



Isio's Stewardship Report

Isio Group Limited | October 2024

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Document classification: Public

This is Isio's fourth 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, 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 2024, as well as actions taken since our submission from last year. Some highlights include:

- **Further progress within the standalone Sustainable Investment (SI) Team:** The team now consists of ten sustainable investment consultants, alongside four 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 our ambitions, changing market and regulatory environments, and client demand.
- **Regulatory support and market developments:** Given ongoing developments in the sustainable regulatory landscape and evolution of what good practice looks like, we have focused on engaging with regulators and policy makers in this space. For example, providing feedback to the government's Taskforce for Social Factors (TSF) consultation, The Pensions Regulator on climate reporting requirements, the UN PRI strategy review, the Impact Investing Principles refresh as well as the review of the 2020 UK Stewardship Code itself.
- **Sustainability services:** We continue to look for areas where our clients might next need support from us. We contracted with a best-in-class ESG data provider and have developed our 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. We are in the early stages of establishing client appetite and developing a framework to assess exposure to local UK investing for social impact, primarily for LGPS Funds. This year we have also been market leaders in sustainability within Private Capital, which was recently evidenced at an event with the BBC Natural History Unit with a private screening of Planet Earth, narrated by Sir David Attenborough, and enriched by insights from its producers, with further narrative by our SI team on climate change and natural capital, showcasing impactful investments.
- **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, as noted in our last report we worked with an investment manager to support the development of the first Long-Term Asset Fund focused on low carbon, forestry and social housing allocations, seed funded by a Master Trust client. We also recently helped structure an innovative resource efficient equity index on an LGPS pool which was seeded by one of our LGPS clients. While not sustainability related, we also, in the last year, developed an innovative proprietary platform for selling illiquid assets on the secondary market, Isio Fund Liquidity Options (i-FLO).
- **Sustainability research:** In the last year, we have published a number of papers including a holistic three-part series on sustainable investment strategy implementation considering both environmental and social issues, and our first annual Sustainable Investment survey shining a light on where we see ESG opportunities across different asset classes and how investors can seek to 'green' their strategies further, based on our fund sustainability integration assessments. Following working with a local authority pension fund on the debate between the effectiveness of engagement vs divestment, in bringing about the transition to a low carbon economy, we publicly published a research paper on the legal, financial, and theoretical perspectives of engaging and divesting from fossil fuel assets. We also



Emily McGuire, FIA

Partner, Head of
Investment Advisory

published a five-part blog series on the importance to investors of circular economy principles.

We are extremely pleased that our research has been recognised, with both our strategy implementation series and the divest vs engage papers shortlisted for Best Strategy and Best Climate Action categories respectively for this year's (2024) Pensions for Purpose Content Awards and receiving a Highly Commended for the Best Strategy category.

Further, we recently held our first investment conference with the theme being "Thinking Differently" and included a number of innovative sessions including investment strategy (e.g. thinking about out of model risks) as well as how we can help client create portfolios with robust climate resiliency.

- **Manager research:** We have updated our manager sustainability integration assessments (including our proprietary scorecards) to reflect the latest developments in the sustainability landscape (for example, the new Sustainability Disclosure Requirements (SDR) marketing and labelling regulations). We continue to regularly engage with managers on our clients' behalf to drive sustainability improvements over time. We also continually considering new and innovative sustainable products for our clients to invest in, for example recently we have supported clients in allocating to diversified sustainable infrastructure 2.0 which includes healthcare, climate resilience, digital and social infrastructure.
- **Collaboration:** Over the past year, we've continued to expand our collaborative efforts. Cadi Thomas, our Head of Sustainable Investment, led the Standardisation Pillar of the Investment Consultants Sustainability Working Group (ICSWG), and Mark Irish, Deputy Head of Sustainable Investment, is on the Steering Group. We have also recently become members of the Net Zero Investment Consultants Initiative (NZICI) (subsequent to our 30 September 2024 financial year-end).

We also know that the sustainability landscape continues to evolve, and so will we respond. This year, we include Deloitte Total Rewards & Benefits (DTRB) in our reporting efforts, following the acquisition by Isio Group Limited, which was fully integrated into Isio Group in October 2023, following the acquisition completing in May 2023. 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.



Table of Contents

Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.	4
Principle 2 - Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.	13
Principle 3 - Signatories identify and manage conflicts of interest and put the best interests of clients first.	23
Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	27
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.	41
Principle 6 - Signatories review their policies and assure their processes.	53
Conclusions	60
Contact us	61

Principle 1 - Purpose, strategy and culture

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

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.

As noted in previous reports, we are a **young business**, having spun out of KPMG on 2 March 2020, but our team and the value we add is long established. We currently have ~ 1,540 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 also acquired Deloitte Total Rewards & Benefits (DTRB), which completed in May 2023, while the business fully integrated into Isio group in October 2023 (following the financial year end), further expanding our full-service advisory capabilities. We now employ ~1,256 members of staff.

Our **investment advisory** business is a key strategic growth area for Isio. The investment team is now ~171 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.



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

Principle 1

Strategy-driven research – We bring clarity to focus on areas that make sense from a strategic perspective for our client portfolios. Our view is that 80% of value comes from asset allocation – so our research is idea driven not product driven.

Bespoke, innovative solutions – We are known in the marketplace for product innovation working with investment managers to address gaps in the market. Our clients get bespoke solutions which address the strategic need rather than a fund/product that partially meets the criteria.

Sustainability is at the heart of our research philosophy and fully integrated into our approach. We have standalone sustainable ratings for all products/funds and focus on sustainability in line with client beliefs and best in class implementation means not compromising on risk-adjusted returns.

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

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 to create better outcomes for clients, members and society, 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:

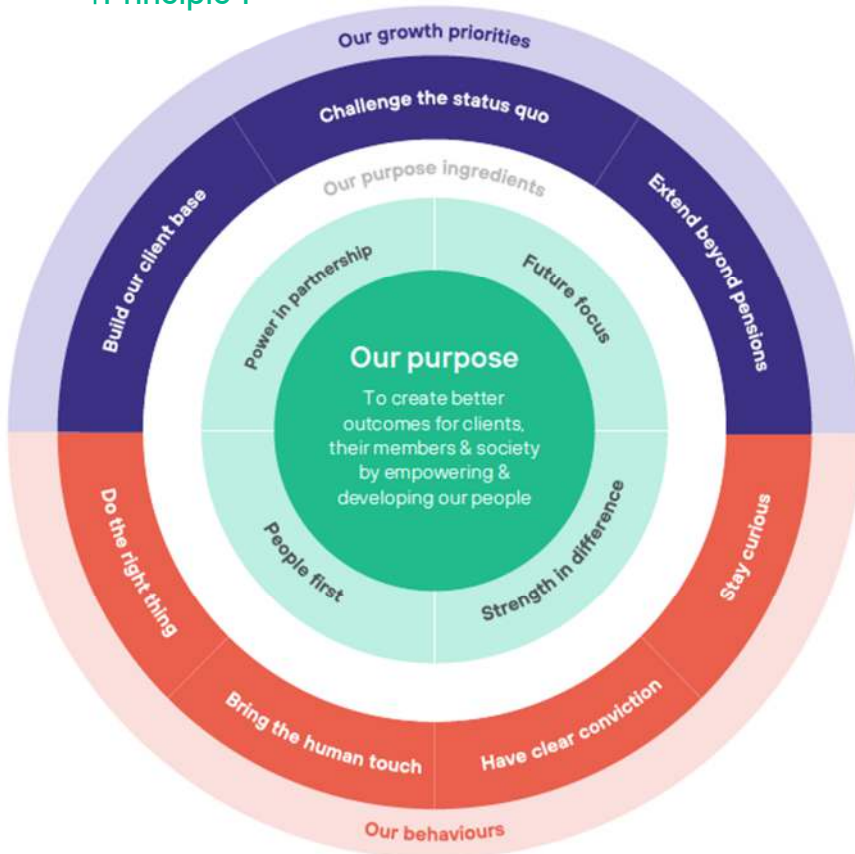
- **Power in partnership:** Working together allows us to better understand our clients and deliver the best results for them in ways that benefit our business too. By collaborating with our clients and each other, we can build open and trusted relationships that endure.
- **Strength in difference:** 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.



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

Principle 1

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.

We apply these approaches to our sustainability principles with four areas of focus including Climate and the Environment; Natural Capital; Inclusion and Belonging; and Corporate Social Responsibility, and four key areas of influence: our clients, our suppliers, our industry, and society.



Isio's Sustainable Investment Policy

isio.

[Read the policy](#)

Sustainable Investment Policy

We set out our approach to sustainability and stewardship in our [Sustainable Investment \(SI\) Policy](#), which we recently updated in April 2024. 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 sustainable opportunities and the management of ESG risks, **enhanced risk-adjusted returns can be achieved over the longer term.**
- SI-related considerations should be **fully integrated** and at the heart of investment decision making.

Principle 1

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

- 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 sustainability issues are inextricably linked, and we cannot address the climate crisis without consideration of biodiversity issues and rising global inequalities.
- We believe that **proactive and targeted engagement** with companies and the wider industry is more effective to drive change than an exclusionary approach. However, effective engagement requires **accompanying escalation processes**, which may result in selective divestment from companies unresponsive to engagement.
- **Global collective action** is needed to drive change across SI-related issues; institutional investors have a key role to play.
- The world of SI-related regulations is rapidly expanding, and this results in **legal and reputational risk** for our clients but is an important driver to embrace Sustainable Investment.

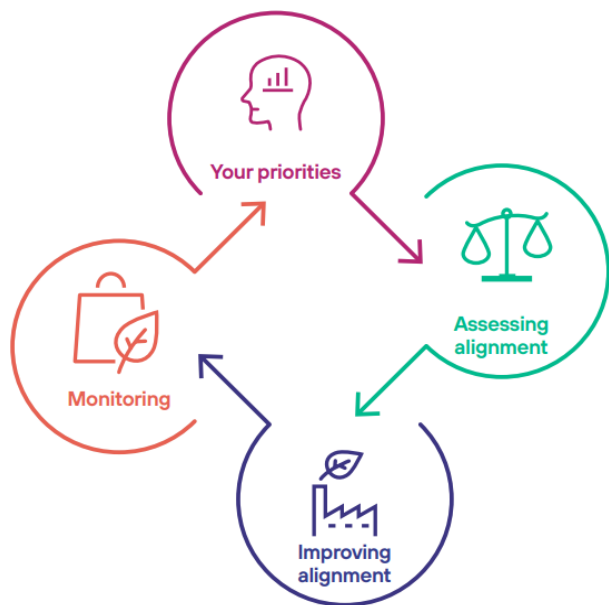
Stewardship is clearly an integral component within our Sustainable Investment Policy, and whilst the focus varies across these beliefs, all will rely on good stewardship as a central facet for managing the ESG risks arising within the companies in which our clients invest. Our clients and the wider investment industry, have significant influence in driving change on issues that we all care about across portfolio companies.

The world is changing. **Voting and engagement activity** are two of the most widely used tools that investors use to exert influence. Exercising voting rights, where applicable, to formally express views on ESG topics, and to be effective should also be combined with an effective and consistent engagement program. We believe that consistent engagement with portfolio companies on ESG issues is more effective than an exclusionary approach (with some exceptions via red-line exclusions). A **clear escalation process** is key in driving effective engagement activity, which may ultimately lead to the divestment of select companies. We are also supportive of **collective engagement** activity (through investor initiatives) in order to further increase influence. 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 aligns with their beliefs, priorities 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.



Principle 1



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 chart on the left).

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. 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.

We look to partner with our clients to deliver cutting edge and bespoke research on the sustainability issues most important to them. For example, as noted in last years report, we were engaged by a Local Government Pension Scheme (LGPS) to explore the relative effectiveness of engagement versus divestment in bringing about decarbonisation and subsequently published a research paper and hosted an industry roundtable on the legal, financial, and theoretical perspectives of engaging and divesting from fossil fuel assets. 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

Principle 1

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 have two key bodies, responsible for strategy, accountancy and implementation of our I&B strategy. Firstly, the I&B Advisory Group, which represents the voice of colleagues, providing the opportunity to raise issues or areas of concern. It plays a vital advisory role in the shaping of initiatives for our other key body, the I&B Steering Committee (SteerCo) to sign off on. SteerCo provides sponsorship, oversight and direction to the overarching strategy and a link to our governing body, ExCo. Our current employee Networks include African & Caribbean, LGBTQ+, Mental Health, Social Inclusion, Women's, Christian, Sikh and Neuroinclusion, exist to steer, support, lead, champion and celebrate our diversity and values.

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, as well as other volunteering activities working with schools and young people in support of MyBnk's activities. 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 established a green car scheme.

Other examples of how we have sought to do the right thing include developing a network of sustainability champions, across our offices, who are empowered to further green initiatives in the business at the local office level including recycling training and Corporate Social Responsibility days, as well as a "plastic free" campaign 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.

Principle 1

We recently held our first investment conference with the theme being “Thinking Differently” and included a number of innovative sessions including topics related to investment strategy (e.g. thinking about out of model risks) as well as how we can help clients create portfolios with robust climate resiliency. This year we also been market leaders in sustainability within Private Capital, which was recently evidenced at an event with the BBC Natural History Unit with a private screening of Planet Earth, narrated by Sir David Attenborough, and enriched by insights from its producers, and further narrative by our SI team on climate change and natural capital, and by showcasing impactful investments.

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 – our previous update increased emphasis on nature scoring, to understand the key investment risks and opportunities arising from nature and biodiversity and within credit funds, incorporated considerations of sustainability ratchets in encouraging sustainability improvements over the holding period. While this year we included criteria in relation to the new Sustainability Disclosure Requirements (SDR) marketing and labelling regulations, as well as consideration of establishing connections with leading academic institutions in developing bespoke risk management frameworks and increased requirements on investment managers evidencing stewardship practices. 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 larger 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 and latest on climate science to cover TCFD responsibilities, through to the process of developing stewardship priorities which best reflect their sustainability views.

We provided training to a MasterTrust, whose strategy is at the forefront of sustainable investment innovation, on biodiversity and around the latest frameworks and regulations in this space.

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. We have engaged with our TCFD clients’ existing

Principle 1

managers to integrate best-in-class sustainability considerations within their mandates (for example within buy & maintain mandates including allocations to green bonds, and science-based decarbonisation pathways). As noted in previous report, we supported a manager in the development of the first 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. We have also recently helped structure and launch an innovative resource efficient equity index on an LGPS pool, and seeded by one of our LGPS clients.

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 then engage with the managers in making progress against these areas.

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, after finalising a contract with an ESG data provider, following a market-wide search, we have begun to roll out our in-house ESG data model to select clients, and are continuing to work on scaling the model across our wider client base. The model has significantly enhanced our reporting capabilities and 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 providing effective client training.



Case Study

Our approach to effective training

We recognise that many of our clients are eager to explore new investment opportunities but may lack familiarity with the intricacies of the market, including the associated upsides and downsides. To address this knowledge gap, we provide tailored sustainability training designed to equip clients with the insights they need to make informed decisions. A notable example of our commitment to this mission occurred this year when we delivered a preliminary training session on Biodiversity Credits for one of our ambitious clients. This session was prompted by the recent introduction of Biodiversity Net Gain regulations in the UK, which reflect a significant shift in the regulatory landscape and aligns with the client's existing interest in nature-related investments. During the session, we covered key concepts related to biodiversity credits, including their potential as an investment vehicle and the implications of the new regulations. Participants were engaged and asked insightful questions, highlighting their desire to deepen their understanding of this emerging market.

In light of the positive feedback and the strategic insights gained during the initial training, the client has since decided to pursue further engagement. They are keen to hold follow-up conversations and additional training sessions in the upcoming months. This proactive approach reflects their intention to gain a deeper exposure in the biodiversity investment space and their aspiration to become one of the ambitious first movers in this area. Further the client is expected to make a commitment to natural capital investments in the near future.

Moving forward: Improving client outcomes

Following the acquisition of the Deloitte pension scheme (Total Rewards & Benefits) business, in October 2023, the business has grown substantially, and we expect our staff and client exposure to continue to grow.

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 continue 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.** While looking to retain top talent, we will also continue to expand the Sustainable Investment (SI) Team in line with our ambitions and client demand.
- **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 a continuing emphasis over the next year on improving responses to social- and nature-related risks and opportunities (while this is not new, we are continuing to trial social and nature scoring for investment products as these areas continue to develop and will look to report on these areas when sufficiently established).
- **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 further developing and rolling out our in-house ESG data model to select clients, and thereafter in scaling the model across our wider client base, for enhanced client sustainability analytics.



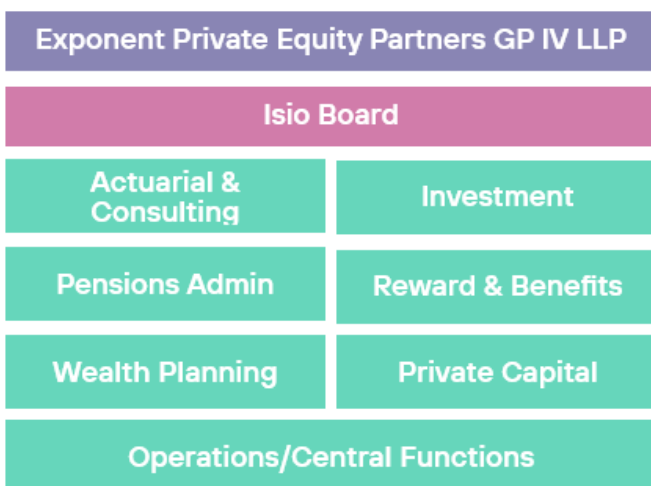
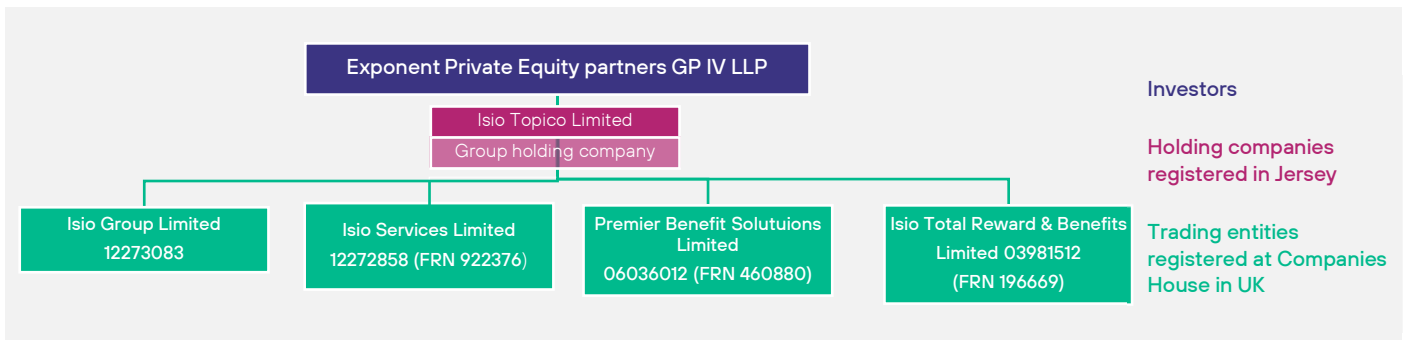
Principle 2 – Governance, resources and incentives

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

Activities

Legal & Governance structure

The organisational charts 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. Earlier this year, however, we announced Exponent's exit, and subject to regulatory approval, Aquiline Capital Partners LP, a private investment specialist in financial services and related technologies, will be our new investor. This new investment from Acquiline will allow us to continue to invest in the business and continue our growth journey. This will be reflected in the organisational chart from our next report and post financial year end.



Business unit structure – we are structured across seven business units, shown in green in the chart to the left.

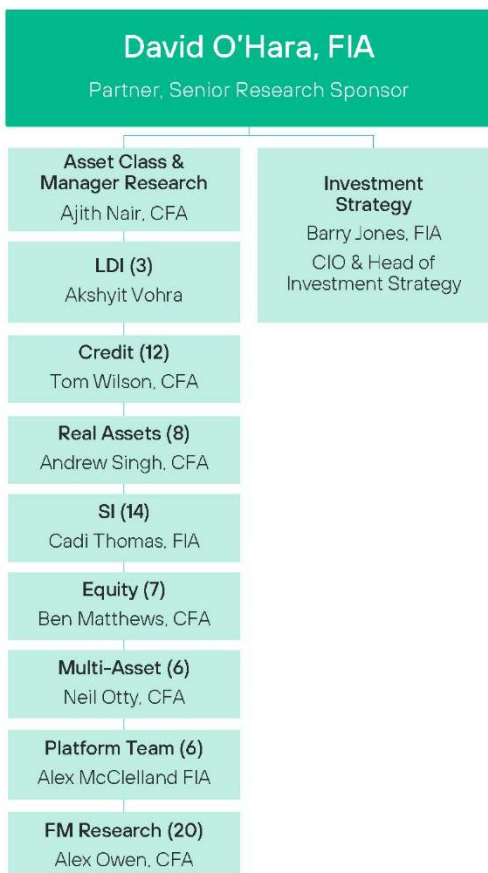
Andrew Coles (former Head of Pensions at KPMG) is our CEO and Ian Pain is our CFO. The board consists of Roger Siddle, Suzy Neubert, Andrew Coles, Ian Pain, and Ian Warman (COO), amongst others.

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:

Principle 2

- 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, Sustainable Investment, and team leads with responsibility for research platforms, fiduciary research and DC research.
- Barry Jones (CIO) leads the investment strategy team.
- 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.



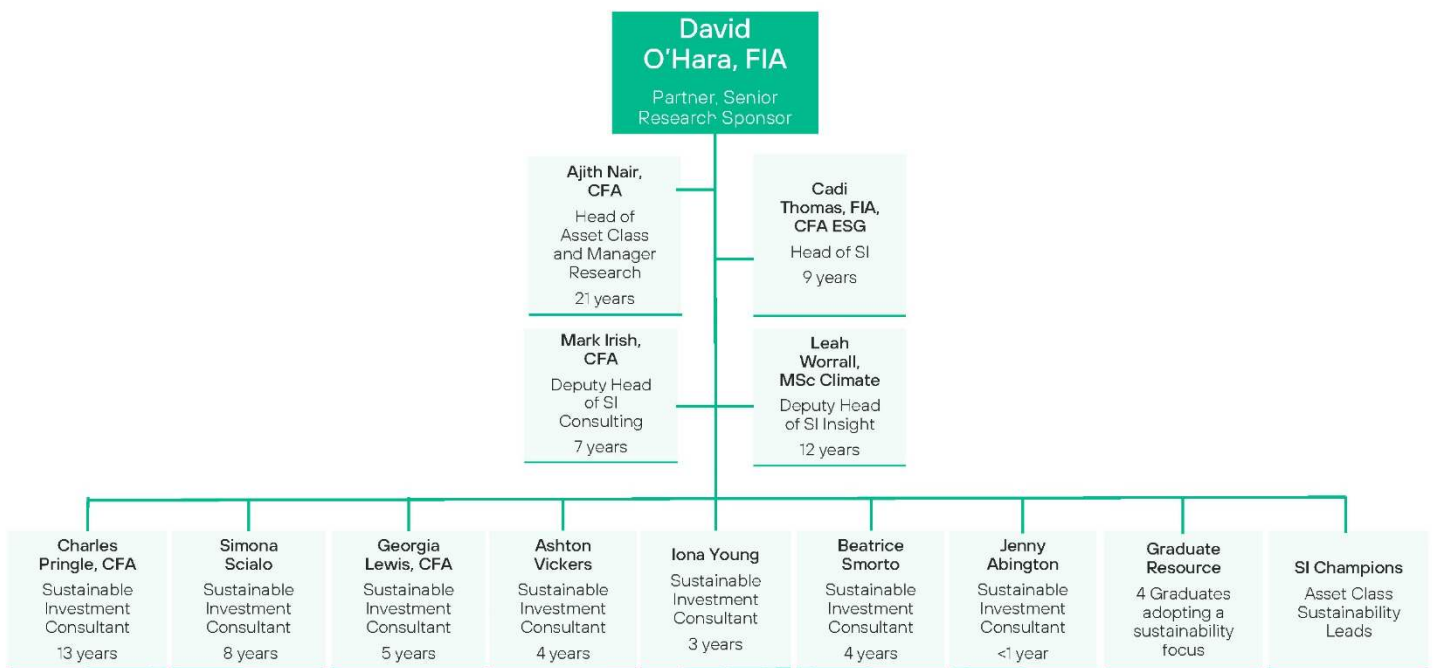
- David O'Hara is the partner and **research sponsor** with ultimate oversight of research capabilities at Isio, and this includes a remit for ensuring that sustainability and stewardship are integrated throughout the services we provide. Ajith Nair is the Head of **Asset Class and Manager Research**, 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 sustainability 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 and across our actuarial and consulting practice to ensure that sustainability research is integrated within all advice including liability and funding considerations.

Principle 2

Cadi Thomas, our **Head of Sustainable Investment (SI)**, oversees the SI Team, 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. We recently (within the last year) recruited both Beatrice Smorto (from a sustainability consulting background) and Jenny Abington (who studied Economics and Global Sustainable Development) into the SI team. We will continue to look to grow the team in line with business demands.

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

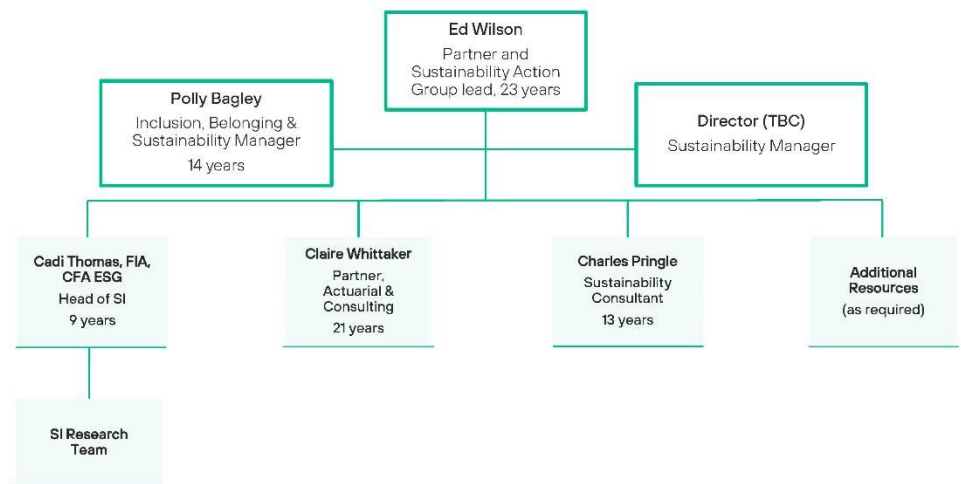
The chart below outlines our Sustainable Investment (SI) Team, as well as their role, experience, and qualifications.



Ed Wilson, Partner, leads the **Sustainability Action Group**, 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 (SI) Team, the Facilities Manager, the HR Business Partner and the Head of Financial Planning and Analysis. We have also in the last year hired a full-time permanent Inclusion, Belonging & Sustainability Manager, Polly Bagley, in order to drive forward our internal sustainability agenda and objectives. We are also in the process of internally recruiting a director level sustainability manager to sit alongside Ed and Polly.

Principle 2

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 SI 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.

We also have an established 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.

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

Principle 2

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.



Case Study

Quality assurance – Stewardship assessments

As part of our services, we conduct reviews of stewardship priorities to assess the alignment between our clients' stewardship goals and those of their asset managers. Traditionally, our methodology has focused on quantifying the number of engagements on specific topics, which served as a metric for evaluating alignment and positive contributions. We have been refining our approach to stewardship to better capture the quality and impact of these efforts. This involves moving beyond mere numbers to develop a more comprehensive framework that considers the substance of engagements and their outcomes. As part of this initiative, we are currently trialling a new methodology that enables us to assess contributions to stewardship priorities through capital allocation and engagement. This approach places a strong emphasis on evidence-based outcomes, allowing us to evaluate how effectively resources are allocated in support of stewardship goals.

By focusing on the quality of engagement and the tangible results of stewardship initiatives, we aim to provide our clients with a clearer understanding of how their stewardship activities contribute to their overall investment strategy. This shift not only enhances the transparency and accountability of stewardship practices but also fosters deeper alignment between asset owners and their managers.

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 (SI) 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 and CAIA charter holder. Another two members of the SI team are CFA charter holders, while the rest of the team are studying towards a number of relevant qualifications, and another member of the wider research team (as part of the credit team) also holds the CFA Institute certificate in ESG Investing. Many others in the wider research team are studying towards or qualified in relevant qualifications (for example CFA, actuarial or other alternative investment professional qualifications).

Principle 2

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 recent years, 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 ad hoc 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, a number of the interns, supported on a number of SI projects and on the development of our research.

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 further 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. Last year, for example, we finalised a contract with an external ESG data provider, following a market-wide search, and have now developed and are rolling-out 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.

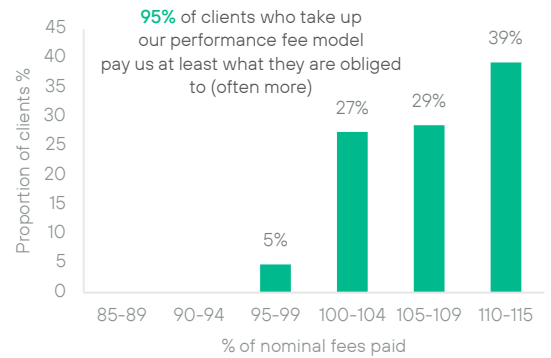
Internally, our feedback processes focus on 360-feedback for our staff, from their senior and junior colleagues, as well as peers. We have evolved the process to recognise not only the work that personnel are undertaking, but how they approach work, their relationship with colleagues, and contribution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

Principle 2

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. To ensure outcomes are in line with client expectations, we actively request

feedback from our clients on a regular basis. For example, we have found that 95% 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.



Strength in difference – supporting an inclusive and diverse workforce

From the day we were born, Inclusion & Belonging (I&B) have been strategic priorities at the heart of Isio. We are proud of our work with client

and apply that same mindset to our I&B approach.

“Our Vision is to foster a diverse, inclusive and equitable environment, which recognises individuals for their unique contribution, celebrates their differences without judgement and remains committed to driving measurable progress.”

We promote and champion I&B through: our thriving employee networks; events calendar; I&B champions; and our I&B Steering Committee and strategy (CEO sponsored, with an independent Non-Executive Director Chair). In 2024, we also appointed a dedicated resource to oversee the strategic direction of our I&B agenda, a full-time Inclusion, Belonging & Sustainability Manager.

Social mobility: In 2024, our Social Inclusion Network reviewed all HR policies through a Social Inclusion lens, resulting in changes. In recruitment, we have made adjustments where potential barriers were identified, examples include: travel paid for by Isio; advising candidates there is no need to wear a suit; and adaptations to interview formats. CVs are anonymous and interviews are conducted by diverse panels.

We have widened routes into Isio by partnering with 10,000 Black Interns, Social Mobility Foundation and Girls As Investors (GAIN), resulting in 6 permanent offers last year. We adopted apprenticeships and widened qualification routes. In 2024 we also hosted Year 12 students from underprivileged schools and collaborated with the EY Foundation on work experience for state schools.

Flexible working: We offer flexible working, encourage hybrid working and all employees can choose a mix of remote and office working. We continue to improve gender diversity at senior levels and have a number of senior leaders’ role modelling part-time and flexible working patterns, as well as more than 10% of all colleagues being part-time.

In 2024, we also updated all of our Parental Leave policies in order to better support parents, carers and those going through the adoption process.

Mental health and wellbeing: We have an active Mental Health Network which provides insight, education and support. We have twenty one Mental Health First

Principle 2

Aiders across all locations; and all staff are invited to be trained as Mental Health First Aiders. All staff also have access to mental health and training modules on our online learning and development site as well as access to Help@hand, an online tool and app that offers a range of valuable medical and practical support services, including mental health and wellbeing support services.

We will soon be publishing 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 85.2% (as compared with 85.7% of men), whilst the bonus pay gap also decreased (compared with the prior year);

The hourly pay gap didn't differ significantly from last year, but we have set a 5 year gender diversity aspiration this year which, over time, will help us to decrease this gap. Measures that will support this will include:

- Ensuring promotion shortlists are diverse;
- Ensuring diversity and inclusion objectives are embedded in our hiring strategy;
- Rolling out unconscious bias and microaggression training to the entire firm through in-person away days; and
- Introducing a women's empowerment programme to decrease attrition amongst our senior female colleagues.

Outcomes

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

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). 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.

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

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, the external ESG data provider has enabled 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

Maintaining quality in relation to climate modelling

We are dedicated to a culture of continuous improvement, constantly looking inwards to identify how we can enhance our services to better serve our clients' evolving needs. Over the past year, we recognised an opportunity to update our proprietary climate model to reflect not only the latest scientific insights but also the valuable feedback from the finance industry regarding climate risk assessment. This undertaking was motivated by our commitment to provide our clients with the most relevant and accurate tools for navigating an increasingly complex investment landscape.

As part of this update, we introduced a fourth climate scenario, acknowledging the need for a broader range of potential outcomes that clients may encounter. This new scenario, alongside revised underlying assumptions, allows us to more effectively capture the physical risks associated with each climate trajectory and factor in the consideration of potential tipping points. Additionally, we have refined our understanding of a "greenium" (which refers to the premium investors are willing to pay for sustainable investments) and incorporated this across more asset classes.

By implementing these updates, we aim to equip our clients with a more robust and nuanced climate model that supports their strategic planning and investment frameworks. We have updated our narrative to use the inputs and outputs of climate scenario analysis both qualitatively and quantitatively to help our clients build portfolio resilience across different and uncertain climate futures.

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 (SI) 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.
- The Head of Asset Class and Manager Research ensures that sustainability is integral to all **manager selection processes and new research ideas**. For example, forestry and social infrastructure has continued to be a focus for this year with our clients, and 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 acquisitions of Premier Group and Deloitte Total Rewards & Benefits (DTRB), we understand that such processes need to evolve with the business.
- Diversity and inclusion will remain a focus for our workforce. Following on from the successful implementation of seven Inclusion & Belonging (I&B) projects in 2022-23, which involved creating our I&B vision, refreshing I&B volunteering, collecting diversity data, gaining Inclusive Employers Bronze Accreditation, launching a role models and mentoring programme, rolling out Leaders As Allies training and implementing an I&B Aspiration, we have now launched our long term, more systemic **Inclusion and Belonging Strategy**. This strategy comprises of five pillars that are reflective of the whole employee lifecycle and every layer of the business, and aims to embed I&B into our business as usual. This has been signed off by the Board and therefore has the highest level of senior management support. The pillars are: Assess, Attract, Belong, Grow and Influence.



Principle 3 – Managing conflicts of interest

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.

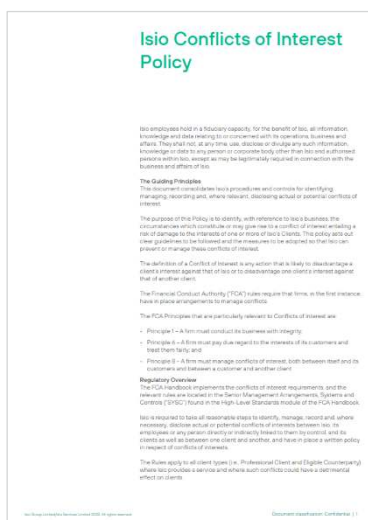
Isio may, in certain circumstances, decide it is not able to act for a client because it is not able to prevent a material risk of damage to the interests of one or more clients."

Based on FRC feedback, we have published and uploaded Isio's Conflict Management Statement, to improve transparency on how we deal with such conflicts, as and when they arise.

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



[Read the policy here.](#)

manage any conflicts of interest that may arise and carry out an informed assessment of Isio's arrangements to assess that they are operating effectively. In practice, this requires Isio's Senior Management to:

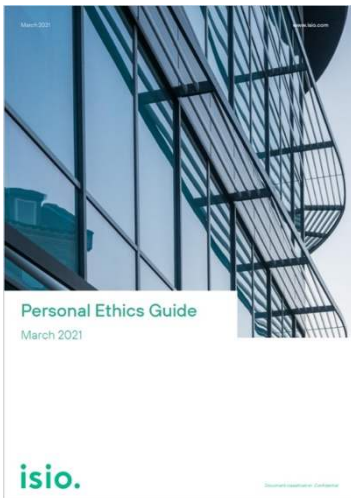
- Be involved in the identification and management of areas where conflicts of interest may arise;
- Regularly review Isio's risk of conflicts of interest arising and the mitigating arrangements in place. This will involve an inclusive review of the entire business activities of Isio and, where appropriate, 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 hospitality, and employees are required to receive written approval from the risk and compliance team before accepting gifts or hospitality from investment managers or other parties that may result in a conflict of interest, and 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).

Principle 3



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

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.
- **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** – As mentioned, 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 SI research team these objectives are aligned to their SI 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

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.

Principle 3

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.

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

Within the Isio Mergers & Acquisitions (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 needs 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 be delivered to each client, to 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. To ensure that there is not direct conflict on competing interests in the advice provided to both parties, Isio does not provide scheme funding advice to both the corporate and trustee of a dual appointment arrangement. The recent acquisitions of both the Premier Group and DTRB businesses 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 – Promoting well-functioning financial systems

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

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 considers both systemic/market-wide risks (such as interest rates, inflation, as well as climate change and other sustainability risks) – and non-systematic risks and out-of-model 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.



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.

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

Principle 4

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 (SI) 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 cost-of-living crisis in the UK), as well as the economic cost of a nature degradation on the global economy.

Where the SI Team develops research, this is saved within our internal SharePoint system for access by all relevant 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:

Principle 4

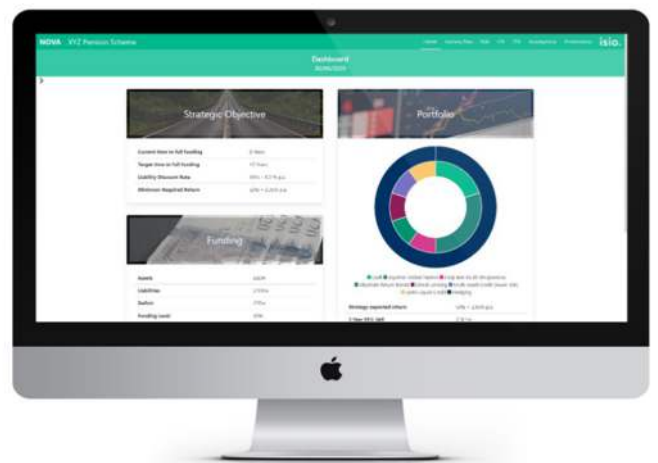
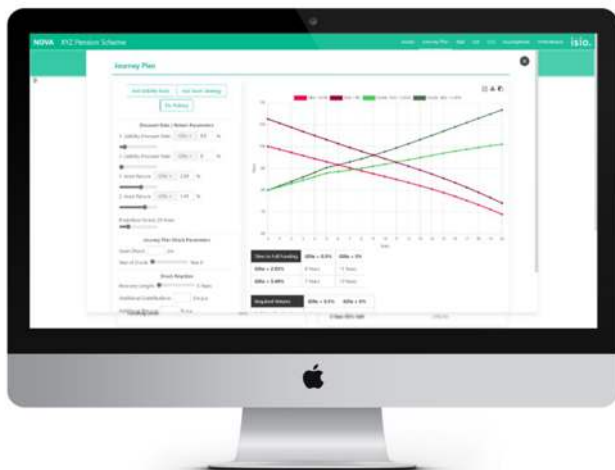
- The development of intellectual capital on our sustainable investment research priorities (climate, nature and social factors), which we disseminate in the form of papers and videos. (Please see the box further on in this section on a “Spotlight: Isio Sustainability Research” for an understanding of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



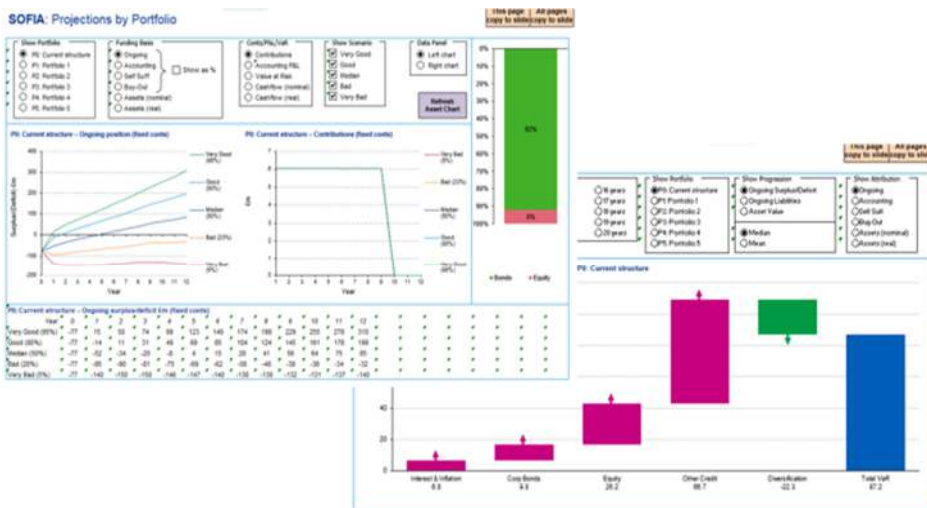
Nova: In 2023, Isio released the newest version of the web-based deterministic modelling system, **Nova**, incorporating significant advancements in relation to liability modelling, LDI collateral, deficit contributions, risk assessment, journey planning and more. It allows us to rapidly analyse investment 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

Principle 4

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. In late 2023, Isio also released [Nova AS](#), a spin-off designed for asset-only portfolios such as private capital investors (including charities, endowments, etc) and DC pension schemes.

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 funding position over time. 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 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, to ensure the client’s LDI hedge remains in line with the hedge objective, used alongside Nova and SOFIA for client investment strategy modelling.

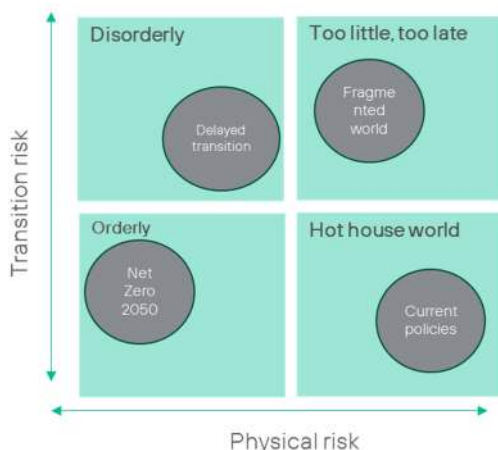
ESG Data Model: Isio contracted with an [ESG data provider](#), in 2023, following a market-wide search for best-in-class ESG and climate change data providers, including offerings in the social and nature space. We are now finalising development and roll-out of an in-house ESG data model, using the inputs from the data provider, which will significantly enhance our sustainability reporting capabilities to more efficiently serve our clients in this regard. This year, we began rolling out the use of this model for select clients, and are continuing to work on scaling the model across our wider client base. This will provide a range of Environmental, Social and Governance metrics including the recommended metrics of the ICSWG. We will further introduce proxying approaches to provide an estimation of the ESG performance of more illiquid investments as well as use the data model to verify the ESG-related claims of our clients’ investment managers, to ensure that sustainability aims and targets are being achieved. This will also support further research and analytics on our own thematic priorities including climate change, nature and social factors.

Principle 4

Climate scenario modelling: We based our fundamental scenarios on the latest 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:

- **Net Zero 2050:** This scenario aligns with the most ambitious target of the Paris Agreement, a <math><1.5^{\circ}\text{C}</math> scenario this century. Clearly this is an optimistic scenario, where climate policy is implemented immediately and achieves Net Zero carbon emissions by 2020. Some regions (e.g. EU and US) achieve Net Zero across all Greenhouse Gases (GHGs) by that date. Physical risks are minimised, however transition risks are high, as a result of ambitious decarbonisation. While according to latest data, we are already at - **Delayed Transition:** This scenario aligns with a somewhat less ambitious target of the Paris Agreement, of below - **Fragmented World:** In this scenario, global climate policies fall short of Paris Agreement ambitions, leading to a - **Current Policies:** In this climate scenario, we fail to achieve the Paris Agreement, resulting

- **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 multi-asset allocations, respectively, across the active to passive and liquidity spectrum.

We also subscribe to a range of [data and news providers](#) (e.g. Thomson Reuters EIKON, S&P Global, MSCI, Morningstar, ICE, Financial Express, among others) as well as receiving regular information from a number of investment managers and

Principle 4

banks. We do not believe any one source has a monopoly on good information and therefore we cast our net far and wide.

We have also recently launched **Isio Fund Liquidity Options (i-FLO)**, which is a proprietary solution to help clients sell private credit and infrastructure equity holdings on the secondary market. i-FLO can be beneficial for investors looking for liquidity and can be utilised as a standalone service, including clients not currently advised by Isio. We have, over the years, built a strong network of key players and have empanelled them as buyers as part of i-FLO. Compared to the broker-led process, these key relationships allow i-FLO to make the process of selling assets more efficient: achieving greater transparency; delivering competitive pricing; all whilst at a very competitive fee to the seller. See below case study for more detail.



Isio Fund Liquidity Options (i-FLO)

Background:

Following the volatility caused by the Mini-Budget in September 2022, we have seen greater demand for secondary sales of illiquid assets caused by: improved funding levels for pension schemes; liquidity demands; and overweight allocation to illiquid assets. Many of our pension scheme clients are invested in corporate private debt or infrastructure equity, typically held in closed-ended vehicles, however have underdeveloped secondary markets. Therefore, our clients found that selling on the secondary market in these assets was an inefficient process, with brokers having less experience in these asset classes.

Solution:

Through our investment research team, we have strong knowledge of the secondaries market. Additionally, our transitions team have assisted clients with secondaries trades, thereby very familiar with completing secondary sales. Therefore, we combined our capabilities to create a proprietary platform, **Isio Fund Liquidity Options (i-FLO)**, for investors to sell and buy illiquid assets. Compared to the traditional route, i-FLO offers competitive pricing, greater transparency and lower fees. This evidences an example of Isio's innovation and developing new solutions in reaction to market events.

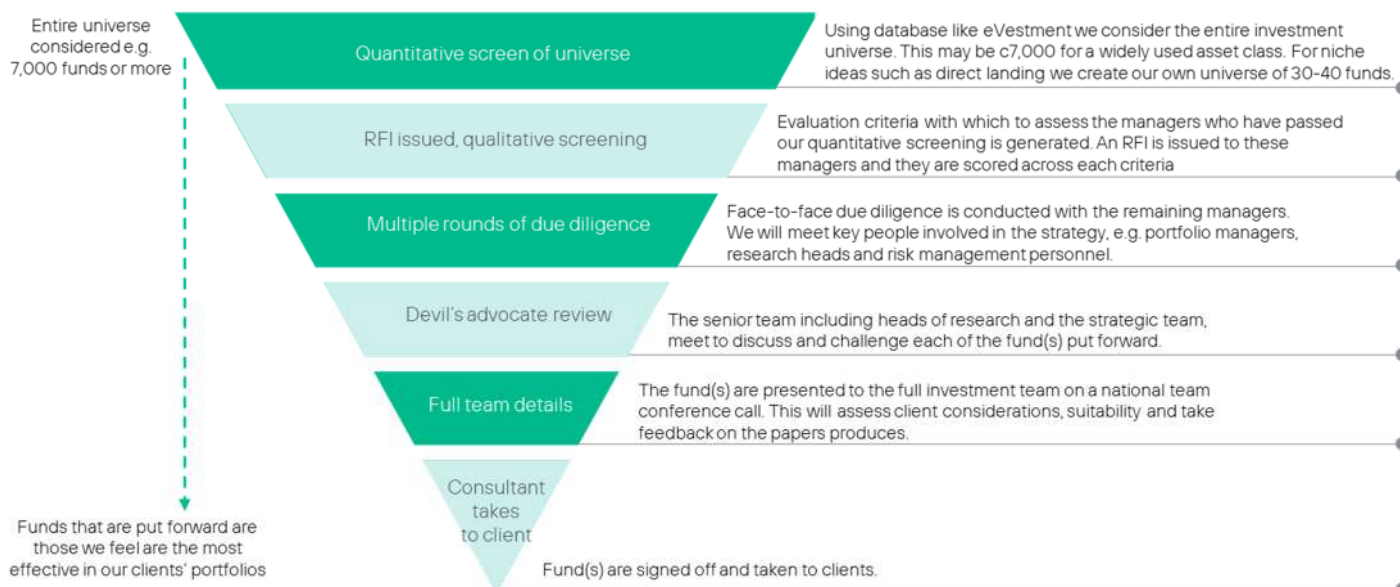
Isio recently publicly announced that Britannia Pension Scheme was the first client to use i-FLO, completing a sale of their c.£72m investment in a private credit fund on the secondary market. The Scheme chose to complete the transaction using i-FLO, which resulted in a successful sale of their asset at a strong price.

Principle 4

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.

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.

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

Principle 4

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.

Systemic risks

The Covid-19 pandemic presented significant systemic risks to financial markets, with lasting impacts on operational practices. In addition, the ongoing cost of living crisis, prompted by high inflation and exacerbated by geopolitical events (including the conflicts between Russia and Ukraine and more recently in Gaza/Israel), continues to pose substantial challenges to both financial markets and our clients. At Isio, we have effectively managed these risks by adopting a flexible approach and evolving in response to emerging challenges and opportunities.

To ensure business continuity during the pandemic and beyond, we enhanced our IT infrastructure to create a seamless work-from-home environment for our staff. This development enabled us to maintain uninterrupted service for our clients through remote work and video conferencing. As we moved forward, we embraced flexible working arrangements by implementing a hybrid model that balances the benefits of face-to-face collaboration with the well-being of our team. We recognise the importance of personal connections, but the health and safety of our staff remain a top priority. Consequently, we introduced several safety measures to mitigate health risks in the office, such as an office desk booking tool to manage occupancy and encouraging self-testing for staff who feel unwell.

Last year, we conducted an internal review of our hybrid working model through a staff survey that garnered responses from 374 team members. The results revealed that 94% of our staff support hybrid working, affirming our commitment to flexibility. In light of the rising cost of living and inflation, we also provided our staff with a mid-cycle pay increase to address these challenges, in addition to annual salary adjustments that reflect higher inflation rates.

In advising our clients, we prioritise agility and adaptability in adjusting investment strategies to navigate these systemic risks. Our proactive approach has enabled us to effectively guide our clients through the challenging market conditions experienced over the past few years, ensuring they are well-positioned for future uncertainties.

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, together with the LDI market crisis in 2023 and high inflation environment, impacted significantly on our clients' liability driven investments, and significantly increased the speed of investment transitions.

Principle 4



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.

Industry initiatives

We have identified, partnered and joined a number of industry initiatives and bodies which we believe drive improvements in areas we feel strongly about and which support the best interests of our clients and are aligned with their stewardship activities as well as promote continued functioning of financial markets. See below for list and details of the initiatives and bodies to which we are members or signatories:

<p>UN Principles of Responsible Investment (UNPRI) signatory</p> <p>The UNPRI is a globally recognised body that sets out a best practice framework for responsible investment.</p> <p>Being a signatory enables us to further develop our ESG approach via regular feedback from the UNPRI as well as to participate in collaborative initiatives held.</p> 	<p>UK Stewardship Code signatory</p> <p>We are a signatory to the UK Stewardship code, having displayed our alignment with the Code's 6 Principles for investment consultants.</p> <p>This ensures that we have a strong stewardship framework in place and to continuously evolve our practices in this space.</p> 	<p>Investment Consultants Sustainability Working Group (ICSWG) member</p> <p>The ICSWG brings together leading UK investment consulting firms with the aim of seeking to improve sustainable investment practices across the investment industry. We have led and participated in a number of ICSWG projects in order to drive industry best practice and improve consistency.</p> 
<p>Taskforce on Climate-related Financial Disclosures (TCFD) supporter</p> <p>The TCFD is a global framework for disclosing climate-related information. We are supporters of this framework and work with our clients to produce TCFD reports; recognising the importance of managing climate risks and identifying opportunities.</p> 	<p>Taskforce on Nature-related Financial Disclosures (TNFD) observer</p> <p>Whilst there's significant focus on climate change, an interlinked issue is our impact on nature and biodiversity. Being an observer of the TNFD working group ensures we feed into industry-leading thinking on nature and its importance to investors.</p> 	<p>Pensions for Purpose member</p> <p>With a growing focus of our clients on impact investing, we are a member of Pensions for Purpose to gain access to a wide range of impact investing information and to share our experiences with others via case studies, events and thought leadership papers.</p> 

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, leads the Standardisation Pillar. Whilst Mark Irish 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	Isio became a supporter of the

Principle 4

	reporting of climate-related financial information.	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. As a service provider, we are currently exempt from regular UNPRI reporting, but are engaging with the UNPRI in regards to the evolution of the Principles and progression pathways, specifically in relation to service providers.
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 the Impact Principles, which is a set of Principles developed in combination with the Impact Investing Institute (see above). We have also collaborated with Pensions for Purposes and provided feedback in relation to the review of the Impact Principles. Isio's nature positive paper won the Environmental Impact Thought Leadership, at the Pensions for Purpose Awards, in November 2022. More recently, we were shortlisted for both Best Strategy and Best Climate Action Thought Leadership

Principle 4

		categories and received a Highly Commended for the Best Strategy category at this year's (2024) awards.
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.
Net Zero Investment Consultants Initiative (NZICI)	NZICI is a global group of investment consultants committed to supporting the goal of global Net Zero greenhouse gas emissions by 2050 or sooner, in line with the ambition to limit the global average temperature increases to 1.5°C above pre-industrial levels.	Isio became a member to NZICI in October 2024.

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

- Last 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 and presentation 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 (SI) 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 contracted 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 November 2023, the Network for Greening the Financial System (NGFS) published its fourth 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 two new scenarios, being Delayed Transition and Fragmented Policies scenarios, replacing the Divergent Net Zero scenario and sitting in between our existing (orderly) Net Zero 2050 (<1.5°C) and Current Policies (>3°C) scenarios. The former Delayed Transition scenario aligns with the less ambitious (vs Net Zero 2050) target of the Paris Agreement of a below 2°C scenario this century, while Fragmented Policies fails to achieve the Paris Agreement, resulting in a >2°C scenario this century.
- The scaling up of physical damages (using the IFoA physical damages function) under the Fragmented World and Current Policies scenarios (ie. scenarios failing to meet the Paris Agreement targets), to reflect climate tipping points and 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:

- **Holistic three-part series on sustainable investment strategy implementation:** This series considered stacking environmental and social issues, with the first paper laying the foundation for implementing a sustainable investment strategy in practice and introducing the setting of sustainability priorities, while paper two presents a framework for layering multiple sustainable objectives in the investment strategy, as well as the challenges that can arise from doing so. In the last paper, the focus is on understanding best practice sustainability propositions across the spheres of climate, nature and social investments, and how these could all fit together, illustrated by case study examples of best practice mandates which we have been working with clients and investment managers to develop. We were shortlisted for the Best Strategy Thought Leadership category for the Pensions for Purpose Content Awards 2024 for this paper series and received a Highly Commended.
- **The art of the possible – Annual Sustainable Investment Survey: Examining sustainable investing practices across our fund universe:** This paper is the first of an annual Sustainable Investment survey which aims to shine a light on where we see ESG opportunities across different asset classes, as well as exploring how investors can seek to 'green' their strategies further in relation to what is possible within individual asset classes. The results in this paper present a snapshot of the outcome and findings of our Sustainability Integration Assessments, where we have assessed a selection of c. 50 asset managers across over 120 funds. This paper received media attention including Professional Pensions, Pensions Age, ESG Investor among others and was spotlighted in the Pensions for Purpose August newsletter.
- **Engagement vs Divestment: Supporting the transition to a low carbon economy:** Following working with a local authority pension fund on the debate between the effectiveness of engagement vs divestment, in bringing about the transition to a low carbon economy, we publicly published a research paper on the legal, financial, and theoretical perspectives of engaging and divesting from fossil fuel assets. We were also shortlisted for the Best Climate Action Thought Leadership Award for the Pensions for Purpose Content Awards 2024 for this paper.
- **Why Circular Economy principles matter for investors:** In this Circular Economy blog series published over summer 2024, we address why Circular Economy principles matter and how these can tackle climate impacts (e.g. critical minerals and renewables), nature (especially ocean plastics), and social challenges (using the example of fast fashion). We highlight ways to manage risks and offer actionable insights for sustainable investment strategies. We start with an introductory blog to highlight the concepts and outline, followed by a blog on each of the above topics, and a closing blog signposting the calls to action.



As noted in our report last year, 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.

We were also a sponsor for the Impact Investing Principles Adopter Award and sponsored an event table (which includes hosting a table and facilitating round table discussions) at the Pensions for Purpose Annual Symposium and Awards 2024 event on 8 October.

Principle 4



Case Study

Development of an ESG Data Model

The Isio Sustainable Investment and Digital Teams are finalising the development and roll-out of our in-house ESG data model, to efficiently deliver sustainability metrics reporting to our clients.

We are working with investment managers to get the necessary inputs across our clients' mandates and working to reconcile metrics data generated by our model with data clients have previously obtained directly from their managers, and to understand and attribute any differences. We are also developing our proxy model to enable us to provide estimated data for non-listed assets that otherwise wouldn't have ESG data availability. This model is used across a range of clients including pensions schemes, endowments, family offices and charities.

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.

This year, we have begun to roll the model out to select clients, including training consultants on how to use the model, and are continuing to work on scaling the model across our wider client base. We will look to develop new ways of providing ESG analysis for interested clients using the model's output, including how we can engage with managers on conclusions drawn from the model.

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](#). We aim to continue scaling the ESG data model in 2024/25, 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 and improved efficiency, in order to continue to push the boundaries of the possible for our clients.

Principle 5 – Integration of stewardship and investment

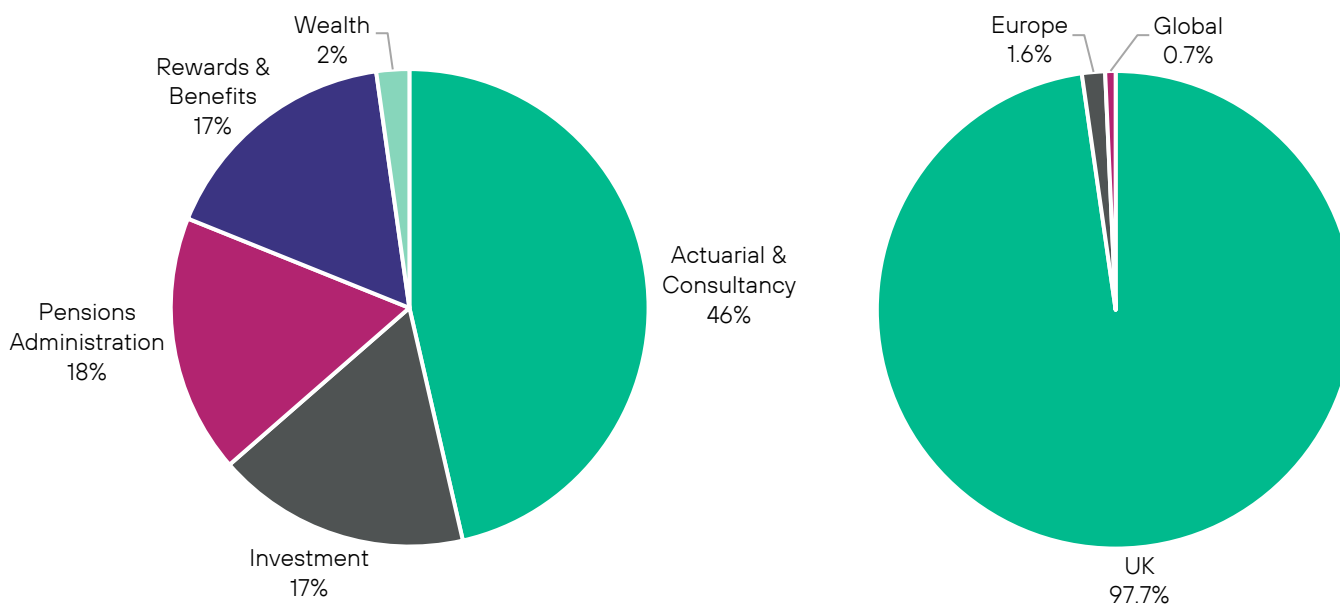
Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

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 some exposure to retail clients.¹ We serve ~1,540 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.



¹ These statistics include Premier Group and Premier Wealth Planning, and the Deloitte Total Rewards & Benefits (DTRB) businesses, following the acquisitions of Premier on 1 October 2022 and DTRB in May 2023, with full integration on 1 October 2023.

Principle 5

Within the Isio Group, the [Investment advisory](#) team's counsel covers:

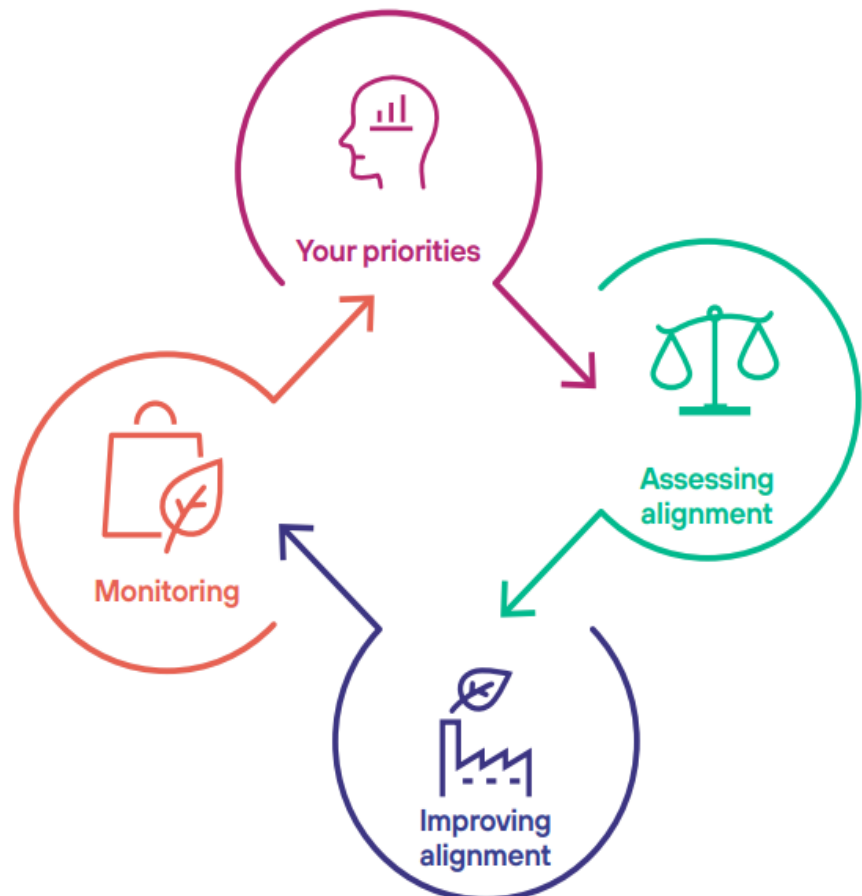
- Assets worth ~£300 billion spanning a broad range of clients, across DB and DC pension schemes, and other wealth advisory clients, with differing requirements and beliefs when it comes to sustainability and stewardship.
- From a geographic perspective, nearly all of Isio's investment advisory clients are based in the UK.

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.

Our client sustainability journey consists of the following steps:



Principle 5

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

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

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:



The world of sustainability continues to evolve and so do our clients priorities. We provide regular training to our clients on a range of SI-related topics in order to capture the latest industry and scientific thinking. Increased knowledge on these topics can help in identifying beliefs and priorities (Sponsor views can also be captured here). These priorities can be translated into specific investment objectives and targets, such as the adoption of a Net Zero commitment.

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 and on their specific priorities and beliefs, 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. The focus for pension scheme clients has been continuing to meet the summer 2022 stewardship regulatory requirements and recommendations, which increased the onus of Trustees to maintain

Principle 5

oversight of stewardship activities, as well as the setting of stewardship priorities and monitoring their investments against these.

- **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: the focus has continued to be on providing education on emerging climatic concerns and latest in climate science, such as the possibility of extreme physical damages from climate change, and the associated social cost (ie. consideration of the Just Transition).
- 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, we have continued to focus 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 is to ensure the alignment of the managers' voting and engagement activities with the Trustees' views in these priority areas. As well as in the setting of climate decarbonisation targets with our largest and most engaged clients.

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 Principle 4 for our recent thought leadership pieces).

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

	Traditional ESG factors not considered.	Fully Delegated "Light Touch" Approach Reliance on investment managers' RI Policies.	Values-based/ Exclusionary/ Ethical Investing Reflect core values of an investor. Avoids sectors that are controversial.	Sustainable Investing "Integrated Approach" Manages ESG risks whilst seeking positive ESG outcomes	Impact Investing Investing in companies, funds or infrastructure that provide solutions to social and environmental issues that look to deliver market rate financial returns.	Impact Only/ Philanthropic Investing Impact investing, but market returns are a lower priority.
ESG Impact						
Financial Impact		Focus on delivering long-term returns				Below market returns
Objectives		ESG risks managed				
				Pursues positive ESG outcomes		Seeks specific ESG targets
Governance Requirements		Regular training to review ESG beliefs, set objectives and integrate ESG policy				
		Manager monitoring and engagement	ESG Reporting	ESG targets set and impact measured		
		Review of strategy and allocation to funds aligned with ESG policy				

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.: <ul style="list-style-type: none"> 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.

Once sustainability views and priorities are agreed, we can consider how aligned the current investment strategy is with these priorities. We will review our client's investment strategy to check the compatibility of the investments with their policy. This includes assessing the objectives of the solutions they invested in as well as considering the SI-related capabilities of their investment managers, via a quantitative scorecard approach. These discussions and assessments are forward looking in nature. 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 continued to support an LGPS scheme in committing an investment to 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. We also supported this same client in an allocation to a renewables infrastructure mandate in line with their ESG beliefs.



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.

Principle 5

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 as well as for ad-hoc fund due diligence. 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. We do not report the nature and social scores in standard client reporting as these areas continue to develop and evolve and will reconsider this as this becomes more established. However, where conducting due diligence on a product with a defined nature or social impact objectives, we consider these scores as part of our research assessment and overall rating.

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.

Principle 5

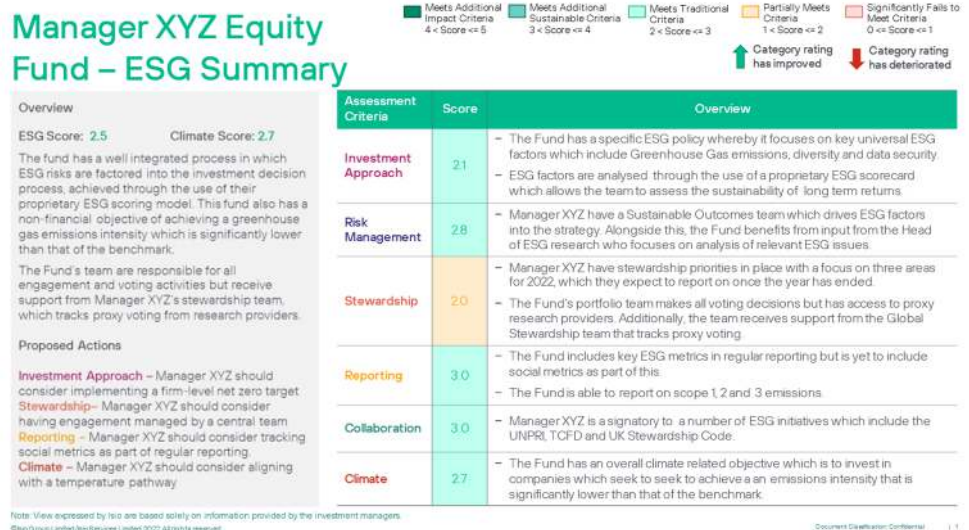
We use the scorecard to identify areas for improvement, which we set for the managers, and we engage with them and assess progress against these actions on an ongoing basis. Examples of proposed actions include:

- Investment approach – agreeing quantifiable, fund-specific ESG objectives such as Net Zero journey plans or decarbonisation targets.
- Reporting – broadening the ESG metrics included in regular reporting to investors and improve data coverage.

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 SDR labelling criteria) and expect managers to raise the bar each year, alongside additional efficiency updates.



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 including criteria in relation to the new Sustainability Disclosure Requirements (SDR) marketing and labelling regulations.

We will continue to evolve our approach year-on-year and expect investment managers to do the same to maintain best practice standards. We, on the whole, expect a slight worsening in scores for those managers that aren't continuing to pursue and evolve approaches to sustainable investment in line with the broader market and our expectations.

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

- 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.
- We recently helped structure and launch an innovative resource efficient equity index on an LGPS pool which was seeded by one of our LGPS clients. The funds broadly replicate the regional and sector exposure of a typical market capitalisation index but has successfully outperformed over all time periods since launch.
- 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,

Principle 5

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 conducted due diligence of industry nature-based solutions, across the liquid to illiquid and thematic spectrum, and will continue to research innovative solutions within nature-based solutions as the opportunity set broadens.

- We have also researched and supported clients in going into innovative diversified sustainable infrastructure 2.0 solutions including healthcare, climate resilience, digital and other social infrastructure.
- We continue to collaborate with an external partner on market-leading social investment solutions, including arranging roundtable discussions, focusing on topics from social infrastructure to the Just Transition and financial inclusion.



We encourage transparent and regular reporting on ESG metrics against ambitious yet achievable targets. Given the evolving landscape we support clients in ensuring regulatory requirements are met and ensure insight on key SI topics are shared to develop knowledge. We support clients in exceeding regulatory requirements to ensure our clients' portfolios are future proofed.

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 in our Sustainability Integration Assessments and we detail to clients any changes to their sustainable investment capabilities as a result of this engagement. 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.

We engage with managers via a range of approaches including via email and calls, as well as on occasion support clients in written formal letters of concern to their investment managers where necessary and if improvements are not forthcoming, and depending on the size of manager, importance of the issues at hand, and our client exposure invested. We typically engage initially via email, unless specific issues warrant additional scrutiny and will then request a call. In 2024, we engaged with a total of ~52 investment managers.

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, and in some cases support clients in sending formal letters of concern to managers to request action be taken on certain issues and in relation to specific holdings (for example in relation to holdings in Thames Water off the back of recent negative press). The

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.

Principle 5

asset class research teams hold quarterly update calls with all rated managers in which ESG issues are often also discussed.

Clients may consider divestment, 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.

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 previously, we are currently finalising and rolling out of our own ESG metric analytics model for our clients, which will significantly improve our reporting offering to clients.

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%	31.8%
Implied temperature rise/ portfolio alignment	3°C (49%)	2.8°C (100%)	3.3°C (97%)	3.1°C (25%)	3.2°C (25%)	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

Outcomes

How effective has this approach been in communicating with clients?

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 as a proposed next step 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 - 1

Best-in-class Sustainable Credit

Isio's Sustainable Investment (SI) 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 SI 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 - 2

Implementing a Net Zero strategy

We advise the >£1bn Cushon Master Trust and based on their individual climate ambitions, we supported them on their Net Zero strategy and journey plan.

This included advising them on a stretching 80% emission intensity reduction target by 2030; the design and implementation of their climate impact private markets portfolio; and use of carbon credits.

We are incredibly proud to have advised Cushon through this process. See: [The world's first Net Zero pension | Cushon](#).



Case Study - 3

Alignment with bespoke client journey and feedback

In the first stage of the client journey, we provide training and identify our clients' beliefs and priorities and all our advice is anchored around this, with further tailoring based on client feedback. We advise our clients on the connectivity between financial markets, climate change, nature impacts and social factors. As an example beyond climate change, we have supported a number of clients in agreeing alignment with specific UN Sustainable Development Goals, based on their bespoke beliefs.

Additionally, 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. For example, we recently refreshed the output of our Sustainability Integration Assessments, developing more succinct summaries with more concise commentary and clearer areas of priority focus.

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 2025, will be on how investors can engage with the circular economy theme and integrate these issues into client strategies, off the back of our recent circular economy blog series.
- **Setting beliefs, policies and objectives** – Continue to develop investment research on how to holistically implement multiple objectives in investment portfolios, from climate, to nature and social factors, whilst understanding there will be complementarities and trade-offs in doing so.
- **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 further 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 further develop and roll out the 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. We are also in the early stages of establishing client appetite and developing a framework to assess exposure to local UK investing for social impact, primarily for LGPS Funds.
- **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 (SI) Team. We have recently brought on board two new Sustainable Investment Consultants, including a recent graduate who has completed studies in the sustainability field.

Principle 6 – Policies and processes

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 and client 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

Principle 6

evolving request for information (RFI) surveys, and scorecards upon which they are assessed, to ensure these remain fit for purpose and account for the evolving sustainable investment market and regulation. This process is conducted by the Head of the Sustainable Investment (SI) Team, supported by the deputies and wider research team. 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 refined and 'client friendly' sustainability integration assessment report, as well as reflecting other market developments, such as the new Sustainability Disclosure Requirements (SDR) regulations, as well as consideration of establishing connections with leading academic institutions in developing bespoke risk management frameworks. As noted in our last Stewardship report, we previously developed a stand-alone nature score, to sit alongside climate and social scores as part of our scorecards.

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 UN PRI reporting submission during Q1 2021. This allowed us to carefully consider how our approach supports the integration of responsible investing factors. As service providers we have since been exempt from UN PRI reporting, but have regularly been engaging with UN PRI and also provided feedback into their ongoing review and await the outcome of this review, and in the meantime will continually look to evolve our ESG approach with best practice approaches.

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. These Impact Investing Principles are currently being reviewed and we have provided feedback as part of the consultation process.



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 do not believe any one source has a monopoly on good information and therefore we cast our net far and wide. We, therefore, subscribe to several data providers for investment data, including Thomson Reuters EIKON, S&P Global, MSCI, Morningstar, ICE, Financial Express, among others, as well as receiving regular information from a number of investment managers and banks.

We recently reviewed our manager research platforms, assessing a number of providers based on a range of criteria, data provided on the platform, and features. The outcome of this review was to replace eVestment with Morningstar (for liquid pooled funds – both equities and credit) and Pitchbook (for Private Market funds).

With a focus on sustainability, the Sustainable Investment (SI) 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.

Principle 6

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, S&P Global, we developed an internal ESG data model, which will significantly enhance our sustainability reporting capabilities for our clients, and 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.

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), and consideration of the purchasing of quality carbon offsets.

Internal and external assurance

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. We have in the last year hired a full-time permanent Inclusion, Belonging & Sustainability Manager, Polly Bagley, in order to support the Group drive forward our internal sustainability agenda and objectives.

In 2023, the Group have also established a network of internal sustainability champions to drive internal sustainability initiatives, for example, establishing a "plastic free" July to reduce and/or eliminate plastic use by colleagues and in establishing local sustainable suppliers.

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. 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. On 29 September 2023, Isio purchased high quality, independently verified offsets for more than 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 prudently purchased more quality carbon offsets than what was technically required to be carbon neutral since Isio's birth, and we have engaged with Sustainable Advantage to understand the current position and have recently purchased more offsets to at least maintain carbon neutrality as well as to offset the travel emissions for attendees of our investment conference. We are also exploring even higher quality offsets.

We acknowledge that offsetting efforts is not a replacement for ambitious decarbonisation action; **emissions reduction remains our top priority**.

In addition, on 20 February 2024 we made public our long-term commitments as we progress towards Net Zero:

- an interim target of 40% reduction in calculated Scope 1, 2 and 3 emissions intensity (per £m revenue) by 2030 (from FY 2022 baseline) – demonstrating early progress in areas we can influence;
- a Net Zero target of 2045 - this requires that we decarbonise our emissions intensity (Scope 1, 2 and 3) as far as is practical (targeting 90% from baseline of FY 2022) before offsetting the residual emissions.

We continue to develop the details of our climate/sustainability strategy and will continue to provide updates in future reporting.

Principle 6



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 to clients (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 post-assessment to engage on the areas to understand progress. When engaging with managers on these areas, we will have calls with managers where we have significant client exposure and/or highlighted issues with limited progress, 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.

Policy example

The Head and Deputies in the Sustainable Investment (SI) 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 SI Team, with senior sign-off provided by the Head of Sustainable Investment Research Team, Cadi Thomas. This was most recently updated in April 2024.

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, and resource efficient equity index funds.

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 succinct sustainability manager summaries, based on direct client feedback. This now includes more concise commentary and clearer areas of priority focus, however retains the depth and comprehensiveness of the analysis.

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).

Principle 6



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 as well as market-related or systematic risks, 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 recent market events including the LDI crisis, as well as those relating to sizeable geopolitical, climate and societal risks, we have worked with clients in considering out-of-model risks that they may be exposed to, and ways in which to build resilience to such risks including a climate emergency and geopolitical risk events (e.g. elections or conflicts).
- Following a number of issues raised regarding sustainability and financial resiliency in relation to Thames Water bonds (summarised below), we conducted due diligence including speaking to several managers that have exposure to Thames Water debt through their corporate bond mandates and in which our clients invest. The issues raised were 1) sustainability concerns including sewage released into the river, retraction of climate targets, and poor customer service track record; 2) financial concerns – their ability to repay and refinance debt; and 3) wider industry issues as water utilities under pressure to maintain and improve this essential infrastructure. Investment is needed to ensure that the transition to a financially and more sustainable water industry is possible and needed. From a financial perspective, the investment managers were initially comfortable specifically with the high quality, secured bonds and based on the recovery value (vs face value) compared to loss under default. While we did not propose clients instruct sale of Thames Water bonds, we supported further engagement to address some of the concerns and encouraged more direct and collaborative engagement with the sector and regulators. We also supported clients in drafting and sending letters of concern to their relevant managers to express explicit views.
- We recently considered advice to our clients in relation to investment grade corporate credit, and saw credit spreads narrow vs long term averages, with limited gains possible for further spread tightening, and credit quality also been deteriorating over time, nor do we see corporate bonds as a good hedge for insurance pricing. We, therefore, rolled out advice to all relevant clients suggesting possible alternatives depending on their scenarios. We also proposed Asset Backed Securities (ABS) as a possible option and conducted due diligence on relevant products. ABS was considered an attractive option given higher lending standards and better underlying credit quality, low loan-to-value ratios improving protection for investors, strong new issuance, and higher spreads than investment grade credit of equivalent credit quality, while default rates have remained low.
- 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.

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.

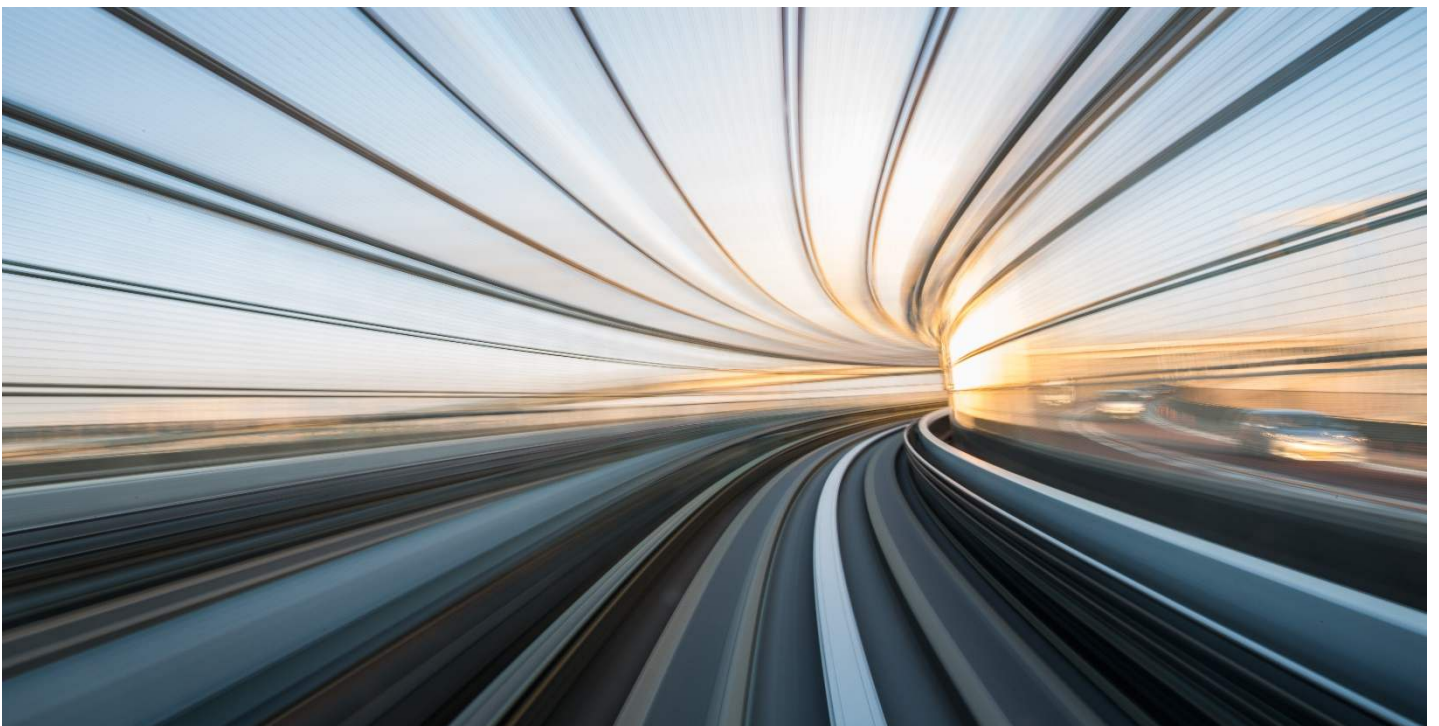
Moving forward: Assurance

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 sustainability 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.
- 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, as well as our partnership with Pensions for Purpose, 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.



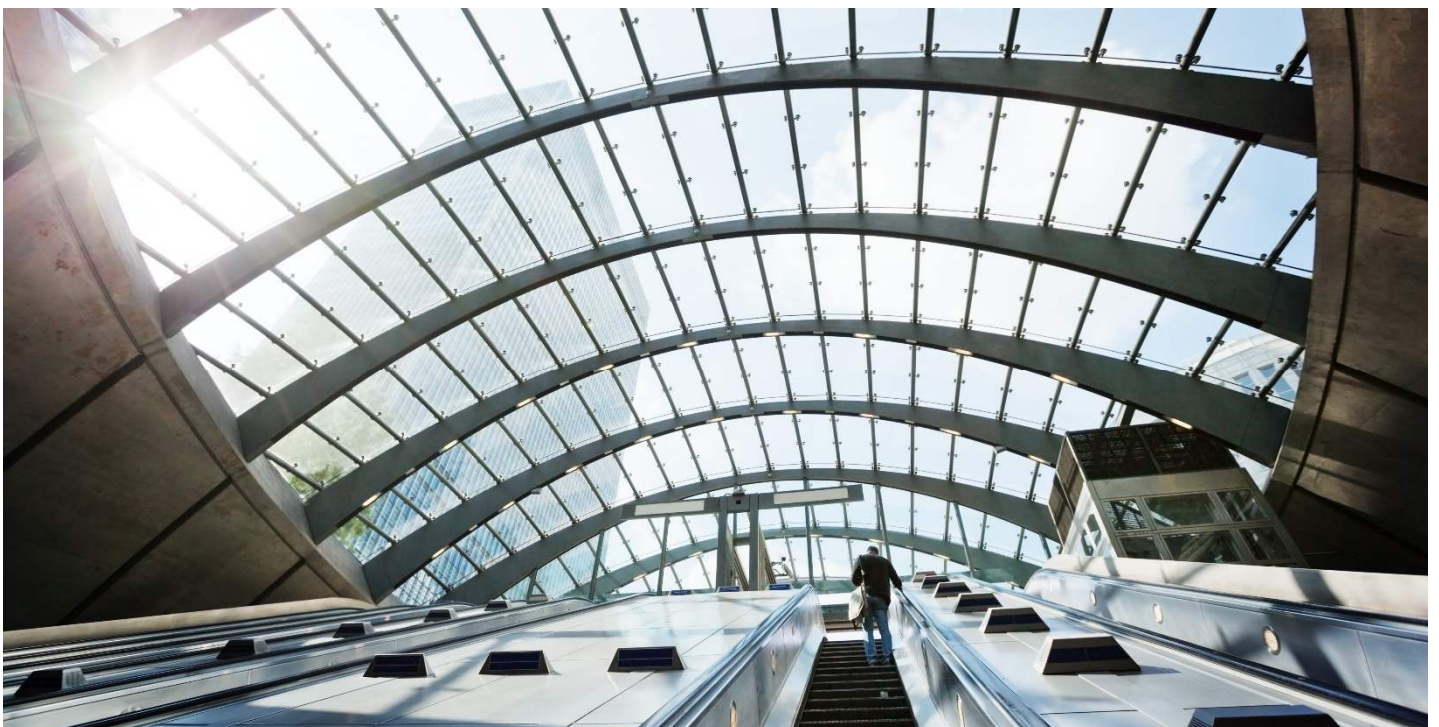
Conclusions

In this report, Isio Group Limited's fourth 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.
- 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 2024.
- 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 of in-house ESG data analytical services. Moving forward, we will be looking at further integrating aspects of 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. As a recent example of this is becoming a member of Net Zero Investment Consultants Initiative (NZICI).

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.



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