business is about more than simply what we do – how we do it matters just as much. So, once we had established ourselves as a new organisation, we set out to determine what was most important to our clients, colleagues and the communities around us and to understand the best ways for Isio to add value to each of them. We listened to the diverse perspectives of stakeholders both inside and outside our organisation. This listening and co-creation process involved:

- **30 interviews with Isio's senior leaders,**
- **53 colleagues participating in Focus Groups,**
- **266 colleagues responding through a survey, and**
- **8 client interviews.**

Together, we co-created a strong purpose for Isio, backed by a clear set of core beliefs and behaviours.

Our beliefs

Four central themes emerged through our co-creation. These are the foundations that underpin our purpose. We believe in:

- Power in partnership: Working together allows us to better understand our clients and deliver the best results for them in ways that benefit our business too. By collaborating with our clients and each other, we can build open and trusted relationships that endure.
- Strength in difference: Isio is a place that welcomes people of all backgrounds and we recognise that working with differences makes us stronger and is integral to our continued success. Our team is at its best when we harness the power of diverse perspectives to find better solutions.
- Future focus: We are determined to play an active role in our industry, ensuring that the voices of the communities we represent are heard, pushing for positive change and solving problems in innovative ways for the mutual gain of our clients and society.
- People first: Everything about our business is developed by people, for people. People are the source of our knowledge and expertise, and it is people who trust

us to give pensions and other advice that materially affects their lives. We're committed to nurturing their collective prosperity.

Inspired by our internal consultation, we've co-created four guiding behaviours that define and unite us. These behaviours demonstrate who we are and describe how we conduct ourselves as we pursue our purpose.

- **Do the right thing**: We respect each other and the impact our work has on the wider world. We're honest, positive and act with integrity. From doing the basics to the highest standard to giving the right advice even when it's not the easy answer, we use our judgement to stand up for what's right.
- **Have clear conviction:** We dedicate ourselves to giving clear opinion and expert advice. Quality to us means making nothing more complicated than it needs to be, always backed by the rigour our clients expect, trust and value. Our grounded certainty gives us the ability to make level-headed, rational decisions.
- **Stay curious:** Our curiosity makes us open to new ideas, ways of working and diverse perspectives. We believe there is always a better way out there and that we can harness it to advance the prosperity of society. So we stay agile, client focused and open to challenge to make sure we find it.
- **Bring the human touch:** Ours is a people business, so we bring the human touch to everything we do. We're friendly, supportive and make serious topics accessible for us and our clients so that everyone can have confidence in their future. And we have some fun along the way.

Sustainable Investment Policy

Read the policy

We set out our approach to sustainability and stewardship in our Sustainable Investment Policy, which we updated in April 2022. The sustainability landscape continues to change and so does our approach to ESG and stewardship concerns. Sustainability lies at the core of our advice and actions, while aiming to achieve the best possible outcomes for our clients, their members and society in general.

The Policy sets out our core sustainability beliefs as a company, to inform the ways in which we work with clients, as follows:

- We believe that through the identification of ESG opportunities and the management of ESG risks we can invest sustainably for **enhanced risk-adjusted returns**.
- Sustainability considerations should be **fully integrated** and at the heart of investment decision making.
- We believe **climate change** poses a significant investment risk that will become incrementally more severe over time, whilst the transition to a lower carbon economy presents substantial opportunities to investors.
- We believe that proactive and targeted **engagement** with companies and the wider industry is more effective to drive change than an exclusionary approach.
- **Global collective action** is needed to drive change across ESG issues; institutional investors have a key role to play.
- The world of ESG-related regulations is rapidly expanding, and this results in **legal and reputational risk** for our clients but is an important driver to embrace ESG.

Stewardship is clearly an integral component within our Sustainable Investment Policy, and whilst the focus varies across these beliefs, all will rely on good stewardship as a central facet for managing the ESG risks arising within the companies in which our clients invest.

We believe investors should be good stewards of their assets and so we have a duty to support our clients in achieving this.

Principle 1

The world is changing. Voting and engagement activities are acting as a central force for our clients to exercise their voice, both directly and indirectly through investment managers, to influence the companies and assets in which they invest. Whilst equities are most typically associated with voting & engagement activities, engagement activities can and should be an essential tool across all asset types.

At Isio, we work with our clients to understand investment manager approaches to stewardship and whether this fits with their beliefs and policies on stewardship. We encourage regular reporting and interaction with investment managers to bring about change in the issues our clients care about, such as climate change or diversity and inclusion. We also believe that collective action through investor initiatives are effective vehicles for bringing about such change.

Activities

Our responsible investment policy drives our approach to sustainability. To set out advice on ESG, stewardship and systemic issues, such as climate change, we have developed Isio's Sustainable Client Journey (see below chart).

In Principles 4 and 5, we set out the full list of collaborative initiative activities, sustainable investment services, and future areas of focus.

Our strategy and culture as enablers of effective stewardship

Our vision as a company (including our Purpose, Beliefs and Behaviours) informs the basis for our approach to stewardship, and how we engage with our clients and the wider market. This was updated in 2021. Three key approaches will guide our activities, moving forward.

- **We adopt a future focus:** We are determined to play an active role in our industry, ensuring that the voices of the communities we represent are heard, pushing for positive change and solving problems in innovative ways for the mutual gain of our clients and society. This focus on the future guides our approach in every aspect to ensure that our clients are making measured decisions that will provide benefits for years to come. This future focus also feeds into our stewardship activities, and that of our clients, as we consider a forward-looking, long-term approach as vital to achieving a sustainable return.

Example activities: We can ensure a future focus by maintaining a strong research function, to make sure we understand macroeconomic developments and that our advice remains cutting edge; and, placing a strong emphasis on sustainability within research priorities, including on systemic issues such as climate change, nature and social factors.

This year, we partnered with some of our clients to deliver cutting edge and bespoke research on the sustainability issues most important to them. For example, we were engaged by a Local Government Pension Scheme (LGPS) to explore the relative effectiveness of engagement versus divestment in bringing about decarbonisation. We also worked with a Master Trust on the limitations of investor climate modelling in being able to understand possible extremes from physical damages, under high emissions scenarios.

- We do the right thing: We respect each other and the impact our work has on the wider world. We are honest, positive and act with integrity. From doing the basics to the highest standard to giving the best advice, we use our judgement to stand up for what's right. This behaviour is key in driving our approach to stewardship, and we strive to always act with integrity, ensuring that the decisions our clients make are the right ones for a broad range of stakeholders. We also encourage those who manage assets on behalf of our clients to uphold these behaviours and the beliefs of our clients.

Example activities: We ensure accountability across all staff by using clearly defined management lines and colleague networks. We seek to integrate how our staff operate with colleagues and teams within their annual reviews, to ensure it is not just the work we are doing that gets recognised, but how we work, interact and engage with others. We believe that the way we run our business can and should make a positive difference for our people, our community and the wider environment, and continually strive to achieve that.

We support community initiatives and charitable work and have mapped our volunteering activities to a national charity, MyBnk, which works with young people to deliver financial education programmes. Over the past year, employees volunteered for a number of sporting events to raise money for MyBnk, from cycling to half marathons. To promote an ethos of volunteering, we offer our staff volunteer days (without any salary sacrifice) to volunteer with our chosen charity partner or their own charity of choice. Meanwhile, the Isio DC Pension Scheme Default invests in a sustainable multi-asset fund and the self-select options include a range of sustainable options to choose from. As part of employee benefits, the firm has also recently rolled out a green car scheme.

Over the past year, other examples of how we have sought to do the right thing include developing a network of sustainability champions, across our offices, empowered to further green initiatives in the business. For example, the London office rolled out a "plastic free" month in July, encouraging colleagues to reduce and eliminate plastic use, wherever feasible.

- We will grow by challenging the status quo: One of our strategic growth priorities, which is also fundamental in achieving effective stewardship, is challenging the status quo. Put simply, if we think something isn't right or could be improved, we won't be afraid to challenge this. This feeds into our adoption of technology and embracing the digital world in order to better serve our clients, but also into our stewardship activities. If we believe an investment manager could improve their ESG integration, we will encourage this through ongoing monitoring and engagement and state our views and set ratings to reflect this.

Example activities: We challenge the status quo by ensuring regular interaction with our clients and their investment managers, to monitor investment performance from all angles, including a perspective of sustainability and stewardship capabilities. We also take part in collaborative initiatives, undertake research, and scan the competitive landscape, to make sure our advice remains best-in-class.

As we will describe elsewhere in this report (see e.g. Principle 5), this year, we have updated our sustainability integration assessments for our investment managers, to reflect landscape developments – for example, increasing emphasis on nature scoring, to understand the key investment risks and opportunities arising from nature and biodiversity – or otherwise increasing the granularity of asset class considerations, for example, within credit funds, to understand the role of sustainability ratchets in encouraging sustainability improvements over the holding period . We also worked with managers to develop new products to meet client needs, including supporting managers to develop best-in-class sustainable investment solutions (see "Investment Approach" in the table below).

Outcomes

Our effectiveness in serving the best interests of our clients

We endeavour to create open communication channels to ensure we are serving our clients' best interests. All our work with clients will seek to help bring about better investment outcomes.

	Strategies to serve our clients' best interests
Training	We provide training to pension schemes of all sizes on sustainability considerations, and explicitly climate change, as well as increasingly on social factors. We have provided sustainability training to a large number of our clients, from small to large. For example, over the past year, for our largest pension scheme clients, the focus has been on bespoke training to support them in their individual sustainability journeys – from providing training on the setting of science-based decarbonisation pathways, to the process of developing stewardship priorities which best reflect their sustainability views.
Investment Approach	We aim to find the best sustainability solutions for our clients. Where we can't find a best-in-class sustainable investment solution in the market, we may work with investment managers to develop these. For example, we have found that a number of our clients captured by TCFD requirements have sought to further the climate ambition of their portfolio. This has involved engaging with our TCFD clients' existing managers to integrate best-in-class sustainability considerations within their buy and maintain mandates, including, for example, allocations to green bonds, and science-based decarbonisation pathways. We also supported a manager in the development of a Long-Term Asset Fund (LTAF), which one of our Master Trust clients provided seed funding for, and which included allocations to climate-aware solutions, alongside deployment to forestry and social housing.
Monitoring	We provide a variety of clients with an annual summary of the sustainability credentials of their investment approach and where this stands relative to the market and its peers. For example, we conduct annual sustainability integration assessments on many of our clients' portfolios, to understand the sustainability positioning of the investments they make, as compared with market best practice. We set out priority areas for improvement year-on-year, to identify areas their managers can improve on their sustainability approach, and this year, included a particular focus on nature-related risks and opportunities.
Reporting	We provide stewardship and ESG metrics reporting for our clients. This includes those large DB Pension Schemes and Authorised DC Master Trusts navigating TCFD reporting requirements, with regards to climate-related metrics and targets.

For example, this year we finalised a contract with an ESG data provider, following a market-wide search, last year. We are now working on plans to develop an internal ESG data model to significantly enhance our reporting capabilities. This will be able to produce a variety of Environmental, Social and Governance metrics for our clients, on demand.

We consistently seek feedback from our clients to help us understand what we are doing well and what we can do better. This could be through our direct interaction with our clients or through the work of independent consultants. In the following case study, we set out our approach to client management, from start to finish.

Case Study

Our approach to effective client management

At the outset of a contract, we will invest significant time in getting to know our client, their specific objectives and agree a performance measurement framework against which they can assess our service and advice. This will typically include a range of Key Performance Indicators (KPIs) against which we will be assessed.

We will provide the information needed to support clients in reviewing the strategic objectives we agree – both qualitative data and quantitative. In addition to this formal assessment, we will go further and will look to support clients in monitoring our performance in the following ways.

- **Clear advice:** It is difficult to review the performance of an adviser who sits on the fence. We will give clear views in line with our "have clear conviction" guiding behaviour.
- **Annual assessment:** We prepare an annual comparison of the performance of our client's investment strategy to assess the impact of any changes made over the year. This report will also include a qualitative self-assessment, identifying areas where we have added value and areas of improvement as well.
- **Review meetings:** We will arrange a meeting at least once a year with an Independent Relationship Partner to discuss the quality of the service we provide. The meeting will be an open and honest conversation, used proactively to discuss our service and how these meet client objectives, to identify what our clients value and any areas where we could improve.
- **Performance fee:** For several clients, we offer a discretionary performance related fee structure, discounting all fees by 15% then allowing our clients to award us anywhere between 0% and 30% as a performance fee. So far 87% of the clients who take up our performance fee model pay us more than they are obliged to against the agreed fixed fee.

In the sustainability space, we won't sit on the fence, and will continue to engage with our clients on their sustainability approach. Many of our larger clients are becoming increasingly ambitious on ESG and climate change issues and we have started to provide new and bespoke reporting for some of our clients in these areas. We are pleased many of our clients share our view that the integration of such factors can help to manage risk, realise returns, and unlock opportunities.

Principle 1

Moving forward: Improving client outcomes

Following the acquisition of the Deloitte pension scheme business, in October 2023, we expect our staff and client exposure to continue to grow. We will include reporting for this side of the business in next year's UK Stewardship Code response.

Moving forward, we will also aim to improve client outcomes by:

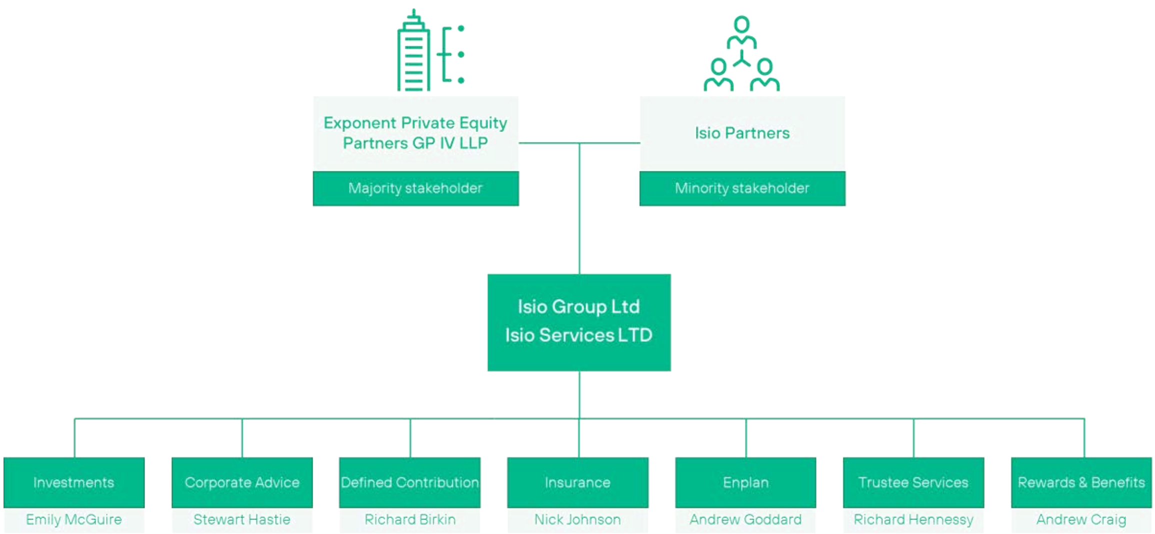
- Monitoring and researching the latest market trends. Best practice is rapidly evolving, including from a sustainability perspective, so we continue to challenge our clients' sustainable investment approaches. Over the next year, we expect the emphasis on social and nature-related investment to grow, particularly in response to Government policy developments (e.g. policies focusing on biodiversity net gain, or social guidance for pension schemes).
- Recruiting and retaining the best talent in the industry. Whilst the Sustainable Investment Team continues to expand, we have an outstanding position for a sustainability specialist, currently.
- Engaging with investment managers to do the right thing and drive sustainability and stewardship improvements, over time. We will continue to annually update our manager sustainability integration assessments to push them to track industry developments. With an emphasis over the next year on improving responses to nature-related risks and opportunities (we are currently trialling a nature score for investment products).
- We are increasingly looking to the Isio Digital Team as a way of driving innovation in the way we deliver our advice to our clients, including as part of our sustainability services. A key area of focus, over the next year, will be the development of an ESG data model for enhanced client sustainability analytics.

Principle 2 - Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

Activities

Governance structure

The organisational chart below highlights our governance structure. Isio's principal trading entity is Isio Group Ltd (registered in England and Wales). Isio's ultimate holding company is Isio Topco Ltd (registered in Jersey). The group's ultimate controlling party is funds managed by Exponent Private Equity LLP, with management owning a minority stake.



Andrew Coles (former Head of Pensions at KPMG) is our CEO and Ian Pain is our CFO. The board consists of Roger Siddle, Suzy Neubert, Andrew Coles, Ian Pain, and Ian Warman (COO), amongst others.

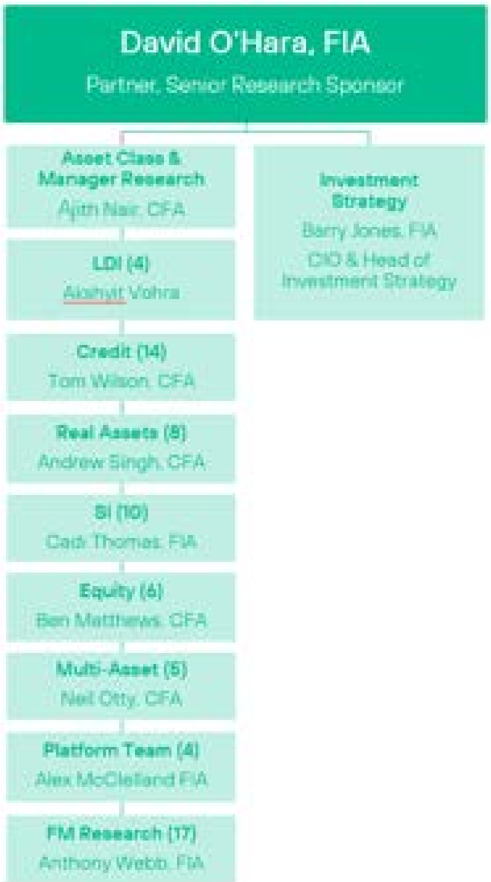
Below, we set out the governance of our national investment team, alongside key leadership and research responsibilities. Our investment partners and directors are responsible for the governance of the investment business, with a focus on investment advisory, research, risk and people management:

- Emily McGuire has ultimate responsibility for and oversight of our investment advisory business.
- David O'Hara is the partner with ultimate oversight of, and responsible for, Isio research services.
- Ajith Nair, the asset class and manager research lead, reports to Emily and manages the specialist leads on specific asset classes, including LDI, credit, equity, real assets, multi asset, ESG, and team leads with responsibility for research platforms, fiduciary research and DC research.
- Barry Jones (CIO) leads the investment strategy team.

Principle 2

- George Fowler is the partner responsible for people management. He is supported by a group of team leaders. He seeks to ensure we hire the best talent in the industry.
- Rob Agnew is the partner responsible for our private capital client advice, including charitable foundations, endowments and private wealth clients.
- Tim Barlow is the partner responsible for client oversight.
- David O'Hara and Ed Wilson are the partners responsible for Isio investment oversight, and in particular strategic ideas for our clients.
- Paula Champion is the partner responsible for Fiduciary Management oversight.
- Calum Brunton Smith is the partner who looks after our finances.

At Isio, we have also put in place a **governance structure for sustainability research and stewardship oversight** to ensure that sustainability, stewardship and climate change considerations are embedded in everything that we do. The chart to the left sets out an organogram for our research function, as well as the number of staff within the different research teams.



- David O'Hara is the partner and research sponsor with ultimate oversight of research capabilities at Isio, and this includes a remit for ensuring that sustainability and stewardship are integrated throughout the services we provide to clients.
- Ajith Nair is the Head of Asset Class and Manager Research, responsible for ensuring all research outputs are of a high standard, with an explicit focus on ensuring high quality sustainability research.
- David and Ajith are supported by a network of resource to continue to ensure high quality sustainability research. In particular, an investment committee (or "Research Engine"), which is composed of Partners, asset class leads and senior consultants, and has a remit for ensuring sustainability considerations are embedded across all asset classes.
- The Sustainable Investment Team sits within the research team (see below).
- There are Sustainable Investment champions integrated within the equity, credit, real assets and multi asset research teams. We consider this a vital aspect in enabling oversight and accountability for understanding what best practice s ustainability integration and effective stewardship could look like across the wide variety of asset classes and sub asset classes that our clients invest in.
- The Actuarial ESG Oversight Committee is responsible for feeding into the work of the Sustainable Investment Team to ensure that sustainability research is integrated within liability and funding considerations.

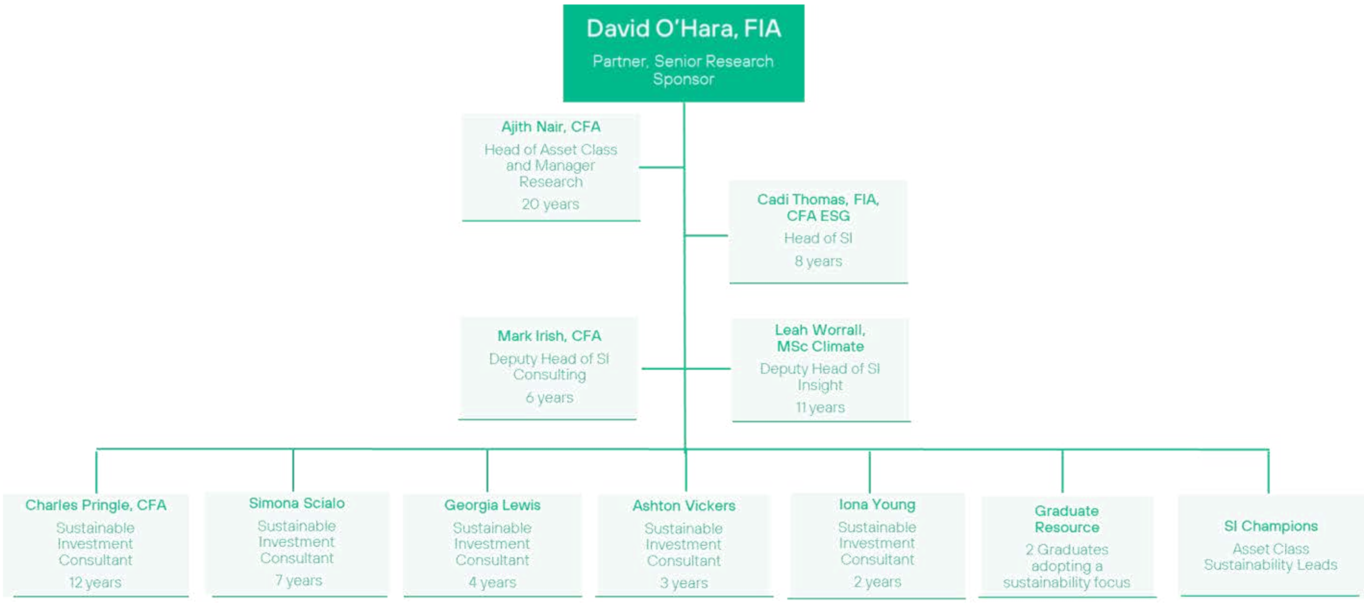
Cadi Thomas, our **Head of Sustainable Investment** (SI), oversees the SI Team, composed of ten personnel, with eight consultants and two graduates, leading on our sustainable investment advice and strategic research, with dedicated expertise on climate change, nature and stewardship, amongst other topics. She is supported by two deputies, with Leah Worrall leading on sustainability research and Mark Irish on sustainability consulting, respectively. There is ongoing recruitment for another sustainability specialist, currently.

As noted, the SI Team sits within the research function, feeding ideas and influencing all areas of asset class research. There is a dedicated Sustainability champion sitting within the asset class research teams to lead on sustainability considerations for that asset class as well as directing interactions with the Sustainable Investment Team. This ensures that the asset class-specific investment solutions we assess are always assessed from a sustainability perspective. In addition, there is a strong senior presence, with partners ensuring business-wide

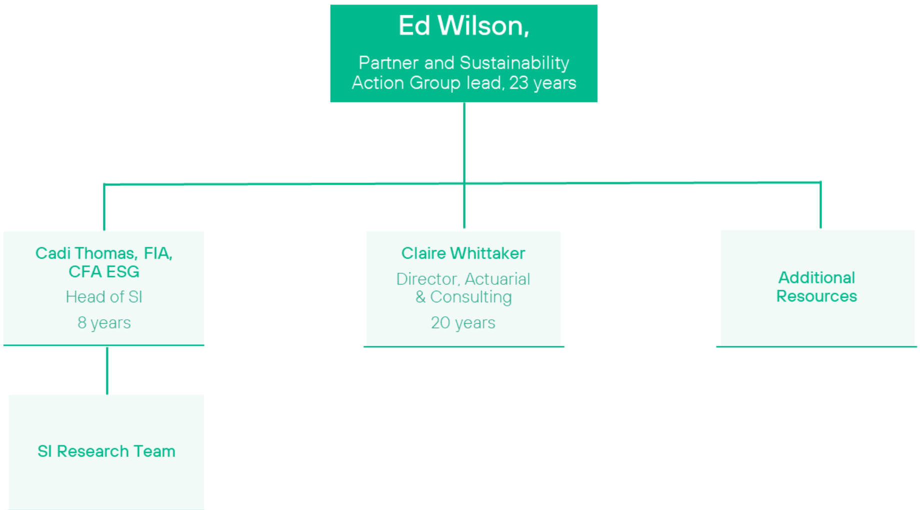
Principle 2

buy-in of sustainability concerns, whilst setting the direction of travel for the business and services we provide.

The chart overleaf outlines our Sustainable Investment Team, as well as their role, experience and qualifications.



Ed Wilson, Partner, leads the Sustainability Action Group, set up in 2022 to drive internal sustainability as a business priority. This is made up of senior members across Isio's different business areas, such as the Head of the Sustainable Investment Team, the Facilities Manager, the HR Business Partner and the Head of Financial Planning and Analysis. The below chart outlines the Sustainability Action Group, which also draws from additional resources and functions within the business and will look to grow moving forwards. This includes drawing on resources from the Sustainable Investment Team:



We will continue to assess the effectiveness of our governance structures and process to ensure that we can continue to assist our clients in conducting effective stewardship.

In the past year, we have also introduced a network of internal sustainability champions, within and across our regional offices, to drive internal efforts to improve the businesses' sustainability, on a day-to-day basis.

The governance structures ensure that sustainability considerations are embedded in everything we do, from the way we set our internal strategy, to the external services we provide to our clients. Sustainability considerations are therefore embedded across the responsibilities of all staff at Isio, with regular training for staff on sustainability issues, performance objectives related to ESG, and other incentives.

Principle 2

Processes

Below we set out the processes to ensure the quality and accuracy of our services to clients. Quality is at the heart of client deliverables at Isio. We have a rigorous review process to ensure constant cross-challenging of work, a process that means we continually identify new ways to improve our approach and methodologies. (For example, we are Cyber Essentials certified).

Compliance procedures: Our compliance procedures involve ongoing consideration of:

- Compliance with Isio's policies and procedures
- The effectiveness of training and other professional development activities
- Compliance with applicable laws and regulations as well as our standards, policies and procedures

Peer review: All our client facing work is either 4-eye or 6-eye peer reviewed (one 'do-er'; and one or two 'checkers'), to ensure that all work is delivered to a high standard and ensures the quality and accuracy of our services delivered to clients.

Efficiency monitoring: We have a High Frequency Tasks Team that reviews various work streams that we regularly undertake and assesses whether we could make efficiencies as a team. This involves reviewing common processes and identifying where we could adjust our approach, including in relation to stewardship.

Continuous development: We run regular Continuous Professional Development (CPD) days for the investment team consisting of both internal technical training sessions and investment managers being invited to provide the team with (non-product specific) training. For our junior colleagues, we have built a training programme where they are given enough information to make informed decisions as they progress through their career, including on sustainability issues. This is all overseen by our Head of Learning.

Client feedback: We regularly seek feedback from our clients on the quality of our work, to ensure the services and products delivered to clients are adequately tailored to their individual needs. This guarantees that we focus not only on internal consistency but external relevance. For example, when delivering ESG and stewardship advice, we can tailor this to the specific beliefs and policies of the client.

Quality assurance: We have several procedures and reviews in place to ensure the quality and accuracy of the services we provide to clients; this is explained further under Principle 6. By ensuring the quality and accuracy of services, and seeking continuous improvement, we can meaningfully engage with our clients. We provide a case study example on this below.

Case Study

Quality assurance – manager sustainability integration assessments

Every year, we refine our manager sustainability integration assessments, to reflect the latest thinking. This helps to improve both the quality and accuracy of such assessments, in reflecting the latest market developments in the sustainability space, and enabling us to reflect what is most important to our clients, to the benefit of our clients' stewardship activities (we provide further information in Principle 5).

- Each year, we refine our manager sustainability integration assessments, by updating questions in the scorecards used to score managers' sustainability approaches. The scorecard process enables our clients to effectively engage with their managers on sustainability, as off the back of these scorecards, we identify and propose specific actions for managers to drive improvements in sustainability. We engage with them on an annual basis on behalf of our clients in relation to progress against these actions.

- A thematic understanding of our clients' investment solutions has been a key focus, with the scorecards now providing a "climate score", "social score" and "nature score" for each fund. The climate criteria reflect expectations under the TCFD requirements for pension schemes. Whilst last year, we pre-empted social regulations by trialling a "social score", using a number of social questions, and this year, refreshed our scorecards to include a "nature score", which we will trial over the next few months. We believe this provides impetus for clients to begin engaging with managers on these thematic priority areas.
- Separately, we have included some more granularity on an asset-class specific basis, to understand the key sustainability questions relevant to specific asset classes. For example, for credit solutions, understanding whether managers have introduced sustainability ratchets, to improve sustainability outcomes, over time.

We provide some more in-depth examples of our processes below, including on training, research and analysis, incentives and fees.

Training

Everything about our business is developed by people for people. People are the source of our knowledge and expertise, and as such we are determined to continually invest in our people to enhance and develop knowledge and expertise.

We encourage team members to study for relevant qualifications, providing accommodative study packages to assist with this including funding and time off work. Our investment team members generally study to become qualified actuaries (FIA) or chartered financial analyst (CFA) charter holders. Within our Sustainable Investment team, the head of the team is a Fellow of the Institute of Actuaries (FIA) and also holds the CFA Institute certificate in ESG Investing. Leah Worrall (Deputy Head of Sustainable Investment Insight) holds a MSc in climate change and Mark Irish (Deputy Head of Sustainable Investment Consulting) is a CFA charter holder. Another member of the ESG team is a CFA charter holder, while the rest of the team are studying towards a number of relevant qualifications.

We implement a continuous development and training approach, including a focus on sustainability and stewardship. Isio holds regular training on sustainability issues for all staff, which covers a range of topics including on current and evolving sustainability issues or topics of interest. For example, over the past year, this has included the role of carbon credits in the portfolio, or physical damages limitations in investor climate modelling. We hold regular training on new ESG regulatory developments and norms, such as collaborative bodies (including the 2020 UK Stewardship Code). As well as this, we train our staff on any evolutions in our internal approach to sustainability monitoring, to ensure the investment team is kept informed, and vice versa. For example, ensuring that our engagements with managers reflect our clients' own stewardship priorities. The research team also attends relevant training and events (e.g. seminars, webinars, and roundtables) provided by external industry bodies and investment managers.

We have an ESG internship programme in place, where on an annual basis, we engage with undergraduate or masters' students, who hold expertise in different areas of sustainability, to undertake a summer internship at Isio. This summer, we employed two ESG interns, who supported the delivery of a range of training sessions on sustainable development (with a focus on agriculture and other topics) to the Isio research team, as well as supporting on the development of our research.

Principle 2

Research and Analysis

Isio clients have access to a wide range of Isio research information and online tools to assist them. This includes market leading surveys, which cover a wide range of asset classes and industry developments, specialist research notes, which summarise our asset class ideas, as well as our Fusion software providing clients with real time analysis of their funding position and risk/return profiles.

We believe that keeping clients well informed through our internal tools and research capabilities is vital to ensure they are focused on the issues that matter most to them. That is why we continue to invest in our research systems and internal tools. A recent example of this includes the development of 'Nova', Isio's market leading investment modelling tool, as well as partnering with Moody's on a climate change modelling proposition for our clients. We discuss these risk management tools in further detail in Principle 4.

We continue to scan the market for opportunities to further serve our clients with research and analysis. This year, for example, we have finalised a contract with an external ESG data provider, following a market-wide search, and are working on developing an internal ESG data model, to undertake a swathe of new sustainability metric reporting services for our clients. We also believe this will better enable us to assess and verify the sustainability claims of investment managers, in terms of the sustainability outcomes being delivered by their investment solutions.

Incentives

Remuneration of consultants is not directly linked to fees generated from clients. Our team have fixed salaries and a variable bonus that is linked to a range of objectives covering the growth of our overall business, driving the right behaviours within our business, the service provided to our clients, and in developing the team. The approach seeks to align our workforce's incentives with the best interests of our clients and helps ensure that we do not sacrifice quality of service.

Internally, our feedback processes focus on 360-feedback for our staff, from their senior and junior colleagues, as well as peers. We have evolved the process to recognise not only the work that personnel are undertaking, but how they approach work, their relationship with colleagues, and contribution to the wider Isio culture. This monitors alignment with the Isio beliefs and behaviours (as outlined in Principle 1), using online behavioural assessment tools.

Fees

As discussed in the previous section, to make sure our fees are appropriate for the services we provide, we offer a discretionary performance related fee structure to several clients. We discuss the outcomes of this below.

Strength in difference – supporting an inclusive and diverse workforce

At Isio, we recognise that working with differences makes us stronger and is integral to our continued success. Isio were recently awarded Bronze status for the Inclusive Employers Accreditation, demonstrating our commitment to impactful work and seeing important changes. Following an Isio engagement survey this year, 91% of colleagues expressed a view that people of all backgrounds (e.g. cultures, backgrounds, disabilities, sexual orientation) were respected and valued in Isio. This is a marginal increase as compared with the previous year, however, there is clearly more we can and will do to ensure we have a highly inclusive culture.

Following our work in 2021 with inclusion specialists, Wondrous People, to identify areas where we can improve, over the past year, we have launched an updated strategy to embed diversity, equality and inclusion across the business, sponsored at Board level. This reflected a broad array of feedback from a range of colleagues

Principle 2

as well as independent specialists, Inclusive Employers. This will support our vision, to identify the strategic pillars to improve diversity and inclusion, moving forward (see the section on "Moving Forward").

We've already taken concrete steps, over the past few years, to ensure we move the dial in the right direction for the future. These include anonymised CV submissions to avoid bias, making sure our interview panels are diverse (either by gender or ethnicity) and partnering with Social Mobility Foundation, GAIN (Girls Are INvestors) and 10,000 Black Interns. We continue to engage with new organisations to attract a diverse talent pool. This builds on existing work to improve Isio's policies in this space, including introducing a transgender policy, as well as reviews to make sure we have transparent and fair career progression, eLearning modules focused on diversity and inclusion on our learning platform, and a reverse mentoring programme pilot. Beyond this, we ensure that we comply with all regulatory obligations related to diversity and inclusion, including but not limited to, race, sexual orientation, disability, age, religion or belief, gender, human rights and modern slavery. We are also incredibly proud of our employee networks, managed by volunteers across the business, which have been set up to support inclusivity across Isio and to champion initiatives and events. For example, we have a women's network and African and Caribbean Society.

Change takes time. Sustainable change takes even longer so whilst we've taken a number of concrete steps already, we have many more planned across the full spectrum of our people agenda and we will continue to challenge ourselves on what we need to do differently – reflect and learn from the actions of the past.

Over the past year, we have also released our latest gender pay gap report, which outlines both where we stand, and further areas for improvement, for example:

- The proportion of women receiving a bonus was 86.4% (as compared with 84.3% of men), whilst the bonus pay gap also decreased (compared with the prior year);
- The hourly pay gap increased marginally, but we have set in place a number of initiatives to help tackle this, including:
  - Ensuring promotion shortlists are diverse;
  - Ensuring diversity and inclusion are embedded in our hiring strategy;
  - Promoting personal development, including through our women's network; and,
  - Introducing a mentoring programme for women.

Outcomes

It is hard to measure the effectiveness of our stewardship actions, but there are some steps we can take to help.

How does the quality and accuracy of our services promote effective stewardship?

Quality

We seek to ensure the highest quality of our client services by drawing on available resources, including drawing on new thematic or asset class research shared by the investment managers and investor initiatives we engage with. Quality is a rapidly evolving concept in the sustainability space and keeping track of industry and manager developments helps us to aim towards cutting edge sustainable investment advice. We believe industry best practice is largely determined through membership with market leading sustainability initiatives (e.g. TCFD and ICSWG).

Principle 2

The collaborative initiatives to which we are party support the further training of our staff on the latest industry thinking on sustainability, including nature, for example.

We will in turn engage with the managers we work with to encourage them to improve (and measure progress against set sustainability priority areas). This helps to ensure quality for our clients by improving the management of sustainability risks and integration of ESG opportunities within their investments. We will also seek to use our Isio sustainability research to contribute to industry thinking via collaborative initiatives.

Hiring specialist staff and continuing to ensure our existing staff develop their knowledge through professional qualifications and other means, can help to ensure the quality of our advice. We set out earlier in Principle 2, the qualifications that our Sustainable Investment and other staff continue to pursue, including investment, actuarial, ESG and climate change qualifications. Over the past year, we have gained two Sustainable Investment Consultants, and continue to look for opportunities to grow the team.

Accuracy

We seek to deliver accuracy through a peer review process (previously described above), with any work developed by one colleague being reviewed by at least another two colleagues. A senior review process, where a senior staff member with relevant experience provides a high-level view on whether the reporting is in line with Isio expectations for our clients, is a further tool for ensuring accuracy.

We acknowledge that data accuracy, and decision useful information, are key for effective stewardship activities. For example, in the context of climate change, understanding data gaps and data quality issues for emissions information is important for informing clients' decarbonisation objectives, progress against those, and climate-related manager engagement priorities. Whilst updating our understanding of the ESG and climate capabilities of managers on an annual basis (including through regular emails and regular dialogue) helps to promote the accuracy of the information we hold on them, seeking to understand any shifts in their approach and capabilities that may inform client engagement priorities.

Independent sources of information can help to support (or otherwise) Isio's views and advice. For example, this year, we have onboarded an external ESG data provider, which will enable us to verify the accuracy of ESG and climate information being provided to us by managers. This will enable us to assess whether the ESG and climate objectives of investment managers' mandates are in fact being fulfilled, and to verify the accuracy of manager claims.

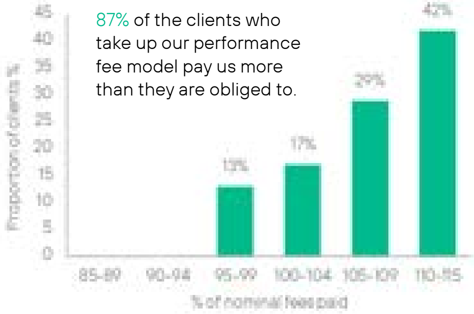
Case Study

High Frequency Tasks Team

Isio are continually looking inwards to understand if there are ways in which we can better serve our clients. As an example, over the past year, our High Frequency Tasks Team has been working on improving the efficiency of the following tasks, to more efficiently serve our pension scheme clients:

- Revamping our Statement for Investment Principles (SIP), to support our clients with clear guidance to support decisions on their investment policies, including the sustainable investment policy and how they seek to steward their investments;
- Development of a scheme return template, to enable time-efficient reporting of investment performance to our clients, which can be tailored to their needs; and,
- Operationalising our sustainability integration assessments of investment managers, to seek feedback from managers only where there has been a change in the approach, so we can immediately determine areas of improvement/regression for focus in our engagements with them.

Principle 2



To ensure outcomes are in line with client expectations, we actively request feedback from our clients on a regular basis. For example, as noted in previous reporting, we have found that 87% of the clients who take up our performance related fee model will pay us more than they are obliged to against the agreed fixed fee. This helps us to believe that we are achieving effective outcomes for our clients, including in relation to sustainability concerns and stewardship.

Please also see Principle 6, where further details on quality and accuracy within our services is provided.

Moving forward: Governance, workforce, resources and incentives

At Isio, we continually monitor our activities for future improvement. For example, we monitor:

- Sustainability integration, which starts at the top with senior management, and is embedded within our governance processes, to ensure that every team discusses sustainability as part of investment strategy development. Our understanding of what sustainability means will continue to evolve.
- We have a centralised Sustainable Investment Team, as a resource for client teams and a source of expertise on sustainability issues, ensuring adequate training of all investment staff, towards the delivery of improved ESG-related outcomes for clients. We continue to grow this team, in line with client demand.
- The Head of Manager Selection and Asset Class Research ensures that sustainability is integral to all manager selection processes and new research ideas. For example, forestry and social infrastructure have been a focus for this year with our clients, and next year we expect this trend to continue.
- We work closely with our clients' investment managers, engaging with them to bring about improved sustainability and stewardship outcomes, over time. We recognise this is an iterative process and that best practice continues to evolve, so we will continue to engage with managers moving forward. As our understanding of sustainability, and the sustainable priorities of our clients, continues to evolve, so will our engagements with managers on the subject.

Moving forward, example activities will include the below:

- We will continue to review governance, workforce, resources and incentives structures, to ensure these remain fit-for-purpose. As an ever-expanding business, and in particular following the acquisition of Premier Group, we understand that such processes need to evolve with the business.
- Sustainability is an area of significant growth, both in the business and the marketplace. As such, we will continue to invest in resourcing our Sustainable Investment Team and are currently recruiting for an additional sustainable investment consultant.
- Diversity and inclusion will remain a focus for our workforce, moving forward. Isio has adopted a new diversity and inclusion strategy, which has resulted in seven pillars to focus on, moving forward. This has been signed off by the Board and therefore has the highest level of senior management support. The focus areas include: prioritising role models and mentoring as allies for junior colleagues; inclusion and belonging volunteering opportunities; understanding Isio's diversity data; and, applying for Inclusive Employer's accreditation, amongst others.

Principle 3 - Signatories identify and manage conflicts of interest and put the best interests of clients first.

Context

Routed in Isio's beginnings as part of the KPMG "big 4" audit firm, managing and avoiding conflicts of interest, whether real or perceived, has been ingrained within Isio's culture.

Isio provides independent advice and is committed to avoid any actual or perceived conflicts of interest. Our conflicts policy consolidates Isio's procedures and controls for identifying, managing, recording and where relevant, disclosing actual or potential conflicts of interest.

"Isio takes the issue of conflict management very seriously and maintains a conflicts and dual appointment policy. The policies and procedures have been designed so that relevant persons conduct their activities at a level of independence appropriate to the size and activities of Isio to ensure that Isio has taken all reasonable steps to protect the interests of its clients.

If any of Isio's procedures do not provide the necessary level of independence, Isio will put in place alternative or additional measures and procedures as are necessary and appropriate.

Isio may, in certain circumstances, decide it is not able to act for a client because it is not able to prevent a material risk of damage to the interests of one or more clients."

Based on FRC feedback, we have published and uploaded Isio's Conflict Management Statement.


Isio Conflicts of Interest Policy

Read the policy here.

Governance of conflicts

The responsibility for the management of conflicts of interest rests with Isio's Board and Senior Management, who ensure they are kept fully aware of the Financial Conduct Authority (FCA) requirements in respect of conflicts of interest and are able to identify and manage any actual conflicts of interest or perceived conflicts of interest. They must be able to assess objectively any conflicts or potential conflicts and be aware of the steps that need to be taken to mitigate any such conflicts in respect of both their business and personal responsibilities.

The Board and Senior Management is responsible for ensuring that Isio's systems and controls are robust. This includes taking all reasonable steps to identify and manage any conflicts of interest that may arise and carry out an informed

Principle 3

assessment of Isio's arrangements to assess that they are operating effectively. In practice, this requires Isio's Senior Management to:

- Be involved in the identification and management of areas where conflicts of interest may arise;
- Regularly review Isio's risk of conflicts of interest arising and the mitigating arrangements in place. This will involve an inclusive review of the entire business activities of Isio and, where appropriate, will include the relevant activities of any group of Companies;
- On an annual basis all Board members and staff must formally confirm any conflicts of interest;
- Assess and review on an ongoing basis, situations that could potentially give rise to conflicts of interest. For example, whether Isio's organisational structure is likely to incentivise behaviour that may lead to conflicts (bonuses, appraisal, management/control) arrangements that reward or potentially reward behaviour that disadvantages the interests of one client in favour of Isio or another client); and
- Put in place processes so that Senior Management can identify any new conflicts of interest that may arise, for example as a result of new business or new product initiatives.

Activities

There are circumstances in which conflicts of interest may arise within the business. We have some general principles in place to reduce the risks of conflicts of interest arising, and mitigating those risks if and when they do arise, for example:

- We fully assess potential clients for any conflicts of interest and may choose not to onboard clients when their interests may present a conflict of interest with existing clients;
- We treat all clients fairly and will always notify clients of any potential conflicts of interest, as soon as possible, when they arise;
- We create informational barriers, wherever necessary, to ensure that no conflicts of interest arise across different business lines and teams within our firm (e.g. limiting dialogue between colleagues, or limiting access to files, as needed);
- We have a policy on gifts and entertainment, to ensure our independent advice to clients on investment managers and solutions is never comprised by those relationships;
- We ensure peer review processes are adequate to represent multiple views within the firm, so as to ensure there is no individual bias within our client advice;
- We have rules in place when contracting external services, either directly or on behalf of our clients, to ensure that such selection processes are fair and transparent (e.g. when selecting data providers, or bringing on additional consultants).

We set out our activities related to conflicts of interest below:

- Independent of fiduciary manager offerings – We do not offer any investment or fiduciary management products, so offer truly independent and unconflicted advice. This ensures we do not have conflicts when considering capacity constrained ideas for our clients or need to reserve capacity for our own investment funds.

Principle 3

Should a conflict of interest arise, we contact our clients and have an open discussion in order to mitigate any concerns.

- Independent of investment managers – We retain independence from the fund managers and receive no remuneration from them. Whilst our scale enables us to negotiate preferential fee rates for our clients, we pass all this saving to our clients with no financial benefit for Isio. This enables us to provide independent, whole of market advice with no conflicts.
- Regulation/code of ethics – We are regulated by the FCA, and as such our consultants comply with their strict code of ethics. In addition, as many members of our team are FIA or CFA qualified, or are studying towards these qualifications, they comply with the code of ethics/conduct for the relevant professional bodies. Finally, all consultants must undergo compulsory ethics and independence training annually.
- Polices and oversight – We have detailed policies governing our business and for dealing with any potential conflicts of interest, and have an independent compliance team that are responsible for ensuring that our consultants fully comply. This makes sure that any potential issues are considered before we engage with any client and that these are proactively managed during our contract should circumstances change.
- Profit from generating work – We recognise there will be occasions when we bring our clients ideas that in turn generate additional work for us. The professionalism of our consultants means that this would never be a motivation for advice, and they are not rewarded for doing so. Our clients' best interests are always front and centre in our advice. We are happy to work on an all-encompassing fixed fee basis if preferable.
- Consultant remuneration – Remuneration is not directly linked to fees generated from clients. Our team have fixed salaries and a variable bonus that is linked to a range of objectives covering the growth of our overall business, driving the right behaviours within our business and in developing the team. For those within the ESG research team these objectives are aligned to their ESG responsibilities.
- Risk and compliance – Isio's risk, legal and compliance teams have systems and policies in place to ensure that employees do not derive any personal gain from the use of information collected whilst undertaking our work process. These include a system to detect possible personal conflicts and employees are required to disclose anything of importance and seek pre-clearance from the risk team as soon as a potential conflict arises.

Outcomes

Last year, in line with FRC feedback, we publicly disclosed our conflicts of interest policy, to improve transparency on how we deal with such conflicts, as and when they arise.

Isio senior management and the Compliance Department are alerted to any potential conflicts and particularly those in respect of any new business activity, which will go through Isio's defined process. As part of the Compliance Monitoring Programme, the Compliance Department conducts various tests including elements of conflicts monitoring and maintain a national conflicts of interest register.

Via our learning portal, all employees received training on Isio's procedures for identifying, managing and escalating conflicts, were made aware of Isio's Conflicts of Interest Policy and their responsibilities to ensure the fair treatment of clients.

Principle 3

We provide two example case studies below, on relevant conflicts of interest for the business over the past year, and how we have managed those.

Case Study - 1

Confidential M&A transactions

Over the past year, we have experienced conflicts of interest arising within the Isio Mergers and Acquisitions (M&A) Team. Within the Isio M&A team, there is a need to continuously monitor conflicts that can arise from supporting a party within a commercial merger or acquisition transaction. Isio has to ensure in the first instance that the M&A team are able to support the transaction, and once it is deemed permissible, the conflict needs to be continuously monitored as the transaction progresses. This conflict is managed with clear informational barriers in place, to ensure that no information is shared outside of the designated members of the M&A team working on the transaction, and if necessary, strict insider lists are put in place. In the event that Isio acts for more than one party within a transaction, or a party to the transaction is an existing client of Isio, then where Isio is permitted to do so, it will inform the parties of Isio's connection to the transaction. In the past 12 months, Isio, has assisted on more than 20 M&A transactions, ensuring all potential conflicts were managed in line with Isio's conflict of interest policy.

Case Study - 2

Dual appointments

Across Isio, there are a number of dual appointment clients, where Isio acts for both the corporate and trustee in respect of a defined benefit scheme. Isio has needed to ensure that these appointments are regularly reviewed and monitored, in particular for the management of any conflicts. This conflict is managed by having an agreed conflict management plan in place, setting out the work which will delivered to each client, which both clients provide their express consent to, by agreeing and signing the terms of the conflict management plan. The teams are kept wholly independent, and there are strict information barriers put in place between the two teams. The acquisition of the Premier Group business meant that all of the legacy colleagues were assessed to determine if there were any conflicts of interest posed, and a dual appointment assessment was carried out to ensure compliance with the Isio conflict of interest policy.

Moving forward: Conflicts of interest

As our list of clients continues to grow, so does the potential for conflicts of interest to arise. On an ongoing basis:

- We will continue to review our conflicts of interest policy on an ongoing basis (at least annually) to ensure this remains fit for purpose.
- We will continue to monitor the landscape for developments in best practice and respond accordingly.
- Lastly, we will continue to ensure all new and existing employees receive ongoing training in respect of Isio's procedures for identifying, managing and escalating conflicts.

Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We consider risk management to be a fundamental consideration for our clients. This includes risk management across asset allocation, asset managers' investment processes and asset managers' ESG integration. We have developed several processes for our consultants to ensure that these feed into the advice we offer to our clients.

When advising our clients, the consideration of the key risks that our clients are exposed to is at the heart of our investment advisory process. Our advice covers both systemic/market-wide risks (such as interest rates, inflation, as well as climate change and other sustainability risks) – and non-systematic risks of relevance to the individual clients' investment strategy. We consider potential mitigation strategies against each of these types of risk.

Our Investment Philosophy: We have a set of five core investment beliefs that help our consultants structure our investment advice and corresponding risk management advice.

1. **Rigorously anchored to objectives**: We invest time up front with all our clients to understand their objectives and develop a clear strategy, taking into consideration all material risks (including sustainability risks) to achieving these objectives. We take time to circle back to check they remain appropriate throughout each client's unique journey. We continue to engage with investment managers on our clients' behalf, to ensure that the managers are aligning with clients' set objectives, including on their sustainability objectives and beyond.
2. **Maximise certainty**: From the sustainability perspective, we construct sustainable investment portfolios that maximise certainty of both investment return and cashflow delivery. These can integrate specific ESG or climate objectives within investments. We also believe that our clients benefit from trading the hope of higher "upside" returns for increased certainty. This leads to improved tail risk management.
3. **Eroding complexity:** There is real value in keeping portfolio construction and fund manager line-ups simple, allowing clients to focus on what is important – strategy.
4. **Utilise your competitive advantages:** We always look to exploit any advantages our clients have relative to the wider market (e.g. with regards to the illiquidity budget).
5. **Independence matters:** We are not commercially incentivised to recommend a specific strategy or fund to any of our clients. We give consideration to the whole of market across both non-fiduciary and fiduciary providers.

When advising clients, we consider our core investment beliefs to ensure systemic and non-systematic risks are managed appropriately. We focus our time on the important decisions such as setting objectives and asset allocation as these decisions have the largest impact.

As noted, the focus is on constructing portfolios that maximise certainty of both investment return and cashflow delivery. We do this by hedging risks that are typically unrewarded and that clients have less control over (e.g. interest rate and inflation risk for pension funds) and focusing on assets with contractual return profiles (e.g. credit and real assets). A robust portfolio in our opinion is one that trades the hope of higher "upside" returns for lower risk and increased certainty in achieving our client's objectives. We are strong believers in diversification and look to construct diversified portfolios that consider the risk exposures between asset classes and within them too. We recognise the nuances between different investment products and consider the underlying diversification within them to ensure there is sufficient diversification across geographies, currencies and issuers. We do however firmly believe that efficient portfolios can be constructed without being overly complex, and without the need for a large number of individual manager allocations. Diversification to us is not about the number of managers or strategies employed, rather the true differences in risk exposures and underlying characteristics.

We are proud of the difference we have been able to make for our clients by following these beliefs. Anchored by these beliefs, we will strive to continue to make a difference.

Activities

As outlined in Principle 1, our purpose is to create better outcomes not only for clients and their stakeholders and beneficiaries, but for society as a whole. Therefore, identifying systemic and market risks is at the core of what we do, to better serve our clients and society. To underpin this Purpose, we have instilled a Belief to have a *future focus*, to be an active voice pushing for positive change, underpinned by a Behaviour to *stay curious*, to make sure we remain open to new ideas, ways of working and diverse perspectives. This creates an encouraging environment for our staff to spend time improving their own knowledge, in meetings and webinars, and in conversation with colleagues on macroeconomic and systemic issues, such as climate change.

Our integrated investment philosophy helps to guide our response to both macroeconomic and sustainability risks. From the perspective of macroeconomic risks, we review our forward-looking asset class risk and return expectations on a quarterly basis (although where appropriate we can do this more frequently). Typically, our assumptions though are reasonably stable as our advice is structured around the long-term.

Sustainability risks

Ensuring an investment approach which considers sustainability risks and opportunities will add significant value to our clients. Our Sustainable Investment Team is responsible for developing strategic research related to sustainability risks, inclusive of systemic risks, such as climate change. We are however seeking to move beyond a focus on climate change and note that there are other systemic risks that require rapid attention from the investment community, and have set as part of our research priorities to identify other risks requiring explicit attention, such as social systemic risks (evidenced during the ongoing cost-of-living crisis in the UK), as well as the economic cost of a nature degradation on the global economy.

Where the Sustainable Investment Team develops research, this is saved within our internal SharePoint system for access by all staff and explicitly shared through internal and external meetings and presentations, disseminated to our clients and prospects via reports, presentations and emails, and in some cases, uploaded to our website for sharing with wider stakeholders and financial market participants. Examples include:

- The development of intellectual capital on our sustainable investment research priorities (climate, nature and social factors), which we disseminate in the form of papers and videos. (Please see the box further on in this section on a "Spotlight: Isio Sustainability Research" for an understanding of the sustainability research focus, over the past year).

- Communications with our clients on topics of relevance to them, via emails, webinars, roadshows and website dissemination.

- Training our internal consultants and external clients on relevant sustainability topics (with training presentations and brainstorming sessions).

Portfolio construction/Implementation

We recognise that the world is continually changing. To aid our clients in their long-term asset allocation decision making, we use a range of sophisticated tools to model the impact of systemic risks to their portfolio. This includes deterministic and stochastic scenario analysis which visualises the impact of certain risks and helps to identify how this impact could be mitigated. Alongside these tools, our research teams monitor the wider investment market and produce regular thought pieces sharing their views on various opportunities and threats.

Modelling

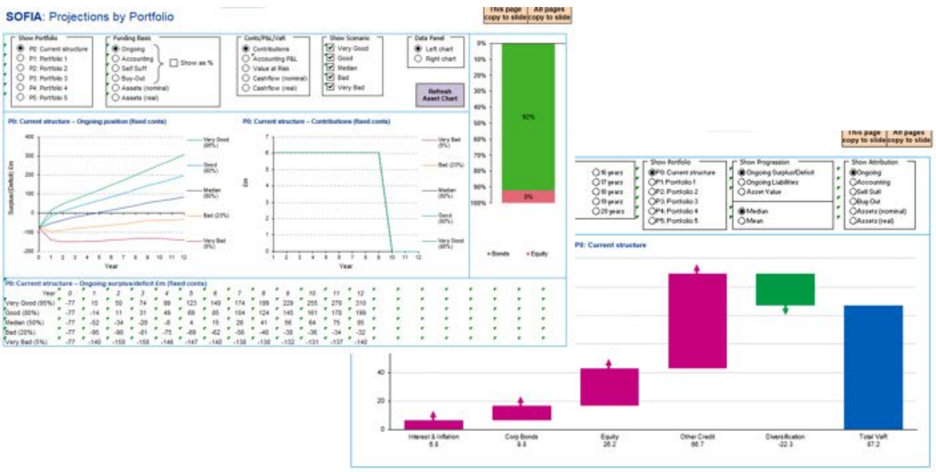
We draw on a range of leading-edge risk models to analyse the risk-return profiles of investment strategies considered and employed by our clients. We are keenly aware of the strengths and inherent weaknesses of models in general. We therefore believe that a key element of our service is knowing how to interpret a model, and equally to be able to assess risk in areas where models are fundamentally unsuitable.

Nova: In 2023, Isio released the newest version of Nova, incorporating significant advancements in relation to liability modelling, deficit contributions, risk assessment and more. It allows us to rapidly analyse investment strategies and consider impacts on the projected funding evolution (including adverse shock reaction analysis), high level risk analytics, and portfolio structuring (including LDI solution modelling). But for us, models are just one of the tools our consultants use to advise our clients. Any output of our models needs to be overlaid with a healthy dose of common sense which only comes from many years of advising clients in similar situations. We also value the opportunity to have real-time discussions with clients on an interactive basis, and Isio Nova allows us to rapidly analyse a variety of investment strategies and consider the impact on the projected funding evolution, scenario analysis, high-level risk analytics, and portfolio structuring. This will help Isio to engage with clients to develop a clear journey plan and to review whether the current balance between risk and return remains appropriate.

Fusion: We also give clients access to our interactive journey planning tool, Isio Fusion, which is a web-based integrated pensions risk management software that can provide clients with real-time information on how they are doing. This can help to assess realistic timescales and targeted actions for achieving objectives, based on the pension scheme's current position and the additional cash/return required under contingency planning. This can also help to feed into discussions on the key performance indicators which matter (i.e. funding, liquidity, de-risking events, contribution events, etc.), or be integrated into dashboards for ongoing monitoring.

Our consideration of investment returns and risks captures the long term expected return characteristics, the likelihood of achieving this and the potential spread of outcomes that could arise in the short term (both in absolute terms and relative to the liabilities). At their core, portfolio construction and asset allocation decisions for pension funds encapsulate a liability-based approach to setting overall strategy.

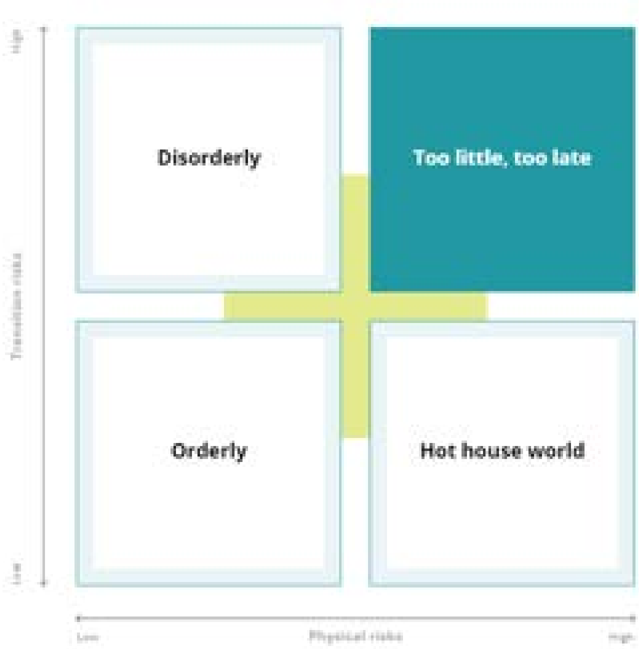
SOFIA: To this end, we believe Asset Liability Models ("ALM") for investment return modelling are a useful tool to help us and our clients make asset allocation decisions. Our core ALM tool, "SOFIA", is a stochastic-based, quantitative investment strategy model which incorporates market leading Moody's Analytics (formerly Barrie & Hibbert) economic scenarios and risk analytics software.



We also use the following tool, to assess our clients' investment risks. Our Duration Solutions Model (DSM), which is used by Isio's LDI structuring team, can be used to ensure the client's LDI hedge remains in line with the hedge objective, used alongside Nova and SOFIA for client investment strategy modelling.

Climate scenario modelling: We based our fundamental scenarios on the representative scenarios established by the Network for Greening the Financial System (NGFS), aiming to deliver consistency in the climate scenarios used by the financial industry. These scenarios are explicitly mentioned in the official climate guidance issued by the Department of Work and Pensions (DWP) for occupational pension schemes. We then collaborated with Moody's to generate climate scenario analysis, including the following scenarios:

- Orderly: This scenario aims to achieve Paris Agreement alignment with a 1.5°C warming limit through global decarbonisation efforts. The world aims towards 2050 net zero carbon emissions (or across all greenhouse gas emissions in some jurisdictions). Transition risks are relatively high, as a result of ambitious decarbonisation, whilst physical risks are kept relatively low.
- Disorderly: This scenario is similar to the Net Zero 2050 scenario, but with varying decarbonisation efforts across sectors. Sectors like transport and buildings have stricter climate policies than energy and industry, resulting in higher transition costs (as compared with the Net Zero 2050 scenario), but still minimising long-term physical risks. Carbon prices rise fairly steeply in order to bring about the transition to a low carbon economy.



- Hot house world: In this scenario, global climate policies fall short of Paris Agreement ambitions, leading to a 3.8°C warming this century. Transition costs are lower than the other scenarios, as decarbonisation action remains more limited. Long-term physical risks increase significantly over time, due to rising global temperatures, changing weather patterns, and more frequent natural disasters. We have scaled physical damages upwards to reflect the various uncertainties in the modelling, from failure to implement existing climate policies, to the underestimation of possible extremes in the climate system.

- Baseline: The scenarios are monitored against a Baseline scenario, with zero transitional or physical risks from climate change. It serves as a benchmark for comparing the impact of other climate scenarios on client portfolios.

The diagram to the left places the climate change scenarios, according to the scale of transition and physical risks (from low to high).

Beyond the climate scenarios, we have been developing internal assumptions on the "greenium" to apply to low carbon solutions in client portfolios. Over the past year, we have developed a series of "greenium" assumptions for credit, equity and now multi-asset allocations, respectively, across the active to passive and liquidity spectrum.

We also subscribe to data providers (e.g. Reuters, IHS Market, eVestment, Preqin, Financial Express) as well as receiving regular information from a number of investment managers and banks. We do not believe any one source has a monopoly on good information and therefore we cast our net far and wide.

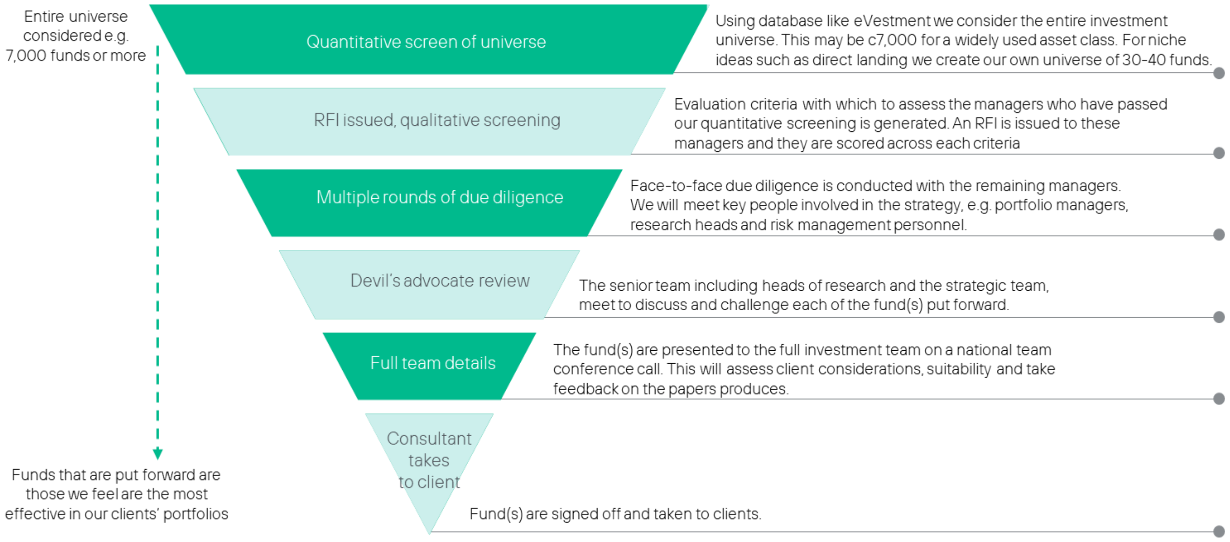
Isio have finalised a contract with an ESG data provider, following a market-wide search for best-in-class ESG and climate change data providers, including offerings in the social and nature space. We are now working on plans on developing an internal ESG data model, using the inputs from the data provider, which will significantly enhance our sustainability reporting capabilities to better serve our clients.

Manager selection

Our manager selection process is based on evaluation criteria agreed by our clients and relies on the expertise of our research teams. Detailed evaluation criteria are developed to meet the specific client requirements. Typically, this will include consideration of business management, investment philosophy, process, team, performance, risk, ESG factors, operations and any specific client requirements.

Principle 4

An overview of the manager research process is set out below.



Through our manager selection process, we carry out an in-depth analysis of an asset manager's ability to manage major risks, including ESG and climate risk. As a case in point, we have separate scores that focus on the relative performance of investment managers in managing risks and opportunities arising from climate change, nature and social factors, respectively. These result in independent scoring on each of these individual factors. The nature score was launched this year, so we are still in the process of trialling this.

Some highlights of our research process include:

- Research Engine: The asset class head is required to present the recommendation to our investment committee (which we call our Research Engine) for debate, which is comprised of our head of research, partners, directors, senior individuals from various research teams and other specialists. The purpose of this group is to scrutinise the research and provide a "devil's advocate" viewpoint. This ensures only the best investment ideas are recommended to our clients.

- Sustainability: We believe that considering sustainability will add significant value to our clients' portfolios and hence sustainability plays a large part in how we rate managers. We ensure the manager's sustainability views are aligned with those of our client within any selection process. We conduct sustainability integration assessments as part of our research process, with ESG risks and opportunities incorporated in our quarterly research calls with investment managers. The aspects of managers' sustainable investment capabilities we assess are set out below, with further details in Principle 5. Each area is separately assessed and integrated into an overarching ESG score, as well as climate change, social and nature scores. We also develop individual scores for each of the below pillars, with two areas (stewardship including both voting and engagement, and collaboration) having an explicit focus on stewardship:

  - Investment approach
  - Risk management
  - Stewardship
  - Reporting
  - Collaboration

We feel this depth of assessment for each prospective investment manager and fund is vital to ensure that all potential risks are flagged before they could materialise at the expense of our clients.

Social systemic risks

Covid-19 posed a significant systemic risk to financial markets and has affected many of the ways in which we work, following the start of the global pandemic. At Isio we managed the risk by maintaining a flexible approach to work and evolving in response to systemic risks and opportunities. For example, we developed our IT systems to offer a seamless work-from-home environment for our staff, whilst providing a continuous service to our clients via remote working and allowing for meetings to be done via video call. Having emerged from the pandemic, we continue to allow flexible working and have introduced a hybrid working model. We value the positive impact of face-to-face collaboration and developing personal networks however collective wellbeing remains a key priority. We have also introduced multiple safety measures to reduce the health risk of working at the office, such as an office desk booking tool to manage the flow of individuals in our offices and encourage at-home self-testing when staff are feeling unwell. The Isio hybrid working model was reviewed internally using a staff survey (responded to by 374 staff), last year, which showed 94% were in favour of hybrid working. We have also developed our transitions processes to allow seamless trading activity while working remotely, including the introduction of DocuSign for the signing and submission of documentation between clients and investment managers.

The DocuSign development proved to be instrumental through the late 2022 market volatility and liquidity crisis, from rising inflationary pressures on financial markets. This impacted significantly on our clients' liability driven investments, and significantly increased the speed of investment transitions. These inflationary pressures have not only impacted our clients' liability driven investments, but created a cost-of-living crisis in the UK. We are engaging with an external partner to explore investment solutions in the social space, some of which have some focus on financial inclusivity and social advancement.

Industry initiatives

Since the inception of Isio in 2020, we have taken the opportunity to join a number of industry initiatives that we feel strongly about, and which support the best interests of our clients and their stewardship activities.

Principle 4

Organisation	Description	Isio Involvement
Impact Investing Institute	The Impact Investing Institute has designed the 'Impact Investing: Four Good Governance Principles for Pensions' to help pension schemes navigate and respond to the significant shift in understanding of ESG risks and opportunities.	Isio became a supporter in January 2021.
Investment Consultants Sustainable Working Group (ICSWG)	This is a collaborative group of investment consulting firms, with the goal of engaging its collective stakeholders and empower asset owners and their beneficiaries to advance sustainable investment practices across the investment industry.	Cadi Thomas, Head of Sustainable Investment Research, now leads the Standardisation Pillar. Whilst Ajith Nair is also part of the Steering Group of the ICSWG.
Task Force for Climate-related Financial Disclosures (TCFD)	The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.	Isio became a supporter of the TCFD in December 2020.
United Nations Principles for Responsible Investment (UNPRI)	The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors, as well as support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.	Isio became a signatory of the UNPRI in December 2020.
Institute and Faculty of Actuaries Sustainability Volunteer Group	This is a collaborative group of actuaries looking to develop sustainability guidance and thought leadership for the Institute and Faculty of Actuaries (IFoA) Sustainability Board.	A member of the Sustainable Investment has previously supported the development of a climate risk paper by the group.
Pensions for Purpose	This brings together asset managers, pension funds and their professional advisers, to encourage capital towards impact investment. It provides opportunity to share impact-led thinking with others via events and papers.	Isio became an influencer member in December 2021. As a business, we annually report against their impact principles. Isio's nature positive paper won the Environmental Impact Thought Leadership, at the Pensions for Purpose Awards, in November 2022.
Taskforce on Nature-related Financial Disclosures (TNFD)	Whilst there's significant focus on climate change, an interlinked issue is the impact on nature and biodiversity. Being an observer of the TNFD working group ensures Isio feeds into industry-leading thinking on nature and its importance to investors.	Isio became a member of the TNFD observer forum in early 2022.

Principle 4

Beyond these collaborative initiatives, we continue to work with others to further sustainability research in the market. For example, this year, we:

- Partnered with Business in the Community (BITC), the UK's largest responsible business network aiming to build a sustainable economy, to produce a paper on aligning responsible business policies with pension investments; and,
- We have also been involved in the UK Government's Taskforce on Social Factors (TSF), supporting them as part of the data sub-working group, in seeking to develop guidance for pension schemes on social risks and opportunities.

Outcomes

We believe that working with others is a key force for change, when focusing on systemic risks. Below, we outline example case studies to showcase outcomes from our Sustainable Investment Team, with a focus on where we have partnered with others. First, we set out the sustainable research conducted over the year, to support our thinking on systemic sustainability risks.

Case Study

Tracking market developments in climate scenarios

We contract with Moody's Analytics to assist clients with climate scenario analysis in line with TCFD requirements, with a focus on embedding this within our proprietary SOFIA model to analyse our clients' assets and liabilities. In September 2022, the Network for Greening the Financial System (NGFS) published its third iteration of climate scenarios, with an updated view on the climate scenarios, based on the latest science and industry thinking. In the past year, we worked with Moody's to update our climate scenario analysis capabilities to reflect this thinking. The main developments to Isio climate modelling, over the past year, were:

- The inclusion of scenarios (including both orderly and disorderly pathways) targeting a 1.5°C outcome, which is in line with 2050 net zero commitments some of our clients are making; and,

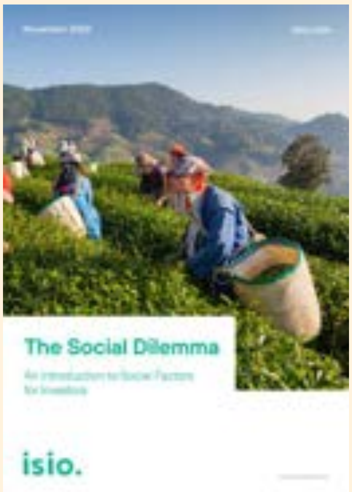
- The scaling up of physical damages under the hot house scenario, to reflect possible extremes in physical risks from climate change. As well as to reflect the possibility of climate action failure, where countries fail to deliver their planned decarbonisation.

We will continue to monitor the relevance of these climate scenarios, in line with market and industry developments, on behalf of our clients.

Spotlight: Isio Sustainability Research

Over the past year, we have focused on releasing thematic research in relation to our thematic priorities (climate, nature and social factors). Below, we present some of our key sustainable investment research outputs:

- The social dilemma for investors: focusing on rising inequality and its impact on the global economic system, as well as how investors are responding, to better integrate social risks and opportunities within their portfolios.
- An introduction to carbon markets: to understand the role of carbon markets in decarbonisation and offsetting of portfolio emissions (where offsetting is drawing emissions back out of the atmosphere using man-made technology, such as carbon capture, utilisation and storage (CCUS), or nature-based solutions, such as reforestation).
- Emerging concerns in tackling the climate emergency: in this climate blog series, we addressed a number of concerns, as the climate emergency continues to accelerate, for example:
  - the tail risks from climate-related physical damages not being adequately captured by investor modelling;
  - the rising human cost of climate change, as a less tested area of investor engagement on climate change;
  - the complex climate action landscape, and relative areas of action and inaction amongst key actors;
  - the relative effectiveness of engagement versus divestment in bringing about a low carbon transition; and,
  - the role of oceans in tackling the climate emergency.



We are also extremely proud to have received the Pensions for Purpose Award on Environmental Impact Thought Leadership, in November 2022, for our work on a nature positive future.

Case Study

Development of an ESG Data Model

Last year, we conducted a market-wide search for an ESG data provider. This year, the Isio Sustainable Investment Team have partnered with the Isio Digital Team to develop an ESG data model, to efficiently deliver sustainability metric reporting to our clients. This model is focused on helping our clients in the following areas:

- Providing an array of Environmental, Social and Governance metrics to our clients, which will mirror the recommended metrics of the ICSWG.
- We will further introduce proxying approaches, to provide an estimation of the ESG performance of more illiquid investments.
- An efficient approach to rolling-out TCFD metrics across our client base, including smaller pension schemes, or voluntary reporting by out-of-scope clients.
- Verifying the ESG-related claims of our clients' investment managers, to ensure that sustainability aims and targets are being achieved.

- Supporting further research and analytics on our thematic priorities, including climate change, nature and social factors.

We are well underway in the development of the model and the aim is to launch this next year, in 2024.

Moving forward: Responding to systemic risk

The areas we will focus on moving forward, include:

- Continuing to monitor the market for any industry initiatives we believe Isio should become a member of – with ongoing due diligence required to understand the key industry initiatives relevant to us and our clients. The number of sustainable collaborative initiatives is rapidly expanding, and we will aim to focus on those most important to us and our clients, and in line with our thematic sustainability research priorities.
- Another key area of focus for us has been the ongoing development of our ESG analytical services. The aim will be to launch our ESG data model in 2024, to support the efficient delivery of sustainability metrics reporting to our clients.
- Continuing to engage with our internal Digital Team, to understand the areas of innovation we should engage with as a firm, to continue to push the boundaries of the possible for our clients.

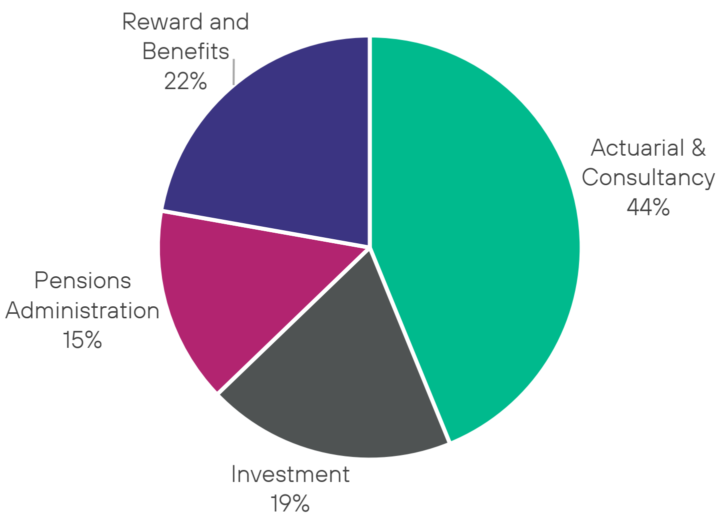
Principle 5 - Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

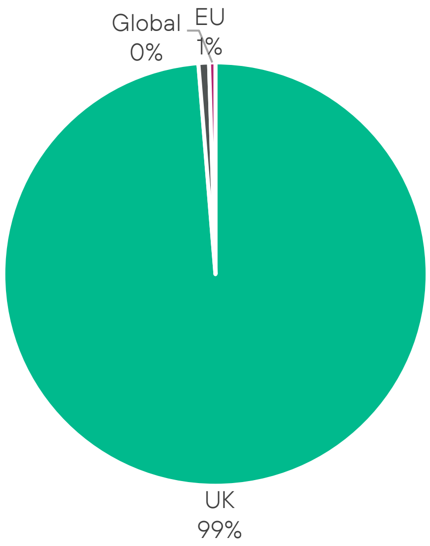
Context

Client base

Isio Group Limited services are delivered to institutional clients (including corporate, DB and DC pension schemes, family offices, local governments, and other institutions), with limited exposure to retail clients.[1] We serve ~1,240 clients across our various lines of business.

The Isio client base is broadly distributed across the following business lines and geographic areas. The largest proportion of clients are domiciled in the UK. (The below charts show the proportion of clients based on their absolute number, as opposed to being weighted based on value of investments under advice).





M

Within the Isio Group, the Investment advisory team's counsel covers:

- Assets worth ~£425 billion spanning a broad range of clients, across DB and DC pension schemes, and other wealth advisory clients, with differing requirements and beliefs when it comes to sustainability and stewardship.

[1] These statistics include Premier Group as a whole, following the acquisition 1 October 2022. They however exclude Premier Wealth Planning, which trades under a different entity to Isio Group Ltd. It therefore includes just the following Premier business lines: pensions advisory, admin, and rewards and benefits.

- From a geographic perspective, nearly all of Isio's investment advisory clients are based in the UK.
- All investment advisory clients are also institutional clients (with no exposure to retail clients).

Activities

Client sustainability journey

We believe that alongside traditional strategic considerations, sustainability is an important consideration across all asset classes, to be able to target long-term sustainable and risk-adjusted returns. Furthermore, we believe investors should be good stewards of their assets to deliver real-world change, and we have a duty to support our clients in achieving this.

We have set out our client sustainability journey in Principle 1, this consists of the following steps:

We communicate with our clients in a variety of ways, including:

- Telephone calls
- Emails
- Virtual or face-to-face meetings
- Newsletters
- Papers and blogs

Principle 5

The way in which we communicate with clients depends on their needs, therefore we evaluate which method is most effective on a case-by-case basis. We are also aware as our clients move along their journey, their needs and therefore the way in which we communicate with them changes. Therefore, we reflect this in our approach and monitor our communication constantly.

We set out our specific sustainability services in further detail below:

Training sessions typically focus on sustainability themes, such as climate change, nature and social factors, as well as stewardship. The focus is adjusted to the context of the individual client, for example, the regulatory requirements they are subject to, investor norms and investor initiatives they are interested in, as well as asset class specific sustainability considerations. These sessions are particularly helpful given the ever-changing sustainability landscape, and in the UK, the strong proliferation of ESG regulation over time, for pension schemes in particular.

We continue to roll out some of the below educational sessions with clients:

- Sustainability and stewardship sessions: These sessions focus on building an understanding of what we mean by sustainability and stewardship activities:
  - Exploring sustainability themes and the types of ESG risks and opportunities that can arise for investors, as well as the investor initiatives that can be used to respond to these issues (e.g. the UN PRI).
  - For stewardship training, we focus on investor collaborative initiatives, as well as the importance of engaging with investment managers and potentially investee companies on issues of concern. We encourage clients to draw from the 2020 UK Stewardship Code guidance to inform good stewardship practice. In the past year, the focus for pension scheme clients has been on updating them on the summer 2022 stewardship requirements, increasing the onus of Trustees to maintain oversight of stewardship activities.

- Climate change:
  - As part of our general climate training, we focus on the climate-related low carbon transition and physical risks and opportunities that can arise for our clients, and how these might play out over different timeframes and under different climate scenarios. We also provide an overview of investor initiatives in the climate space (e.g. TCFD) as well as regulatory developments (with a focus on the DWP climate change guidance for pension schemes).
  - Emerging climate issues: over the past year, the focus has been on providing education on emerging climatic concerns, such as the possibility of extreme physical damages from climate change, and the associated social cost (see left for some of the climate blogs we rolled out in summer 2023).

- We also hold bespoke sessions dedicated to specific social or environmental issues of concern and tailored to the specific interests of the client:
  - Some of our training sessions focus on identifying priorities based on the UN Sustainable Development Goals (SDGs) framework.
  - In the past year, the focus has been on engaging with our largest pension scheme clients on the setting of stewardship priorities, as a best practice approach for guiding their engagements with investment managers. The aim

For further information on the climate emergency, please refer to our paper, 'Climate change and your portfolio'.

For further information on carbon markets for investors, please refer to our paper, 'Carbon Markets: An Introduction'.

Principle 5

is to ensure the alignment of the managers' voting and engagement activities with the Trustees' views in these priority areas.

New areas: Given the ESG landscape is ever evolving, and informing Isio's sustainable research priorities, we are engaging with our most ambitious clients by undertaking training sessions with them on topics, such as nature and social issues. The first step is to understand the level of client interest in pursuing nature and social integration within the portfolio, with this training falling out of our recent sustainability research papers. For any new research, we tend to develop accompanying blogs and/or videos on social media, which helps to distil the key messages in just a few minutes (For example, see below for the paper we developed on social factors for investors, in November 2022, as well as a prior paper launched on nature-related risks and opportunities).

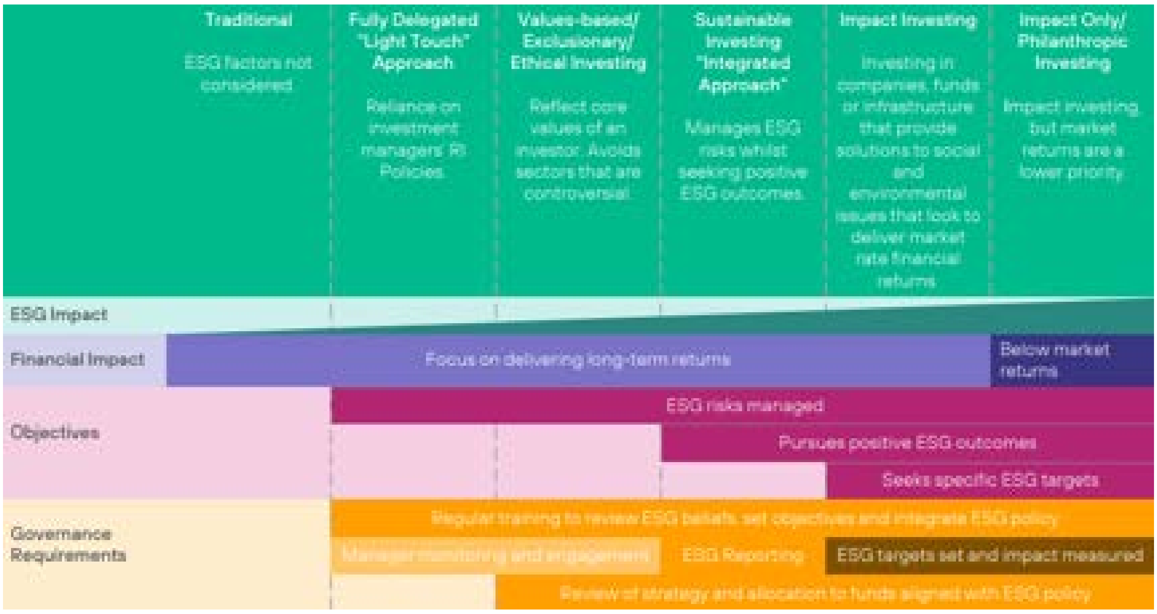
For further information on why the nature degradation matters for investors, please refer to our paper, 'Focusing on a nature positive future'.

This paper won Environmental Impact Thought Leadership Award, at the Pension for Purpose Awards, November 2022.

We present further information on social risks and opportunities for investors in our paper, 'The Social Dilemma'.

Once we have undertaken training, the next step is to understand whether our clients have an interest in setting sustainability policies and objectives.

We understand that there is a myriad of perspectives on how sustainability should be integrated within client portfolios. We help our clients identify where they lie on the spectrum of approaches to sustainability issues (shown below), from ESG factors largely not being considered, through to impact investing (we describe impact as investing in companies, funds or infrastructure that provide solutions to social and environmental issues that look to deliver market rate financial returns). We then help clients develop a sustainability approach collaboratively with the client in line with their beliefs and where they want to be on the spectrum. We continually challenge our clients to consider the potential benefits of progressing along the spectrum with increasing weight being given to ESG-related risks and opportunities within the portfolio.



Principle 5

In order for our clients to agree a bespoke set of sustainability beliefs, we issue a survey to gather views on various ESG, stewardship and climate change related issues, as well as other possible topics, such as the metrics they could use to monitor their activities. We capture these ESG beliefs within the client's sustainability policy, which is referenced to within the Statement of Investment Principles (SIP) and published for deeper scrutiny.

As part of this process, we also consider whether the client wants to agree quantifiable targets at a strategic level. There are different layers of objective setting, and we set out an example below:

	Example objectives
Primary objective	Seeking to align with global sustainability objectives, such as the Paris Agreement objective of a 1.5°C scenario, by the end of this century
Secondary objective	Establishing science-based decarbonisation targets, e.g.: • 42% decarbonisation of the emissions intensity of the portfolio by 2030 (vs a 2022 baseline) (for Scope 1 & 2 emissions) • Net zero emissions by 2050 (for Scope 1, 2 & 3 emissions)
Allocation objective	Delineating decarbonisation commitments within the portfolio's investment mandates and agreeing those with the investment managers
Synergies and trade-offs with other objectives	Understanding that there might be trade-offs and synergies, for example, decarbonisation commitments may adversely impact on the Just Transition (in adversely impacting communities reliant on high carbon industries and employment, for example)

Client Feedback

We continually seek feedback from clients to ensure what we are providing is relevant and useful for its purpose.

Following the articulation of sustainability views within a client's investment beliefs and policies, the focus moves to integrating these sustainability views within the investment strategy. We will review our client's investment strategy to check the compatibility of the investments with their policy. This step seeks to take account of the current portfolio, in terms of the consideration of sustainability objectives within the strategic asset allocation and assessing specific asset class opportunities (with stronger sustainable investment solutions available within some asset classes than others), versus where the client wants to get to.

For example, over the past year, we have supported an LGPS scheme in a market-wide search for a nature-based solution, focusing on the remit of a timberland mandate which demonstrated strong sustainability criteria. This included some consideration to the role of carbon credits in providing optionality in terms of meeting net zero objectives and/or as an additional return driver.

Principle 5

We carry out a review of the extent to which our client's investment managers identify and manage ESG-related risks and opportunities, and how they align with the client's sustainability policy. We highlight any key issues or actions that we suggest may warrant further engagement with the investment manager. This could lead to a change to their investment portfolio but where possible, we look to remedy issues identified through working collaboratively with their existing investment managers.

Isio's manager research – as well as our Sustainability Integration Assessments – helps us to engage with our clients on manager selection and manager monitoring processes. Isio undertake an annual sustainability assessment of our clients' funds, and this information forms the basis of reporting to our clients. We use asset class specific sustainability scorecards where we rate managers across five assessment criteria, as shown below.

Assessment Criteria	Description
Investment approach/framework	There is a clear approach/framework for integrating ESG factors.
Risk management	ESG factors are integrated holistically into the manager's risk management framework.
Stewardship	There is evidence of ongoing engagement with companies and other parties on ESG issues to help initiate change and of exercising voting rights (where applicable – equity and multi-asset funds).
Reporting	The manager provides meaningful and regular reporting on ESG metrics, including voting and engagement activities.
Collaboration	The manager has signed up to relevant ESG organisations and can provide evidence of engagement with other stakeholders and market participants to encourage best practice on various ESG issues.

The scorecards are used annually to assess all funds in which our clients are invested. Funds will receive a Green, Amber or Red rating, with an associated numerical score (of 1-5, see below) across the five assessment criteria, as well as at an overall fund level. Impact and sustainable funds are expected to score above 3 based on our additional sustainable or impact criteria (sustainable or impact funds that do not meet these criteria would score below 3). We generate an overall score for the ESG approach, and also generate further scores for the climate, nature and social approaches, respectively. With the nature score being new for this year and under the process of being trialled, on behalf of our clients.

Principle 5

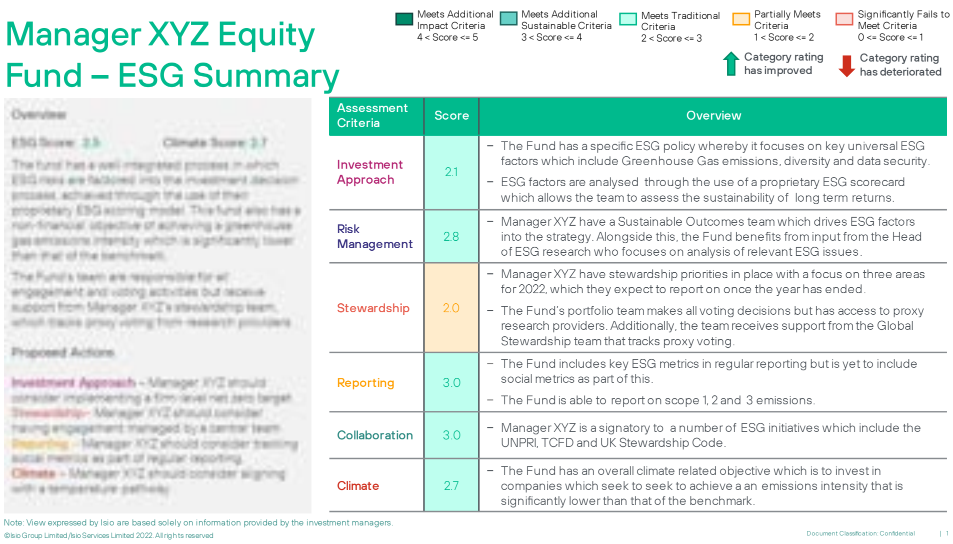
Score	Description
4 < Score <= 5	**Meets additional impact criteria:** The fund qualifies as a specialist ESG fund with specific environmental or social impact objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional impact evaluation criteria.
3 < Score <= 4	**Meets additional sustainability criteria:** The fund qualifies as a specialist ESG fund with environmental and/or social objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional sustainability evaluation criteria.
2 < Score <= 3	**Meets traditional criteria:** The manager scores highly on our ESG scorecard and is in line with best practice in terms of ESG integration.
1 < Score <= 2	**Partially meets criteria:** The manager has scored strongly on some (but not all) of the ESG assessed criteria and ESG integration is on par with the majority of investors.
0 < Score <= 1	**Significantly fails to meet criteria:** The manager fails to meet most of the criteria on our ESG scorecard and is significantly behind best practice in terms of ESG integration.

We use the scorecard to identify areas for improvement. We set these as proposed actions for the managers, and we engage and assess progress against these actions on an ongoing basis. Examples of proposed actions include:

- Investment approach – agreeing quantifiable, fund specific ESG targets such as net zero journey plans.
- Reporting – broadening the ESG metrics and stewardship activities included in regular reporting to investors.

We provide an example client facing output from an ESG manager research exercise, below.

Over the past year, we have updated the scorecards to reflect the latest industry best practice in the ESG space (including nature-specific criteria) and expect managers to raise the bar each year, alongside additional efficiency updates.



Manager XYZ Equity Fund – ESG Summary

Meets Additional Impact Criteria 4 < Score <= 5
Meets Additional Sustainable Criteria 3 < Score <= 4
Meets Traditional Criteria 2 < Score <= 3
Partially Meets Criteria 1 < Score <= 2
Significantly Fails to Meet Criteria 0 <= Score <= 1
Category rating has improved
Category rating has deteriorated

Assessment Criteria	Score	Overview
Investment Approach	2.1	– The Fund has a specific ESG policy whereby it focuses on key universal ESG factors which include Greenhouse Gas emissions, diversity and data security. – ESG factors are analysed through the use of a proprietary ESG scorecard which allows the team to assess the sustainability of long term returns.
Risk Management	2.8	– Manager XYZ have a Sustainable Outcomes team which drives ESG factors into the strategy. Alongside this, the Fund benefits from input from the Head of ESG research who focuses on analysis of relevant ESG issues.
Stewardship	2.0	– Manager XYZ have stewardship priorities in place with a focus on three areas for 2022, which they expect to report on once the year has ended. – The Fund's portfolio team makes all voting decisions but has access to proxy research providers. Additionally, the team receives support from the Global Stewardship team that tracks proxy voting.
Reporting	3.0	– The Fund includes key ESG metrics in regular reporting but is yet to include social metrics as part of this. – The Fund is able to report on scope 1, 2 and 3 emissions.
Collaboration	3.0	– Manager XYZ is a signatory to a number of ESG initiatives which include the UNPRI, TCFD and UK Stewardship Code.
Climate	2.7	– The Fund has an overall climate related objective which is to invest in companies which seek to seek to achieve a an emissions intensity that is significantly lower than that of the benchmark.

Note: View expressed by Isio are based solely on information provided by the investment managers.
©Isio Group Limited/Isio Services Limited 2022. All rights reserved
Document Classification: Confidential | 1

Over the past year, we have updated the scorecards to reflect the latest industry best practice in the ESG space (including nature-specific criteria) and expect managers to raise the bar each year, alongside additional efficiency updates. For example, we introduced further granularity in the individual asset class scorecards, to reflect asset-class specific sustainability concerns. One example is the credit scorecard, which now integrates a focus on whether sustainability ratchets are present in loan agreements, to improve sustainability outcomes, over time.

We will continue to evolve our approach year-on-year. We, on the whole, expect a slight worsening in scores for those managers that aren't continuing to pursue sustainable investment best practice.

Separately, as noted elsewhere, we have also been conducting new research on market-leading sustainable investment solutions across asset classes, for example:

- Over the past year, we supported an investment manager in the development of a Long-Term Asset Fund (LTAF), to be seed funded by one of our Master Trust clients. This had a primary focus on low carbon solutions, with additional minority allocations to forestry and social housing. It was also an innovative way of awarding DC Master Trust members to more illiquid underlying exposures.
- Seeking to understand best-in-class solutions in nature-based solutions. We have been faced with a broad array of asks from our clients and prospects, searching for pure-play timberland solutions, or forestry solutions that also award a minority allocation to oceans and agricultural solutions, and carbon credit hedging solutions. We have therefore been conducting an ongoing due diligence of industry nature-based solutions, across the liquid to illiquid and thematic spectrum. This is ongoing, having started in early 2022.
- We have also been working with an external partner to research market-leading social investment solutions, for example, focusing on topics from social infrastructure to the just transition and financial inclusion.

A key part of the sustainability policy framework is engaging with investment managers, encouraging positive changes to their policies and monitoring progress. We engage with all investment managers on the issues highlighted and we detail any changes to their sustainable investment capabilities as a result of this engagement in a progress report. We recommend ongoing monitoring of all our clients' appointed investment managers and that our clients' sustainability policies are reviewed at least annually. This is in line with recommendations from the DWP, who advise that investors regularly receive training, review their sustainability policy and review their investment managers' approach to managing sustainability-related risks on an ongoing basis.

Principle 5

We engage with managers both via email and calls, depending on the size of manager, importance of the issues at hand, and our client exposure invested, where significant managers are engaged with by call in order to discuss in detail progress made and ongoing actions, while small managers are engaged with via email with the option for a call if more information is required. In 2023, we engaged with a total of circa 55 investment managers, of which we had calls with roughly a third as part of our mid-year update.

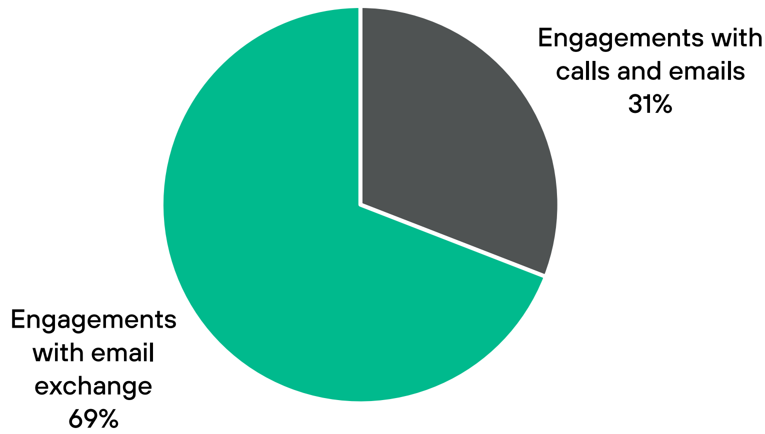
Isio manager engagements

We define engagements according to the ICSWG definition as follows:

Interactions between an investor (or an engagement service provider) and current or potential investees (e.g. companies), conducted with the purpose of improving practice on an ESG issue, changing a sustainability outcome, or improving public disclosure. Engagements can also be carried out with non-issuer stakeholders, such as policymakers or standard setters.

These progress updates focus on the investment managers' actions against proposed areas for improvement, from a sustainability perspective, and across a multitude of funds our clients invest with the manager on. We may escalate from emails to calls, to improve traction with managers, particularly with the managers who represent the greatest assets under management for our clients. Clients may consider disinvestment, but only as a last resort. This approach is applied across asset classes, from public markets to real assets and private markets. The ESG scorecards applied to client funds will reflect the art of the possible for sustainability within different asset classes.

2023 ESG manager engagements



ESG Metrics Summary

We have also been working with our clients to monitor their incumbent managers against various ESG metrics set to help check compliance with the agreed ESG beliefs. This leads to additional engagement with the investment managers and has led to allocations being rotated away from certain managers where progress is short of expectations. The following example is based on illustrative data. But as noted, going forward, we will be moving towards the development of our own ESG metric analytics for our clients, as we look towards finalising this.

Metrics by Mandate	Manager A	Manager B (gilts)	Manager C	Manager D	Manager E	Portfolio coverage	Weighted Average
Carbon emissions (Scope 1 & 2)	24,857 (84%)	85,750 (100%)	19,456 (99%)	25,942 (45%)	38,970 (24%)	78%	194,975
Carbon footprint (Scope 1 & 2)	96.7 (84%)	78.9 (100%)	45.6 (99%)	93.0 (45%)	50.2 (24%)	78%	79.4
Weighted average carbon intensity (WACI) (Scope 1 & 2)	117.6 (84%)	145.7 (100%)	123.4 (99%)	131.0 (56%)	113.9 (24%)	79%	130.1
Exposure to companies active in the fossil fuel extraction sector	0.2% (93%)	-	8.4% (97%)	1.4% (70%)	3.7% (100%)	47%	3.1%
Investments in companies with SBTi targets in place	34.2% (93%)	-	31.0% (97%)	5.2% (45%)	1.0% (100%)	32%	22.7%
Climate related engagements	39.0% (58%)	100% (100%)	52.0% (97%)	1.5% (100%)	2.4% (100%)	78%	35.8%
Implied temperature rise/ portfolio alignment	3°C (49%)	2.8°C (100%)	3.3°C (97%)	3.1°C (26%)	3.2°C (26%)	69%	3.0°C
Board gender diversity	30.4% (93%)	-	48.0% (97%)	23.1% (70%)	8.0% (26%)	30%	33.0%
Sufficient board independence	78.0% (93%)	-	96.4% (97%)	32.6% (70%)	29.6% (26%)	29%	76.0%
CEO/Chair independence	15.4% (93%)	-	65.9% (97%)	5.0% (70%)	24.3% (26%)	29%	36.3%
Violators of UNGC principles	0.4% (93%)	-	0.0% (97%)	0.1% (70%)	0.5% (24%)	29%	0.2%
ESG ratings	2.6% (93%)	0% (100%)	0.4% (97%)	3.9% (70%)	0.4% (100%)	78%	1.7%

Strong coverage (>70%) Acceptable coverage (>50%) Poor coverage (<50%) No data coverage Individual metric coverage provided in brackets

Principle 5

How effective has this approach been in communicating with clients?

Outcomes

The implementation of a sustainable client journey has been effective in ensuring we never miss a step with our clients. It ensures there is always a 'next step' to progress our clients on their sustainability journeys. For example, if they have undertaken a climate change training session, the client team will automatically progress to setting climate-related beliefs, policies and targets, appropriate for the client. Even where they have travelled with Isio across the entire sustainable client journey, we circle back to ensure any implemented sustainability objectives and strategies remain fit-for-purpose in an ever-changing landscape.

We have outlined all the steps in the client journey above and how we believe this means we can be effective in serving our clients. We will also tailor this to individual client needs. To bring this to life, we provide some further examples of client journeys below.

Case Study

Best-in-class sustainable credit

Isio's Sustainable Investment Team worked with the largest non-public pension scheme in the UK to review the ESG integration of three of its credit mandates. The focus was on Asset-Backed Securities, Emerging Market Debt (sovereign debt), and Investment Grade credit.

In response, the Isio Sustainable Investment team conducted a market-wide analytics report, which sought to understand what processes ensure best-in-class ESG integration within credit funds, as well as identifying actions that could be implemented by the in-house investment management teams to improve their ESG framework. The team developed a paper for the client, followed by some in-person meetings and webinars to relay the findings.

Case Study

Approaches to portfolio decarbonisation

We were engaged by an LGPS scheme to investigate the relative effectiveness of engagement versus divestment in bringing about decarbonisation. This followed stakeholder pressure for the Fund to divest from all fossil fuel assets in the portfolio.

In response, the Isio Sustainable Investment Team developed a series of papers on the implications of divestment (versus engagement) for the Fund – analysing the industry evidence on the topic and conducting strategic modelling on investment implications of divestment – as well as seeking support from the client's legal advisors to understand the legal and regulatory requirements of the Pension Committee. This was all analysed in the context of the LGPS pooling system, with the UK Government guiding LGPS Funds to pool their assets (particularly liquid assets), creating potential conflicts with Funds pursuing individualised sustainability policies.

Moving forward: sustainable investment capabilities

Isio will continue to ensure we have the right resources to be able to provide the relevant sustainable investment advice to our clients. This will include looking inwards – ensuring we have the right staff (with continued hiring) and ongoing reviews of our internal research processes – and looking outwards – with ongoing research on sustainability issues relevant to our clients, whilst continuing to monitor developments in the external sustainability landscape. Some of the key areas we will be looking towards over the next year include:

- Training – developing training in new ESG areas, in response to new research. A key theme for us, in 2024, will be on how investors can engage with the circular economy. We are planning a series of blogs touching on various thematic issues in this area, including circularity in the transition to a low carbon economy.

- Setting beliefs, policies and objectives - developing investment research on how to holistically implement multiple objectives in the portfolio, from climate, to nature and social factors, whilst understanding there will be complementarities and trade-offs in doing so. This is due to be launched over the next few months.

- Strategy - we will continue to update our climate model on an annual basis, to reflect the latest thinking in the climate change science and investor landscapes. We will also seek to expand the number of sustainable asset classes we can model (using a 'climate greenium').

- Implementation - continuing to explore cutting edge investment ideas, including sustainable private market offerings. In 2024, we are planning to release research on best practice sustainability solutions, across climate change, nature and social solutions.

- Monitoring - using technology to better serve our clients, including looking to establish an Isio ESG data model, which can generate sustainability metrics for our clients in real-time. This will directly analyse public data, and indirectly analyse illiquid mandates via estimation approaches.

- Other areas:

- Collaboration - continuing to collaborate with the wider market in order to maintain and develop best practice.

- Team – hiring the best sustainability talent in the industry, and in so doing, seeking to expand the ESG expertise within the Sustainable Investment Team – We have recently brought on board two new Sustainable Investment Consultants, and are currently recruiting for a third.

Principle 6 - Signatories review their policies and assure their processes.

Activities

Review and assurance of products, services and policies

In order to ensure that the work that we conduct at Isio is at a continually high standard, we have as a minimum a do (2eye), check and review (4eye) process in place. For higher risk work we also have a peer review (6eye) process in place. This is applicable across all of our work streams and client deliverables, including sustainability integration assessments of managers. Quality assurance is particularly important in the case of sustainability given the rapidly evolving landscape requiring the continued monitoring of the ESG best practice examples and regulations and norms as they continue to evolve (see also Principles 4 and 5). We believe this is an appropriate assurance process to ensure the quality and accuracy of advice provided to clients.

Review of Isio policies

Senior management has ultimate responsibility for ensuring the review of Isio policies. Director and partner oversight will ensure that policies continue to adhere to the direction of travel of the business. Whilst the relevant teams will be responsible for updating the policies.

We will proactively review our policies on a regular basis, with the majority of our policies being reviewed on an annual basis, and relevant heads of department responsible for leading on policy reviews. We may also reactively review our policies in response to market developments. We provide some examples in the outcome case studies.

Review of Isio activities

To remain effective consultants to our clients, we will also need to regularly review the activities we undertake on behalf of our clients. Below, we set out some examples on the sustainability and other activities we undertake, and how frequently these are reviewed, and who is responsible for these processes.

Annual review and refresh of manager assessments

Our view of manager capabilities, whether from a sustainability perspective or more traditional investment risk/return perspective, are subject to change (either positive or negative). As previously noted, for a change in view, the asset class head must present the recommendation for debate to our investment committee (the Research Engine), which includes our head of research, partners, directors and senior individuals from various research teams. The purpose of this group is to scrutinise the research and provide a "devil's advocate" viewpoint.

To reflect the fact that the sustainability landscape is continually evolving, each year we review and refine our manager sustainability integration assessments, with evolving request for information (RFI) surveys, and scorecards upon which they are assessed, to ensure these remain fit for purposes and account for the evolving sustainable investment market and regulation. The Head of the Sustainable Investment Team, supported by the deputies, will annually revamp the scorecards assessing managers on sustainability issues, to ensure these remain fit for our clients' purposes, with sign off by the Head of Research, Ajith Nair. This in turn allows our clients to conduct effective stewardship, with a continually evolving approach to engage with managers on relevant topics. Recent updates to our manager sustainability integration assessments have included a self-standing nature score (to sit alongside the ESG, climate and social scores which have already been developed), as well as reflecting other market developments, such as asset-class specific examples of best practice. For example, in the case of debt managers, seeking to understand whether new loan agreements include sustainability ratchets, to seek to improve sustainability outcomes, over time.

United Nations Principles for Responsible Investment (UN PRI)

As part of our commitment to supporting clients in their stewardship activities and in integrating sustainability considerations in their approach, in our first year since our departure from KPMG (2020) we became a signatory of the UN PRI and hence undertook our first UNPRI reporting submission during Q1 2021. This allowed us to carefully consider how our approach supports the integration of responsible investing factors. Each year, Isio will continue to submit a report in order to continually evolve our ESG approach via the scoring and feedback. This activity is led on by the Head of Sustainable Investment, and supported by the Sustainable Investment Team, with sign off by the Head of Research and Senior Research Sponsor. There have been some delays in this year's reporting as the UN PRI has been revamping its public reporting approach, and we look forward to submitting an updated report, next year.

Other sustainability reporting: Beyond our reporting to the UK Stewardship Code and UN PRI, we provide reporting to other collaborative entities to which we are party. For example, we provide annual reporting to Pensions for Purpose on our adherence to the Impact Investing Principles. The focus is on how our advice to pension schemes integrates these principles.

Case Study

Third party data services

Third party data

Isio's review of the data provided by various data providers reduces the risk of being overly reliant on one provider. We can assure data, by ensuring it is coherent as compared with other data sources. We subscribe to several data providers for investment data, including Reuters, Preqin, IHS Market, eVestment, Financial Express, and S&P for example, as well as receiving regular information from a number of investment managers and banks.

With a focus on sustainability, the Sustainable Investment Team will lead on due diligence for ESG-related third-party providers, with sign off by the Head of Research and Senior Research Sponsor. We will also work with the Head of Compliance and Chief Technology Officer to ensure that these adhere to our internal risk and compliance, as well as technology policies.

We conduct climate change scenario analysis using Moody's Analytics, which is integrated into our SOFIA modelling tool. This is based in the NGFS climate change scenarios (as described in Principle 4). The NGFS are aiming to create consistency in the climate change scenarios adopted by the financial sector, and so helps to create a "common view" for comparability across the industry. As such, this provides an industry stamp on assurance, in terms of the consensus on climate change scenarios we should bring to our clients.

For other ESG data, we have historically relied on external managers to provide ESG data for client reporting. We note that this can create some discrepancy of reporting, including around methodologies. Following the contracting of an ESG data provider, we have been developing an internal ESG data model. The aim is to launch this in early 2024, to significantly enhance our sustainability reporting capabilities for our clients. This will enable us to provide assurance on the ESG data being provided by investment managers, towards the quality assurance of that data (or being able to confirm the sustainability claims of managers are accurate). This will not only allow us to track data quality, but ensure that managers are on track to achieve ESG objectives they have set out for the funds our clients invest in.

Internal and external assurance

As part of our internal assurance, we will review all the external data and advice that we receive, to ensure it is coherent in light of other data sources, market developments, and information we are receiving from managers. We believe this is appropriate in reviewing all external resources we use at Isio. We believe that in the hiring of experts, specialising on anything from sustainability issues to DB or DC investing, we can rely on these internal experts to provide internal verification on our advice.

We however recognise that for any internally targeted advice (for the Isio firm), we could benefit from external advice and assurance. We therefore set out an example below of how we have begun to seek external assurance of our sustainability approach, from a corporate sustainability consultant.

We will continue to review our approach to assurance, to ensure this is appropriate for the services we provide to clients whilst seeking to understand where internal or external assurance may be more appropriate for the service in question.

Third party assurance

Whilst Isio has employed investment experts to be able to drive sustainability guidance for our clients, and assure the external data we provide to clients, we believe that in order to assure our own internal approach to sustainability, an external assurer is required. The Sustainability Action Group has selected a third-party provider, Sustainable Advantage, to support the development of Isio's climate strategy. Sustainable Advantage will also continue to support Isio with gathering firm ESG data, in particular emissions data, to feed into strategy and objective setting, recognising the importance of data verification for our internal decision-making (see below for a case study overview of the Isio climate journey to date).

Outcomes

We set out below some example outcomes, for the reporting period.

Spotlight: Assurance of Isio's Climate Journey

Climate change action needs to be internal, as well as reflected in our external advice. In 2022, we set up a Sustainability Action Group (the "Group") with the remit to drive firm level sustainability action across our operations. In 2023, the Group have also established a network of internal sustainability champions to drive internal sustainability initiatives, for example, in the London office, establishing a "plastic free" July to reduce and/or eliminate plastic use by colleagues.

The Group also selected an external climate advisor, Sustainable Advantage, to support on setting climate targets for the business. This is helping to provide external validity on the Isio climate strategy, which is still in progress.

Principle 6

Sustainable Advantage have supported us in understanding our current footprint and how we can reduce this over the longer term. We have always sought to 'tread lightly', evidenced through our office locations near public transport, our travel policy, the Green car scheme, and our IT infrastructure and environmentally efficient office fit-outs. Whilst we continue to develop our climate strategy, we have become a carbon neutral business where Isio has purchased high quality, independently verified offsets for all of our Scope 1 and Scope 2 emissions since Isio's birth in March 2020. As a result, we have provided financing to low carbon and reforestation projects in emerging economies: a Qianbei Afforestation Project (in China), seeking to create new areas of forest; and, a Hydroelectric Project (in Turkey), supporting low carbon development in the area.

We however acknowledge that offsetting efforts is not a replacement for ambitious decarbonisation action; emissions reduction remains our top priority, and we look forward to reporting our decarbonisation progress in next year's report.

Client Feedback

We continually seek feedback from clients to ensure what we are providing is relevant and useful for its purpose.

Process example

Isio understands the importance of not only having stewardship priorities and engaging but having clear outcomes from these engagements which we are able to report on (see Principle 5 for our definition of engagements). Specifically, for Isio this can involve letters, emails, calls and collaborative efforts.

As previously noted, via our manager sustainability integration assessments, Isio will engage with managers twice a year (see principle 5 for further details). We firstly email managers to request they fill out a request for information and, if necessary, hold a call with the manager to fill any gaps in order to assess the manager effectively. As part of this assessment, we detail the areas in which we think the manager can improve across the different categories and will then follow up with the manager six months later to engage on the areas to understand progress. When engaging with managers on these areas, we will ensure to have calls with managers where we have significant client exposure in order to really challenge their progress and to thoroughly understand their approach. We remind managers of these areas for improvement and provide them with the opportunity to provide updates on whether these have progressed or improved. As mentioned in Principle 5, in 2023 so far, of the circa 55 investment managers engaged on ESG topics, one-third were engaged with in-depth calls and emails, whilst two-thirds relied on email communications.

Policy example

The Head and Deputies in the Sustainable Investment Team review our Sustainable Investment Policy, annually, to ensure this remains fit-for-purpose in responding to the evolving sustainability landscape. This activity is supported by the wider Sustainable Investment Team, with senior sign-off provided by the Head of Research, Ajith Nair, and Senior Research Sponsor , David O'Hara. We are in the process of updating this policy, currently.

Case study

Ensuring our advice reflects market developments

We work with clients who continue to engage with us on cutting-edge issues, from carbon markets to social issues, and we work in partnership with them to develop new thinking. Examples of work we have done with clients, over the past year, to provide high-quality advice in response to external forces, include:

- With unprecedented volatility in gilt markets, we have worked to ensure clients' portfolios remain robust. We categorised our clients into various risk buckets, to be able to respond to the severity of market impacts on our pension scheme clients' portfolios;
- With the Russia invasion of Ukraine, a number of clients became concerned with their exposure to the war. We therefore conducted some due

Principle 6

- diligence on relevant funds and portfolios to identify their Russian exposure, to understand their level of risk;
- One of our LGPS clients has faced significant pressure to divest from fossil fuels. We responded with an assessment of the impacts of divestment, from a financial, legal and academic perspective; and,
- In response to COP 27, we provided our clients with an overview of the climate conference and major outcomes, with a focus on the key take-aways for investors.

We will continue to review our investment strategy advice, in response to future significant market developments, on a reactive basis. For example, we are in the process of forming a business response to the Israel-Hamas war.

Beyond this, as mentioned, there are also cases of internal assurance. For example, collaborative engagement involving working with managers to develop new products which are appropriate for our clients' needs. These have involved sustainable versions of existing funds which we rate highly. For example, a semi-liquid fund targeting science-based decarbonisation pathways, alongside broader sustainability credentials through positive exposure to sustainable bonds.

We have also incorporated client feedback into a range of pieces of work, tailoring this for the client as required. Examples of this include:

- **Implementation Statements:** Offering clients bespoke implementation statements based on the individual client context, as well as condensing the information content as desired, while still meeting regulatory requirements.
- **Sustainability integration assessments:** Developing more "client friendly" sustainability manager summaries, based on direct client feedback. This now includes more concise commentary and clearer areas of priority focus.

The above are examples of how we have assisted clients in performing effective stewardship through targeting continuous improvement in our offerings, guided by the feedback from our clients (see Outcomes in Principle 5 for further details).

Moving forward: Assurance

Isio will continue to review assurance processes to make sure these are fit for purpose, on at least an annual basis. We understand that high quality service delivery is critical to maintaining healthy relationships with our clients.

With a focus on sustainability and stewardship risks, this will require a constant monitoring of the sustainability landscape to ensure our advice remains relevant for all our clients across the business. We understand the landscape evolves over time and therefore stewardship is an ongoing process.

Further improvements to our stewardship process may involve:

- Annual refinements and reviews of our manager sustainable integration assessments, to reflect new developments in the sustainability space, and to inform engagement activities. Whilst such assessments are internally assured; we will seek external guidance (in the form of industry best practice).
- We will also continue to engage with our modelling and data providers on best practice developments in the industry. This will help us to provide an internal stamp of assurance for our clients on their sustainable investments.

Principle 6

- For the sustainability research papers that we publish we will also consider seeking external assurance to ensure our messaging and findings are accurate, especially in light of how quickly the sustainability landscape evolves. We have been in touch with dozens of managers on our latest sustainable implementation series, to provide that assurance.
- We will continue to monitor industry standards, such as the ICSWG setting out expectations on ESG metrics to report, or evolving norms in stewardship disclosures.

Conclusions

In this report, Isio Group Limited's third response to the 2020 UK Stewardship Code, we set out the approach to the six principles applicable to service providers. The main areas of focus include to:

- Respond to the 2020 UK Stewardship Code guidance on the principles.
- Capture FRC feedback on our first and second submissions to the 2020 UK Stewardship Code, for years ending October 2021 and October 2022.
- Set out the areas where we have evolved the Isio approach to sustainability and stewardship, both within our internal business and how we engage with external clients. Reporting is for the year to October 2023.
- Set out our stewardship priorities, to continue to improve sustainability outcomes for our clients, delivering cutting edge advice on climate change, nature and social factors, and roll-out new ESG data analytical services. Moving forward, we will also be looking to the circular economy as an area of focus for our clients.

We recognise that stewardship is a powerful force for change in the investment industry and wider global economy and society. We will therefore seek to exercise our voice via two main avenues: one-to-one engagements with the investment managers, as well as the clients we work with, and collaborative initiatives with other industry participants. On an ongoing basis, we will continue to review our membership to collaborative initiatives, to understand whether there are any new areas we should be engaging and collaborating with.

We look forward to hearing feedback from our clients, wider industry participants and the FRC on this report. Please feel free to get in touch with us for further information, using the contact information overleaf.

Contact Us

Cadi Thomas
Head of Sustainable Investment
+44 (0)117 3746 467
cadi.thomas@isio.com

Ajith Nair
Head of Research
+44 (0)207 1236 003
ajith.nair@isio.com

Leah Worrall
Deputy Head of Sustainable Investment Insight
+44 (0)207 0467 986
leah.worrall@isio.com

Mark Irish
Deputy Head of Sustainable Investment Consulting
+44 (0)207 1236 126
mark.irish@isio.com