Isio's Stewardship Report

Isio Group Limited | October 2022

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

Since the launch of the Code and as a new company, Isio has been reflecting on what this means for us as an organisation, and what it means for the clients we work with. We pride ourselves on putting Environmental, Social and Governance (ESG) 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 2022, as well as actions taken to respond to feedback by the Financial Reporting Council (FRC) on our submission from last year. Some highlights include:

- **The creation of a Sustainability Action Group:** senior representatives from across all areas of the business are developing an internal sustainability agenda to ensure sustainability remains a top priority, at a business level.
- **Further progress within the standalone ESG team:** the team consists of 6 ESG specialist consultants, and we are currently recruiting a seventh, alongside the 5 ESG champions across our asset class research teams and 3 graduate resources. There are also a growing number of directors and partners helping to raise the profile of ESG, internally, within our research, and with our clients.
- **Regulatory support:** given ongoing developments in the ESG regulatory landscape, we have focused efforts on internal and external training, including on the Department for Work and Pensions (DWP) new guidance on stewardship and revised climate metric guidance, as well as the response on social factors.
- **ESG services:** we have spent the past year identifying where our clients might next need further support from us. We have conducted extensive due diligence on best-in-class ESG data providers to contract. We have also been developing assumptions for climate-aware investment solutions within our climate model.
- **Innovation:** where we have not been able to find market leading ESG solutions, we have worked with investment managers to develop these. For example, developing best-in-class sustainable or net zero aligned strategies within buy and maintain, multi-asset credit, and private and diversified private markets.
- **ESG research:** in the last year, we have published our first nature paper, carbon markets paper, and are launching a social paper before the end of the year. Our nature paper has been shortlisted for environmental impact thought leadership, at the Pensions for Purpose Content Awards, November 2022.
- **ESG manager research:** we have updated our client facing ESG manager impact assessment reports, to reflect the latest developments in the ESG landscape. This now includes a climate specific score for each fund, separate to the broad ESG score, and we are also in the process of trialling a social score to speak to growing expectations in this area. We continue to regularly engage with managers on our clients' behalf to drive ESG improvements over time.
- **Collaboration:** over the past year, we've expanded our collaborative efforts, focusing on global initiatives such as Pensions for Purpose and the Taskforce on Nature-related Financial Disclosures (TNFD). Cadi Thomas, our Head of ESG Research, now leads the Standardisation Pillar of the Investment Consultants Sustainability Working Group (ICSWG), and Ajith Nair, Head of Research, is also on the Steering Group.

We also know that the ESG landscape continues to evolve, and so will we. Moving forwards, we will contract with a partner for ESG data services, develop research guidance for our clients on how they can implement portfolios that recognise both environmental and social risks and opportunities, and look for collaborative opportunities in the social sphere.

Nick Evans, FIA

Partner, Head of
Investment Advisory,
Senior Research Sponsor

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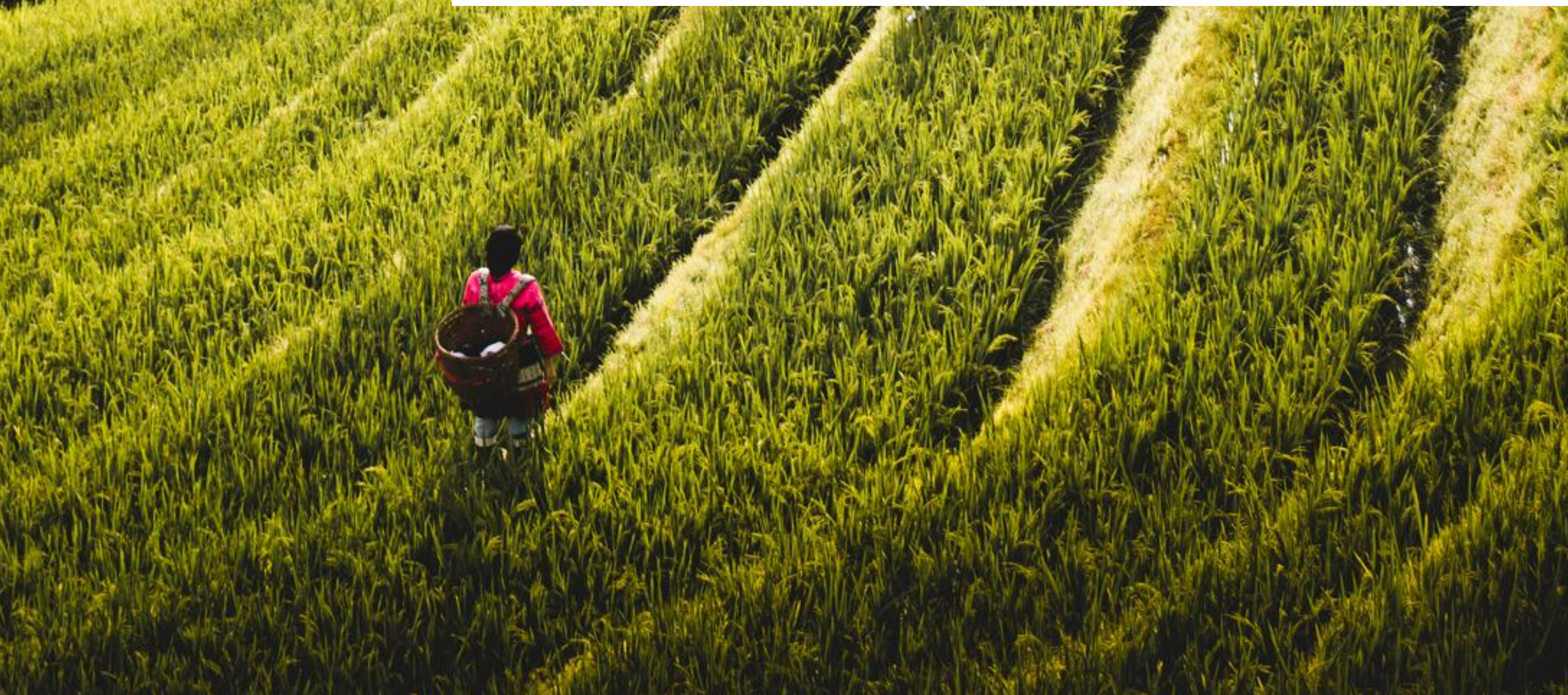


Principle 1 - Signatories' purpose, strategy and culture enable them to promote effective stewardship.

Context

Who we are and what we do

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

Isio is a leading independent UK provider of advisory and administration services to pension schemes and their sponsors. We are a new business but our team and the value we add is long established, having spun out of KPMG on 2 March 2020.

All but one of our 700+ clients moved across from KPMG with us, and our list of clients continues to grow. We work with a range of public and private Defined Benefit (DB) and Defined Contribution (DC) pension schemes, their sponsoring employers, and within the charity and private wealth sectors.

Our investment advisory business is a key strategic growth area for Isio. The team is now over 128 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 do not directly manage any investment products – this means that we provide independent advice tailored to each client's specific objectives.

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

- **Trustee scheme actuary & advisory**
- **Insurance transaction**
- **Fiduciary management oversight**
- **Corporate advisory**
- **Defined contribution**
- **Workforce financial wellbeing**
- **Pension administration and operational effectiveness**

Our culture

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

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

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

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

Our purpose

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

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

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

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

Our beliefs

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

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

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

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

Sustainable Investment Policy

We set out our approach to ESG and stewardship in our Sustainable Investment Policy, which we updated in April 2022. The ESG landscape continues to change and so does our approach to ESG and stewardship. 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 ESG beliefs as a company, to inform the ways in which we work with clients, as follows:

- We believe that through the identification of ESG opportunities and the management of ESG risks we can invest sustainably for **enhanced risk-adjusted returns**.

Read the policy

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

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

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.

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

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

Activities

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

Education & training
- Sessions on ESG, stewardship and climate change, or other issues of relevance to investors

Agree beliefs, policies & targets
- Expand ESG, stewardship and climate change beliefs and policies, to include practical ESG-specific targets

Consider strategy changes
- Develop an investment strategy considering the current portfolio, client objectives, and ESG-related risks and opportunities
- Include consideration of explicit ESG allocations, across asset classes.

Implementation
- Consider any potential changes to the manager line-up in light of changes to the investment strategy
- Set and review ESG targets within each mandate

Monitoring & reporting
- Regular reporting of agreed ESG metrics against targets
- Regular reporting of stewardship activities
- Support on regulatory requirements

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

Our strategy and culture as enablers of effective stewardship

In 2021, we updated our vision as a company (including our Purpose, Beliefs and Behaviours), which 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 ESG within research priorities, including on systemic issues such as climate change, nature and social factors.

This year, we have partnered with various new collaborative initiatives, including Pensions for Purpose and the Taskforce on Nature-related Financial Disclosures (TNFD), as well as the Institute and Faculty of Actuaries Sustainability Volunteer Group on a climate paper (see principle 4 for details). In the areas of social and nature factors, we believe collective investor action is necessary to alleviate systemic risks for our global economy and are specifically looking to collaborate with wider industry participants to bring about change and add our voice to the direction of travel in these areas.

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

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

In the past year, examples of how we have sought to do the right thing include offering employees flexibility in working remotely, whilst providing interest free season ticket loans and operating a cycle to work scheme for office days. 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. 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. 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. We also offer a range of training, including on ESG topics, and this year, for example, have developed training on the nature emergency and why investors should engage with this important topic.

- **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 ESG and stewardship capabilities. We also take part in collaborative initiatives, undertake research, and scan the competitive landscape, to make sure our advice remains best-in-class.

As we will describe elsewhere in this report, this year, we have updated our ESG assessments of investment managers, to reflect landscape developments (increasing emphasis on nature and social issues) as well as worked with managers to develop new products to meet client needs, including best-in-class sustainable or net zero aligned strategies within buy and maintain, multi-asset credit, and private and diversified private markets.

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 ESG related considerations, and explicitly climate change, as well as increasingly on social factors. We have provided ESG training to a large number of our clients from small to large. The majority of this has been focussed on climate-related regulatory requirements, but we have also provided training to schemes on relevant ESG regulations beyond climate change, including in relation to stewardship requirements, the government response on social factors and anticipated sustainable disclosure regulations in the UK.
Investment Approach	We aim to find the best ESG solutions for our clients. Where we can't find a best-in-class ESG solution in the market, we may work with investment managers to develop these. For example, we have worked with an investment manager to design a sustainable diversified private markets solution as part of the net zero strategy of a client. With another client, we helped design a best-in-class buy and maintain solution, focusing on 1.5°C alignment this decade, with sustainability objectives linked to the Sustainable Development Goals (SDGs). By working collaboratively with managers in this way, we can ensure ESG solutions are both best-in-class and aligned with client beliefs.
Monitoring	We provide a variety of clients with an annual ESG summary of the market and where the client's approach stands relative to the market and its peers. For example, schemes captured by climate-related regulatory requirements often seek to understand how their disclosures may compare with their peers. We currently work with twenty schemes on TCFD requirements and seek to tailor our advice according to the individual ambitions of the client. We see this as a process that genuinely adds value from a climate change perspective, rather than a regulatory tick box exercise.
Reporting	We provide ESG, climate and stewardship 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. We have worked with the Investment Consultants Sustainable Working Group (ICSWG) and proposed a list of metrics across Environmental, Social, and Governance factors and look to engage with managers to provide these. We are currently in the final stages of an ESG data provider search. This will be used as a basis to expand reporting on ESG, nature and social metrics.

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

Moving forward: Improving client outcomes

Moving forward, we aim to continually improve client outcomes by:

- Being true to clear investment objectives and understanding that these may evolve over time.
- Maintaining an open dialogue with our clients about how we meet their objectives and taking their advice on how to improve.
- Monitoring and researching the latest market trends. Best practice is rapidly evolving, including from an ESG perspective, so we continue to challenge our clients' ESG approaches.
- Recruiting and retaining the best talent in the industry. For example, we are currently recruiting a new ESG specialist in the ESG Research Team.
- Engaging with investment managers to do the right thing and drive ESG and stewardship improvements over time. We annually update our ESG manager assessments to push managers to track industry developments.

Case Study

Our approach to effective client management

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

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

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

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

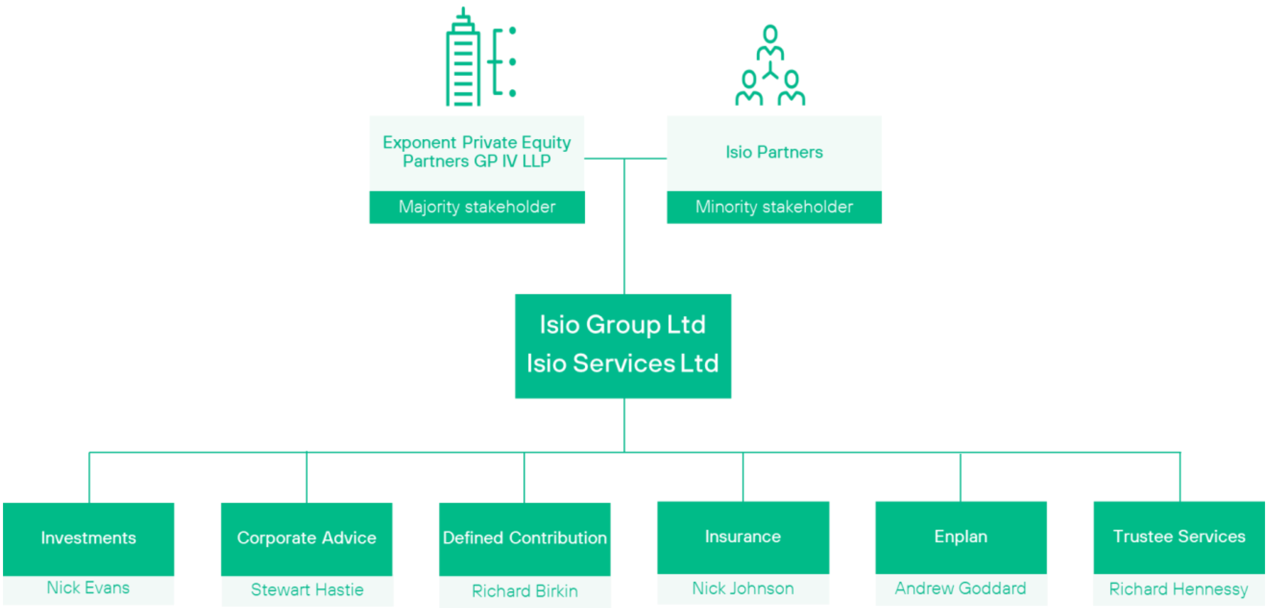
Principle 2 - Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

Activities

Governance structure

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

Andrew Coles (former head of Pensions at KPMG) is our CEO and Ian Pain is our CFO. The board consists of Roger Siddle, 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 eight investment partners are responsible for the governance of the investment business, with a focus on investment advisory, research, risk and people management:

- Nick Evans has ultimate responsibility for and oversight of our investment advisory business.
- Nick is also the partner with ultimate oversight of, and responsibly for, Isio research services.
  - — Ajith Nair, the asset class and manager research lead, reports to Nick and manages the specialist leads on specific asset classes, including LDI, credit,

equity, real assets, multi asset, ESG, and team leads with responsibility for research platforms, fiduciary research and DC research.
  - Barry Jones (CIO) and Calum Brunton Smith (Partner) lead 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.
- Emily McGuire and Tim Barlow are the partners 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, alongside our Chief Operating Officer, Lucy Robins.

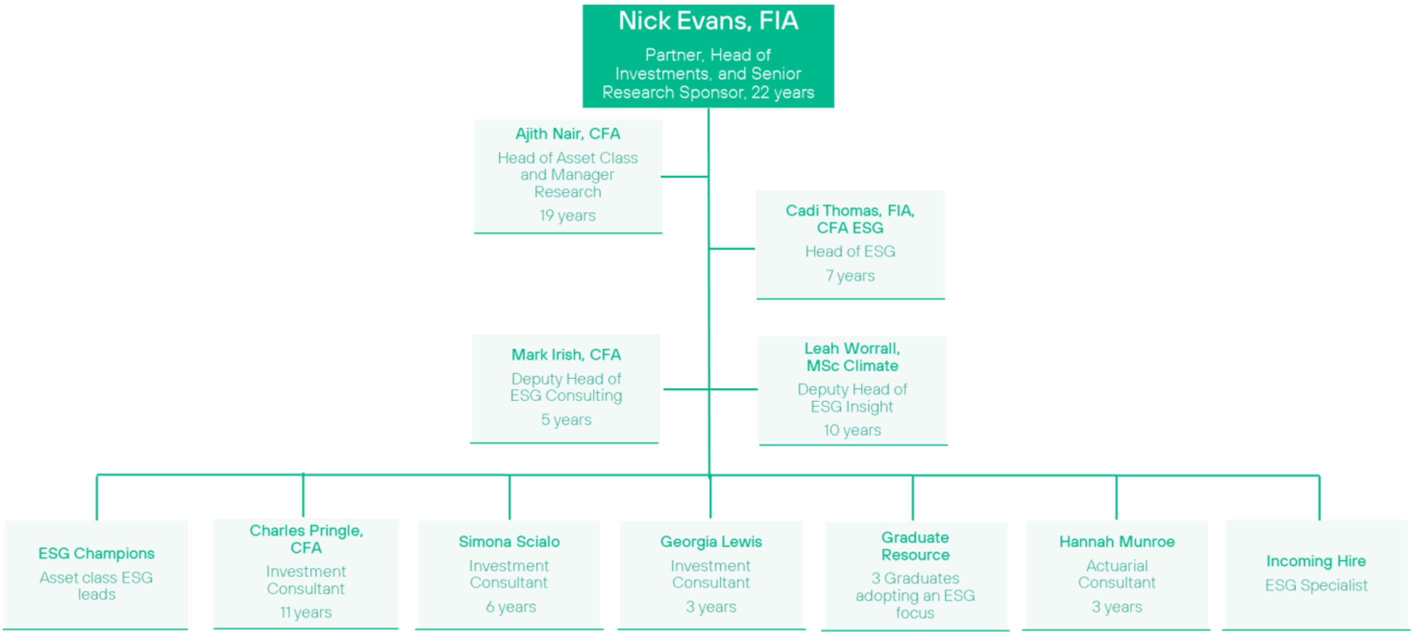
At Isio, we have also put in place a **governance structure for ESG and stewardship oversight** to ensure that ESG, stewardship and climate change considerations are embedded in everything that we do:

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.

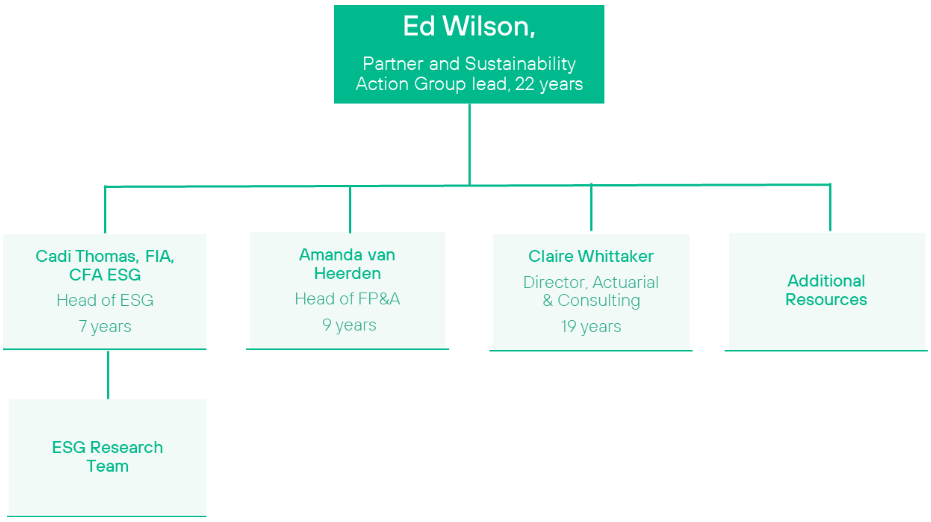
- Nick Evans, as noted above, is the partner with ultimate oversight of research capabilities at Isio, and this includes a remit for ensuring that ESG and stewardship are integrated throughout the services we provide to clients.
- Ajith Nair is the Head of Asset Class and Manager Research, responsible for ensuring all research outputs are of a high standard, with an explicit focus on ensuring high quality ESG research.
- Nick and Ajith are supported by a network of resource to continue to ensure high quality ESG 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 ESG considerations are embedded across all asset classes.
- Cadi Thomas, our Head of ESG Research, oversees the ESG Research Team, composed of 6 consultants, leading on our ESG advice and strategic ESG research, with dedicated expertise on climate change, nature and stewardship, amongst other topics. She is supported by two deputies, with Leah Worrall leading on ESG research development and Mark Irish leading on ESG consulting.
- There are five ESG 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 ESG 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 ESG team to ensure that ESG research is integrated within liability and funding considerations.
- ESG considerations are also embedded across the responsibilities of all staff at Isio, with regular training for staff on ESG issues, performance objectives related to ESG, and other incentives.
- Ed Wilson, Partner, leads the Sustainability Action Group, recently set up 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 ESG Research, the Facilities Manager, the HR Business Partner and the Head of Financial Planning and Analysis.

The below chart sets out an organogram for our research function, as well as the number of staff within the different research teams:

The below chart outlines our ESG research team, as well as their role, experience and qualifications:



The below chart outlines the newly formed Sustainability Action Group, led by Ed Wilson, which also draws from additional resources and functions within the business and will look to grow moving forwards. This includes drawing resources from the ESG Research Team:



The governance structures ensure that ESG considerations are embedded in everything we do, from the way we set our internal strategy, to the external services we provide to our clients.

The ESG Research Team sits within the research function, feeding ideas and influencing all areas of asset class research. As noted, there is a dedicated ESG champion sitting within the research teams to lead on ESG considerations for that asset class as well as directing interactions with the ESG Research Team. This ensures that the asset class-specific investment solutions we assess are always assessed from an ESG perspective. In addition, there is a strong senior presence, with partners ensuring business-wide buy-in of ESG concerns, whilst setting the direction of travel for the business and services we provide.

Processes

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

Compliance procedures: Our compliance procedures involve ongoing consideration of:

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

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

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

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

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

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

Case Study

Quality assurance of our ESG manager assessments

The below summary provides examples of how we have targeted improvement in the quality and accuracy of our ESG manager assessments, and how this has benefitted our clients' stewardship activities (we provide further information on Isio's ESG manager assessments in Principle 5).

- Each year, we refine our ESG manager assessment scorecards, to ensure that we continue to assess managers' ESG capabilities relative to what is in the best interests of, and of greatest importance to, our clients, whilst also reflecting market developments in the ESG space. The scorecard process enables our clients to effectively engage with their managers on ESG, by providing them with relevant information in relation to their ESG objectives, which also recognises the state of the marketplace today. Off the back of these scorecards, we identify and propose specific actions for managers to drive improvement. We engage with them on an annual basis on behalf of our clients in relation to progress against these actions.
- Climate has been a key focus, with the ESG scorecards now providing a climate score for each fund. This reflects the latest expectations under the TCFD for captured pension schemes as well as our recognition of the importance of assessing climate risks and identifying climate opportunities.
- We are pre-empting social regulations by trialling a separate social score, including a number of social questions within our latest scorecards. There are also some nature questions that feed into the ESG score. This would provide impetus for clients to begin engaging with managers on these new areas.
- Over 2022, we also developed more client friendly ESG Manager Summaries, summarising the scores and key messages in a streamlined and easily digestible report format. This clarity enables clients to focus in on the key issues to engage with managers on.

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

Training

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

We encourage team members to study for relevant qualifications, providing accommodative study packages to assist with this including funding and time off work. Our investment team members generally study to become qualified actuaries (FIA) or chartered financial analyst (CFA) charter holders. Within our ESG team, the Head of the ESG team is a Fellow of the Institute of Actuaries (FIA) and also holds the CFA Institute certificate in ESG Investing, which we will look to roll out further with other staff with an interest in deepening their knowledge on ESG issues. In addition, Leah Worrall (Deputy Head of ESG Insight) holds a MSc in climate change and Mark Irish (Deputy Head of ESG Consulting) is a CFA charter holder. Another member of the ESG team is a CFA charter holder, while the rest of the team are studying towards a number of relevant qualifications.

While qualifications (e.g. CFA, FIA) provide our team with a useful knowledge base, we feel that we need to go further, and implement a continuous development and training approach, including a focus on ESG and stewardship. Isio holds regular ESG training for all staff that covers a range of topics including refresh sessions on our existing ESG and stewardship processes, and any updates, as well as training on current and evolving ESG issues or topics of interest (e.g. nature, climate science, or social landscape developments). We hold regular training on new ESG regulatory requirements and other industry developments such as collaborative bodies (including the 2020 UK Stewardship Code). We also provide training on specific ESG issues, with both internal and external training offered. The research team also attends relevant training and events (e.g. seminars, webinars, and roundtables) provided by external industry bodies and investment managers.

We have an ESG internship programme in place, where, on an annual basis, we engage with undergraduate or masters' students, who hold expertise in different areas of sustainability or ESG, to undertake a summer internship at Isio. This summer, an undergraduate student delivered a range of training sessions on sustainable development and the circular economy to the Isio research team. We look to revolve the specialist thematic areas of our interns, and for example, our 2021 summer intern had a different specialist in climate change.

The ESG team will provide specific training to the investment team, on an annual cycle, which will include a refresh on our approach to investment manager ESG assessments and monitoring, which are conducted annually (see above and Principle 5 for further details on these assessments). We feel it is vital that the investment team is kept informed on Isio's ESG engagement with investment managers. This is to ensure that the team is equipped to advise our clients in our ongoing stewardship actions and enabling clients' own stewardship priorities to be reflected therein, either directly with the investment managers, or indirectly via liaising with Isio on these.

Research and Analysis

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

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

We continue to scan the market for opportunities to further serve our clients with research and analysis. This year, for example, we have undertaken a market-wide search for an ESG data provider to partner with, for which we are in the final contracting stages. We believe this will enable us to undertake a swathe of new ESG reporting services for our clients. We also believe this will better enable us to assess the ESG claims of investment managers, in terms of the ESG 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.

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.

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.

Fees

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

Strength in difference – supporting an inclusive and diverse workforce

At Isio, we recognise that working with differences makes us stronger and is integral to our continued success. Following an Isio engagement survey, 86% of colleagues expressed their view that people of all backgrounds (e.g. cultures, backgrounds, disabilities, sexual orientation) were respected and valued in Isio, however, there is clearly more we can and will do to ensure we have a highly inclusive culture.

We've taken concrete steps already to ensure we move the dial in the right direction for the future. These include anonymised CV submissions to avoid bias, making sure our interview panels are diverse (either by gender or ethnicity) and partnering with Social Mobility Foundation, GAIN (GirlsAreINvestors) and 10,000 Black Interns. We continue to engage with new organisations to attract a diverse talent pool.

We've reviewed existing policies to make them more inclusive and open to all, including introducing a transgender policy, and completed calibration and detailed reviews of promotions by gender and diversity to make sure we have transparent and fair career progression which supports difference. From a training perspective, we've launched 16 new eLearning modules spanning the entire spectrum of Inclusion including mental health and gender inequality, to racism and disability, as well as having started a reverse mentoring programme pilot. Beyond this, we ensure that we comply with all regulatory obligations related to diversity and inclusion, including but not limited to, race, sexual orientation, disability, age, religion or belief, gender, human rights and modern slavery.

We are also incredibly proud of our employee networks, managed by volunteers across the business, which have been set up to support inclusivity across Isio and to champion initiatives and events.

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

We have also recently published a gender pay gap report, which outlines both where we stand, and further areas for improvement, with a focus on:

- Recruitment governance (e.g. anonymised screening to prevent unconscious bias, and salary review in line with peer parity);

- Learning and development (e.g. compulsory training on unconscious bias);
- Talent management strategy (e.g. to identify high potential and high performing talent below senior management);
- Performance management (e.g. reviewing equality, diversity and inclusion ("EDI") statistics as part of end of year performance reviews and promotions); and,
- Reward strategy (e.g. collect relevant information to EDI).

Outcomes

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

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

Quality

We seek to ensure the highest quality of our client services by drawing on available resources, including drawing on new thematic or asset class research shared by the investment managers and investor initiatives we engage with. Quality is a rapidly evolving concept in the ESG space and keeping track of industry and manager developments helps us to aim towards cutting edge ESG advice. We believe industry best practice is largely determined through membership with market leading ESG initiatives (e.g. TCFD and ICSWG). We are also party to new ESG collaborative initiatives, which supports the further training of our staff on the latest industry thinking on ESG issues, including nature and impact investing.

We will in turn engage with the managers we work with to encourage them to improve (and measure progress against set ESG priority areas). This helps to ensure quality for our clients by improving the management of ESG risks and integration of ESG opportunities within their investments. We will also seek to use our Isio ESG 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 ESG and other staff continue to pursue, including investment, actuarial, ESG and climate change qualifications. We are also in the process of hiring a seventh ESG specialist within the ESG Research Team, with relevant thematic experience that aligns with our current ESG research priorities of climate, nature and social issues.

We regularly provide advice on climate change. As an example, this year, we provided advice to a multi-billion DB scheme on the importance of integrating climate-related risks and opportunities in the portfolio. This led to the setting of a 2050 net zero target. We are having ongoing discussions with the client on the implementation aspects, including transitioning from public market decarbonisation, to integrating low carbon investments within private markets and the role of nature-based solutions in reaching net zero. This is to be achieved both through engagement with existing managers and exploration of new opportunities. These discussions are being tied into the wider de-risking journey to ensure holistic thinking.

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.

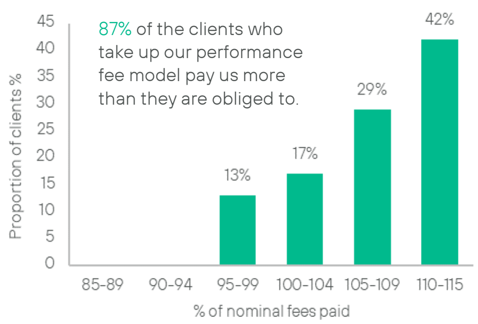
Independent sources of information can help to support (or otherwise) Isio's views and advice. For example, we are in the process of partnering with an ESG data provider, which will enable us to verify the accuracy of ESG and climate information being provided to us by managers. This will enable us to assess whether the ESG and climate objectives of investment managers' mandates are in fact being fulfilled, and to verify the accuracy of manager claims. We are increasingly also looking to investments in the areas of nature and social solutions.

Further details on quality and accuracy within our services is provided in Principle 6.

Moving forward: Governance, workforce, resources and incentives

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

- ESG integration, which starts at the top with senior management, and is embedded within our governance processes, to ensure that every team discusses ESG as part of investment strategy development.
- We have a centralised ESG team, as a resource for client teams and a source of expertise on ESG issues, ensuring adequate training of all investment staff, towards the delivery of improved ESG outcomes for clients.
- The head of manager selection and asset class research ensures that ESG is integral to all manager selection processes and new research ideas. For example, climate change has been a key focus for Isio, this year.
- We work closely with our clients' investment managers, engaging with them to bring about improved ESG 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.



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

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, we understand that such processes need to evolve with the business.
- We continue to expand the number of senior representatives in our organisation with an ESG remit. This year, we introduced a new partner to lead on internal sustainability for the business, Ed Wilson. In the coming year, the Sustainability

Action Group, led by Ed, will establish a climate change strategy for the firm, working with an external sustainability advisor.

- ESG is an area of significant growth, both in the business and the marketplace. As such, we will continue to invest in resourcing our ESG Research Team to ensure we are more than equipped to help manage our clients' ESG integration requirements and to support clients with their stewardship activities. We are currently recruiting for a new ESG specialist consultant at Isio.

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

Context

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

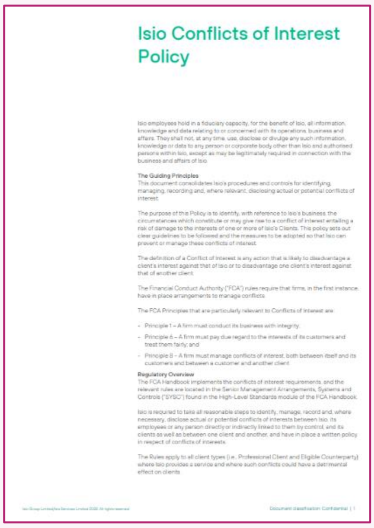
Isio provides independent advice and is committed to avoid any actual or perceived conflicts of interest. Our conflicts policy consolidates Isio's procedures and controls for identifying, managing, recording and where relevant, disclosing actual or potential conflicts of interest.

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

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

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

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



Isio Conflicts of Interest Policy

Isio employees hold in a fiduciary capacity, for the benefit of Isio, all information, knowledge and data relating to or concerned with its operations, business and affairs. They shall not, at any time, use, disclose or divulge any such information, knowledge or data to any person or corporate body other than Isio and authorised persons within Isio, except as may be legitimately required in connection with the business and affairs of Isio.

The Guiding Principles
This document consolidates Isio's procedures and controls for identifying, managing, recording and, where relevant, disclosing actual or potential conflicts of interest.

The purpose of this Policy is to identify, with reference to Isio's business, the circumstances which constitute or may give rise to a conflict of interest entailing a risk of damage to the interests of one or more of Isio's Clients. This policy sets out clear guidelines to be followed and the measures to be adopted so that Isio can prevent or manage these conflicts of interest.

The definition of a Conflict of Interest is any action that is likely to disadvantage a client's interest against that of Isio or to disadvantage one client's interest against that of another client.

The Financial Conduct Authority ("FCA") rules require that firms, in the first instance, have in place arrangements to manage conflicts.

The FCA Principles that are particularly relevant to Conflicts of Interest are:

- Principle 1 – A firm must conduct its business with integrity;
- Principle 6 – A firm must pay due regard to the interests of its customers and treat them fairly; and
- Principle 8 – A firm must manage conflicts of interest, both between itself and its customers and between a customer and another client.

Regulatory Overview
The FCA Handbook implements the conflicts of interest requirements, and the relevant rules are located in the Senior Management Arrangements, Systems and Controls ("SYSC") found in the High-Level Standards module of the FCA Handbook.

Isio is required to take all reasonable steps to identify, manage, record and, where necessary, disclose actual or potential conflicts of interests between Isio, its employees or any person directly or indirectly linked to them by control, and its clients as well as between one client and another, and have in place a written policy in respect of conflicts of interests.

The Rules apply to all client types (i.e., Professional Client and Eligible Counterparty) where Isio provides a service and where such conflicts could have a detrimental effect on clients.

Document classification: Confidential | 1

[Read the policy here.]

Governance of conflicts

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

The Board and Senior Management is responsible for ensuring that Isio's systems and controls are robust. This includes taking all reasonable steps to identify and manage any conflicts of interest that may arise and carry out an informed assessment of Isio's arrangements to assess that they are operating effectively. In practice, this requires the Isio's Senior Management to:

- Be involved in the identification and management of areas where conflicts of interest may arise;

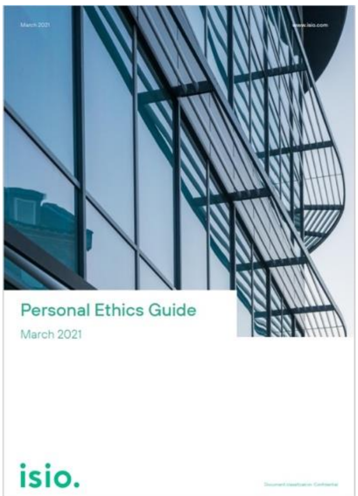
- Regularly review Isio's risk of conflicts of interest arising and the mitigating arrangements in place. This will involve an inclusive review of the entire business activities of Isio and, where appropriate, will include the relevant activities of any group of Companies;
- On an annual basis all Board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

Activities

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

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

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



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

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

of our team are FIA or CFA qualified, or are studying towards these qualifications, they comply with the code of ethics/conduct for the relevant professional bodies. Finally, all consultants must undergo compulsory ethics and independence training annually.

- **Polices and oversight** – We have detailed policies governing our business and for dealing with any potential conflicts of interest, and have an independent compliance team that are responsible for ensuring that our consultants fully comply. This makes sure that any potential issues are considered before we engage with any client and that these are proactively managed during our contract should circumstances change.

- **Profit from generating work** – We recognise there will be occasions when we bring our clients ideas that in turn generate additional work for us. The professionalism of our consultants means that this would never be a motivation for advice, and they are not rewarded for doing so. Our clients' best interests are always front and centre in our advice. We are happy to work on an all-encompassing fixed fee basis if preferable.

- **Consultant remuneration** – Remuneration is not directly linked to fees generated from clients. Our team have fixed salaries and a variable bonus that is linked to a range of objectives covering the growth of our overall business, driving the right behaviours within our business and in developing the team. For those within the ESG research team these objectives are aligned to their ESG responsibilities.

- **Risk and compliance** – Isio's risk, legal and compliance teams have systems and policies in place to ensure that employees do not derive any personal gain from the use of information collected whilst undertaking our work process. These include a system to detect possible personal conflicts and employees are required to disclose anything of importance and seek pre-clearance from the risk team as soon as a potential conflict arises.

Outcomes

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

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

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

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

Case Study - 1

Serving Master Trusts

Within the Isio Defined Contribution (DC) team, there is a need to continuously monitor conflicts that can arise from supporting Master Trust clients in provider selection, as well as advising those Master Trust clients as an investment advisor. This conflict is managed by having clear informational barriers, to ensure no sharing of information between those who are responsible for providing investment advice to Master Trusts and those who support the provider selection projects. At the highest level, those who advise clients are not the same personnel who will oversee provider selection projects.

In order to ensure that our clients are aware of this conflict, we issue a risk warning within every provider selection report. The conflict of interest is also regularly flagged within ongoing discussions with the client, alongside the way in which Isio manages this conflict (as set out above, through informational barriers and dedicated staff specialising only on one side of that barrier).

Case Study - 2

Fiduciary management

Within the Fiduciary Management team at Isio, we undertake both research and thirty party evaluation of fiduciary managers. As part of this work, we receive proprietary information from fiduciary managers in relation to their propositions, this could be investment strategy, new asset classes or high-level client data.

We have a number of measures to mitigate any conflicts, including any information provided by fiduciary managers that is deemed to be sensitive is not shared with the wider investment practice. The network folders, where this information is stored, are restricted to the Fiduciary Management team only. When requested we will sign Non-Disclosure Agreements with fiduciary managers.

Moving forward: Conflicts of interest

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

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

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

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

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

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

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

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

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

Activities

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

Our integrated investment philosophy helps to guide our response to both macroeconomic and ESG 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.

ESG risks

Ensuring an investment approach which considers ESG factors will add significant value to our clients. Our ESG team is responsible for developing strategic research related to ESG 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 social systemic risks (evidenced during the ongoing cost-of-living crisis in the UK), as well as the economic cost of a nature degradation on the global economy.

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

- The development of intellectual capital on our ESG research priorities (climate, nature and social factors), which we disseminate these in the form of papers and videos.
- Communications with our clients on topics of relevance to them, via emails, webinars, roadshows and website dissemination.

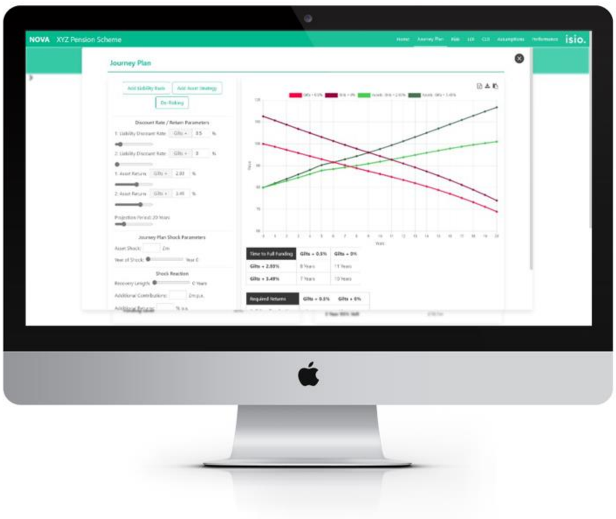
- Training our internal consultants and external clients on relevant ESG topics (with training presentations and brainstorming sessions).

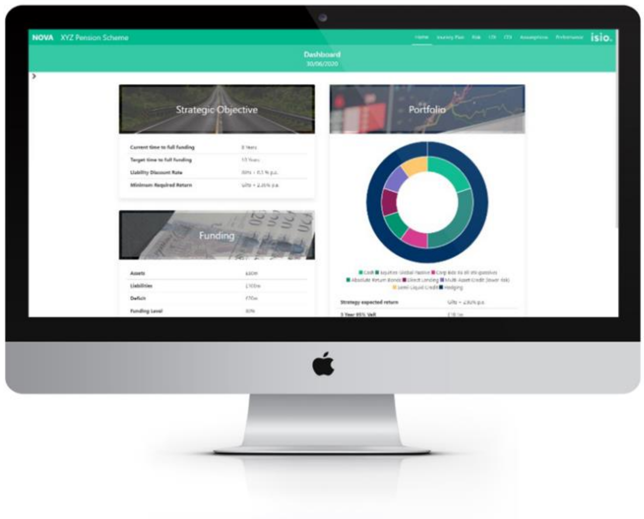
Portfolio construction/Implementation

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.



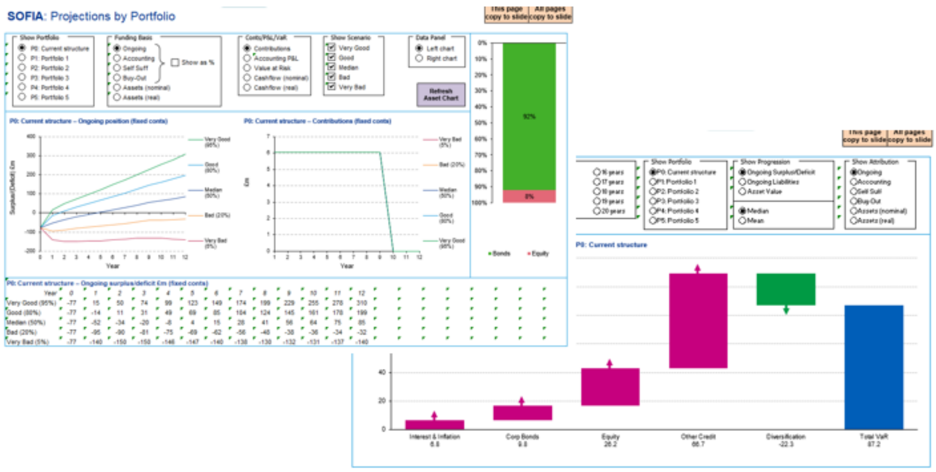


Nova: Our brand new, state of the art, integrated modelling system, is Isio Nova. It allows us to rapidly analyse investment strategies and consider impacts on the projected funding evolution (including adverse shock reaction analysis), high level risk analytics, and portfolio structuring (including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

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

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

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



We also have other tools, used to assess our clients' investment risks:

- Our Duration Solutions Model (DSM), which is used by Isio's LDI structuring team, can be used to ensure the client's LDI hedge remains in line with the hedge objective, used alongside Nova and SOFIA for client investment strategy modelling.

- Our 4Sight model is our scenario analysis model. Whilst stochastic liability modelling can be powerful, it can be limited by subjective inputs and risks that behave more predictably than many real-world risks. 4Sight analyses the scheme-specific impacts of certain scenarios unfolding. This provides a detailed breakdown of the funding impact, across multiple different investment strategies, from a range of different scenarios unfolding. We use both past data, to stress the portfolio, and forward-looking scenarios to highlight possible scenarios that may be on the horizon and the potential impact these could have on the funding level.

Climate scenario modelling: With a focus on ESG, we have partnered with Moody's to deliver a climate change modelling proposition for our clients. Our SOFIA model can incorporate a variety of climate change scenarios to understand the potential impacts of rising transitional and physical costs associated with climate change on our clients' assets and liabilities. We have chosen to model four scenarios as outlined by the Network for Greening the Financial System (NGFS), a network aiming to deliver consistency in the climate change scenarios used by the financial industry, and this is reviewed and updated on an ongoing basis and we are currently looking to update these in line with best practice and NGFS recommendations. These scenarios currently include:

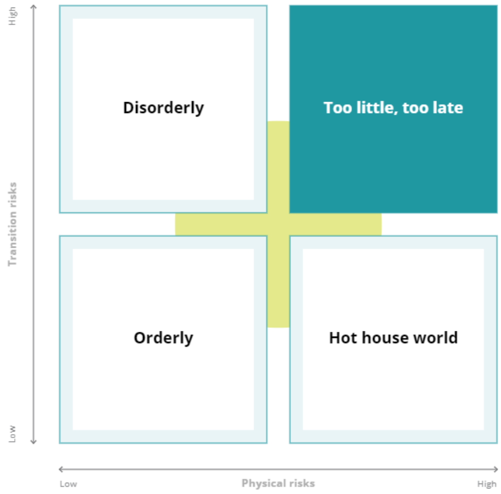
- Orderly scenario: Paris aligned scenario where climate policies are introduced early and gradually become more stringent over time. This scenario includes an allowance for scalable and efficient offsetting technology which leads to relatively low mitigation costs.

- Disorderly scenario: Paris aligned scenario where climate policies, or action, is unevenly distributed across sectors, globally. This is a disorderly and more costly transition, where the world abruptly transitions to achieve the Paris Agreement objective.

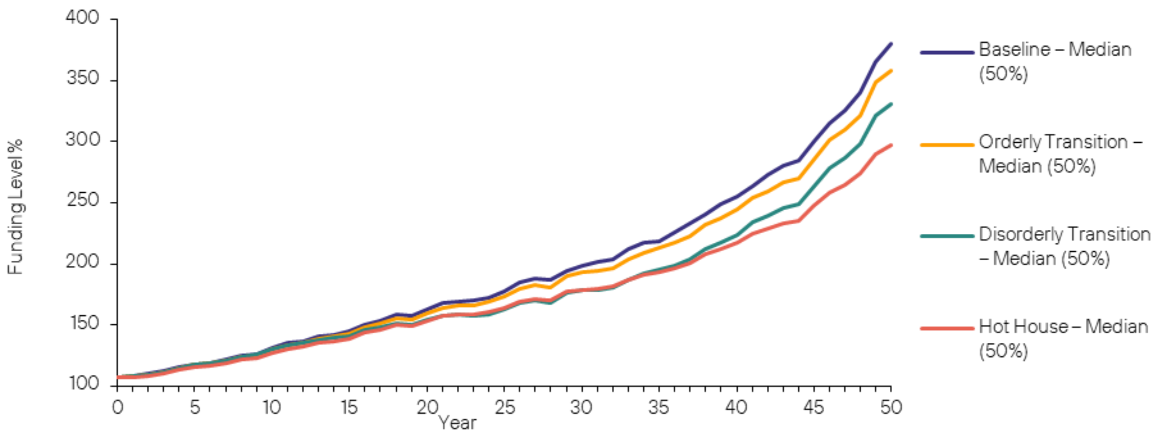
- Hot house world scenario: Pessimistic scenario where global efforts are insufficient to halt global warming, with severe physical risks and the triggering of irreversible climatic tipping points.

- Baseline: a 'climate neutral' baseline that assumes a continuation of the world today, with current policies in place and no costs associated with transitional or physical climate risk.

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



The below chart provides an example output of a pension scheme's funding level evolution under the 4 climate change scenarios mentioned above.



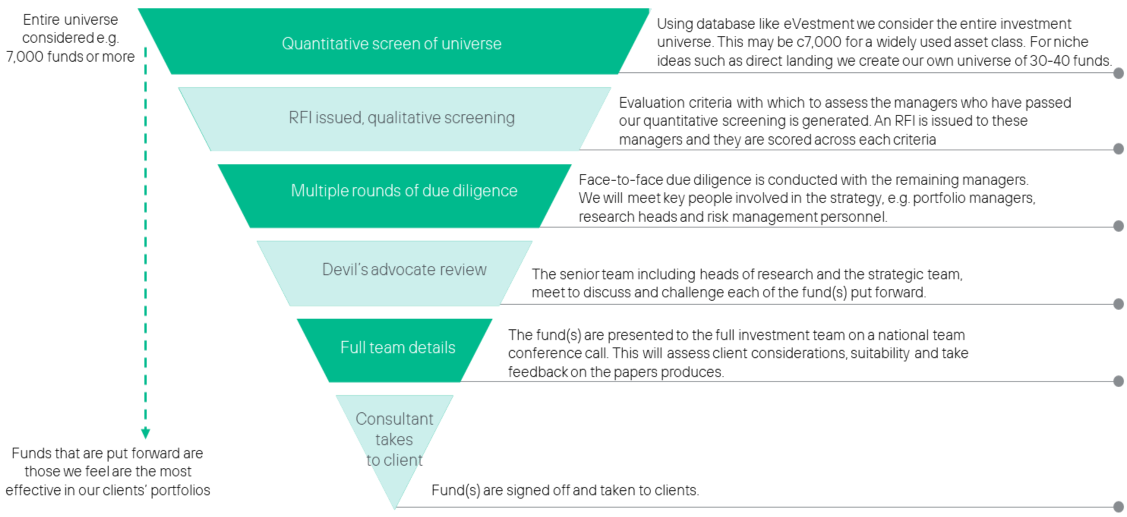
We also subscribe to data providers (Reuters, IHS Market, eVestment, Preqin, Financial Express and MSCI) as well as receiving regular information from a number of investment managers and banks. We do not believe any one source has a monopoly on good information and therefore we cast our net far and wide.

Isio are currently in the final stages of an ESG data provider search, which started in early 2022. We have searched the market for best-in-class ESG and climate change data providers, as well as seek to understand offerings in the social and nature space (both now and in the future, by understanding the data development plans in these areas). We are currently undergoing final negotiations with our preferred ESG data provider partner and will soon to be able to announce the partnership.

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 a separate climate capability assessment scorecard to measure effectiveness of sustainable or impact strategies focusing on climate risk. We are also in the process of trialling a social score, which seeks to understand the integration of social factors within the funds our clients invest.

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.

- ESG: We believe that considering ESG factors will add significant value to our clients' portfolios and hence ESG plays a large part in how we rate managers. We ensure the manager's ESG views are aligned with those of our client within any selection process. We have ESG-specific evaluation criteria embedded into our research process and ESG considerations are incorporated in our quarterly research calls with the managers. The aspects of managers' ESG 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 and social score. We also develop individual scores for each of the below pillars, with two areas (voting and engagement, and collaboration) having an explicit focus on stewardship:

- Risk management
- Investment Approach/Framework
- Voting & Engagement
- Reporting
- Collaboration

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

Social systemic risks

Covid-19 posed a significant systemic risk to financial markets and has affected many of the ways in which we work, since the beginning of the pandemic. We are only just beginning to recover as a global economy and financial market.

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

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

Industry initiatives

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

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.	Three individuals within the ESG team are active ICSWG members. Isio led the ICSWG ESG metrics project, to define a set of standardised, consistent ESG metrics for public managers to report. Cadi Thomas, Head of ESG Research, now leads the Standardisation Pillar.
Task Force for Climate-related Financial Disclosures (TCFD)	The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.	Isio became a supporter of the TCFD in December 2020.
United Nations Principles for Responsible Investment (UNPRI)	The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors, as well as support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.	Isio became a signatory of the UNPRI in December 2020.
Institute and Faculty of Actuaries Sustainability Volunteer Group	This is a collaborative group of actuaries looking to develop sustainability guidance and thought leadership for the Institute and Faculty of Actuaries (IFoA) Sustainability Board.	A member of the ESG team has played an active role in 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. Isio's nature positive paper has been shortlisted for Environmental Impact Thought Leadership, at the Pensions for Purpose Awards, in November 2022.
Taskforce on Nature-related Financial Disclosures (TNFD)	Whilst there's significant focus on climate change, an interlinked issue is the impact on nature and biodiversity. Being an observer of the TNFD working group ensures Isio feeds into industry-leading thinking on nature and its importance to investors.	Isio became a member of the TNFD observer forum in early 2022.

The ESG team are currently also exploring the possibility of supporting further initiatives, related to how investors can integrate inequality-related disclosures, and those targeting equality, diversity and inclusion and other social initiatives within the financial sector.

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 ESG Research Team, with a focus on where we have partnered with others.

Case Study

Evolving our approach to collaboration

This year, we have expanded the number of ESG collaborative initiatives of which Isio is a member. We set out below why these are important to us and our clients:

- TNFD – we see nature and biodiversity degradation as an important topic for our clients, not only in relation to nature-based solutions to contribute towards net zero targets, but as a significant systemic risk for markets in its own right. Becoming a member of the TNFD will enable us not only to track the latest thinking on nature integration for investors, but also contribute to that thinking. We are responding to increasing interest from our clients in the areas of timberland and carbon markets, with impending research in these areas.
- Pensions for Purpose – capital flows research shows a growing trend towards impact investment, with more investors seeking to improve environmental and social outcomes, beyond generating financial returns. This platform brings together a variety of stakeholders around the topic of impact investment, which, for example, enables us to seek out the best impact solutions in the market, on behalf of our clients. We are dedicating resource to understanding how our clients can further integrate different impact objectives, across climate, nature and social spheres, within a portfolio in a coherent manner.

Case Study

Tracking market developments in climate scenarios

As noted in last year's report, as part of our commitment to helping our clients manage climate-related risks, Isio have contracted with Moody's Analytics to assist clients with climate scenario analysis in line with TCFD requirements, with a focus on modelling our clients' assets and liabilities. We draw on the climate scenarios of the Network for Greening the Financial System (NGFS), aiming to develop consensus in the scenarios modelled within the market. These climate inputs have been integrated within our SOFIA asset liability modelling tool, as outlined above.

In September 2022, the NGFS published its third iteration of climate scenarios, which offer an updated view on the range of scenarios our clients should consider to assess climate risks. We have spent the past couple of months working with Moody's to update our climate scenario analysis capabilities to reflect this thinking. What continues to be clear is that the world is not yet on track to meet the commitments of the Paris Agreement, transitioning to meet those commitments will require significant upfront costs for markets, investors and our clients, and that physical risks will begin to escalate towards mid-century and beyond.

Case Study

Addressing climate risk with leading corporates

Over the course of 2022, Cadi Thomas, our Head of ESG Research, worked with the 100 Group to discuss a range of climate-related activites. The 100 Group represents the Finance Directors of FTSE 100 companies. The Group's objective is to promote the competitiveness of the UK businesses in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance, for the benefit of its members. Cadi worked with the Group to discuss a range of climate-related initiatives, and advise on the drafting of TCFD reports. This work entailed running a survey to understand progress and key challenges of the TCFD regulations, with results then discussed between Group members to agree best practice.

Moving forward: Responding to systemic risk

We will continue 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 ESG 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 ESG research priorities.

We are currently in the process of receiving business sign off to become a member of a social initiative, which we believe will guide future company and investor disclosures, the Taskforce for Inequality-related Financial Disclosures. We will be able to provide an update on this in due course.

Another key area of focus for us has been the ongoing development of our ESG analytical services. As noted, Isio is planning to partner with a leading ESG data provider, for which we are in the final stages of contracting and onboarding. We believe that partnering with a best-in-class ESG data provider will contribute to various activities, including, for example:

- Providing a sounding board on the ESG and climate data that investment managers are providing to Isio and its clients, in order to ensure this is of a high quality, to the benefit of climate-related reporting
- Helping the advancement of analytics on ESG research priority areas, including nature and social risks and opportunities. We are seeking to partner with our chosen ESG data providers to develop market analytics on these topics
- Understand the impact of systemic risks from the nature degradation and social factors (such as rising inequality and just transition) on our client portfolios
- We are engaging with other external experts on the role of carbon pricing within investment portfolios and how clients can engage with carbon markets via direct or indirect investments

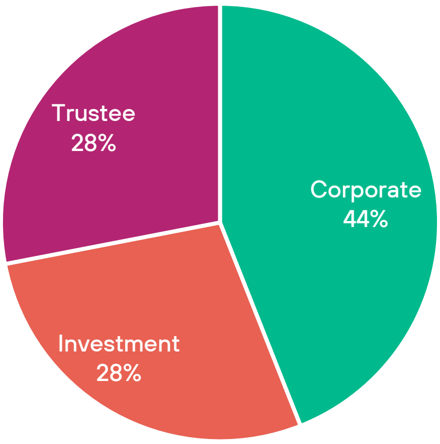
Principle 5 - Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

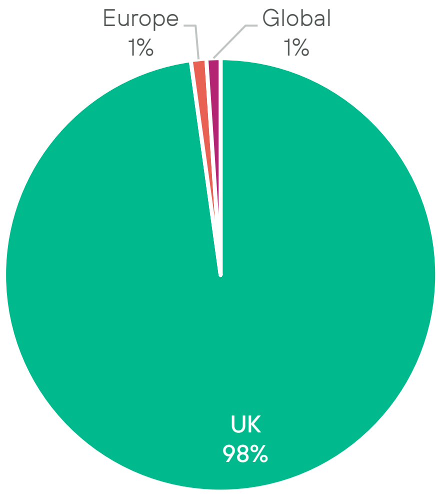
Context

Client base

All (100%) of Isio Group Limited services are delivered to institutional clients (including corporate, DB and DC pension schemes, family offices, local governments, and other institutions), with no exposure to retail clients.[1]

The Isio client base is broadly distributed across three business lines and three geographic areas (dominated by the UK), as follows (by number of clients).





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

- Assets worth c.£120 billion and spans a broad range of clients, with differing requirements and beliefs when it comes to ESG integration and stewardship.
- From a geographic perspective, nearly all of Isio's investment advisory clients are based in the UK.
- Whilst all investment advisory clients are institutional clients (with no exposure to retail clients).

[1] These statistics exclude the recent acquisition of Premier Wealth Planning which remains a separate legal entity and serves retail as well as institutional clients.

Activities

Client journey

We believe that alongside traditional strategic considerations, ESG factors are relevant across all asset classes when targeting long-term sustainable returns. Furthermore, we believe investors should be good stewards of their assets and so we have a duty to support our clients in achieving this.

We have set out our ESG client journey in principle 1, this consists of the following steps.

Education & training

Agree beliefs, policies & targets

Consider strategy changes

Implementation

Monitoring & reporting

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

- Video calls
- Emails
- Face-to-face meetings
- Newsletters
- Papers

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 ESG services in further detail below:

Education & training

Training sessions typically focus on ESG, stewardship and systemic risks, such as climate change, nature or social factors, with the required level of focus on regulatory requirements, investor norms and investor initiatives, as well as asset class specific ESG considerations. These sessions are particularly helpful given the ever-changing ESG landscape, and in the UK, the strong proliferation of ESG regulation over time.

We set out below some examples of our regularly held educational sessions with clients:

- ESG and stewardship sessions: These sessions focus on building an understanding of what we mean by ESG and stewardship activities. We cover the types of ESG risks and opportunities that can arise for investors and investor initiatives that can be used to respond to these issues (e.g. the UN PRI). In addition, we can help clients to place themselves along an ESG "spectrum" to help drive their journey to improve ESG integration. For stewardship, 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.
- Climate change: 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 change scenarios (see left for our recent paper on the climate emergency). We also provide an overview of investor initiatives in the climate space (with some focus on the TCFD) as well as regulatory developments (with a focus on the DWP climate change guidance for pension schemes).
- We also hold bespoke sessions dedicated to specific social or environmental issues of concern, for example, particular UN Sustainable Development Goals (SDGs) or regulations. Regardless, all educational sessions are tailored to the specific interests of the client. A number of clients have indicated a priority to target, for example, one multi-billion scheme has set SDG priorities in relation to affordable and clean energy (SDG 7) and climate action (SDG 13).
- New areas: Given the ESG landscape is ever evolving, and informing Isio's ESG 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 ESG research papers. (See left for the recent nature paper, with the social paper due to be released towards the end of 2022.) For any new research, we tend to develop accompanying videos on social media, which helps to distil the key messages in just a few minutes.

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

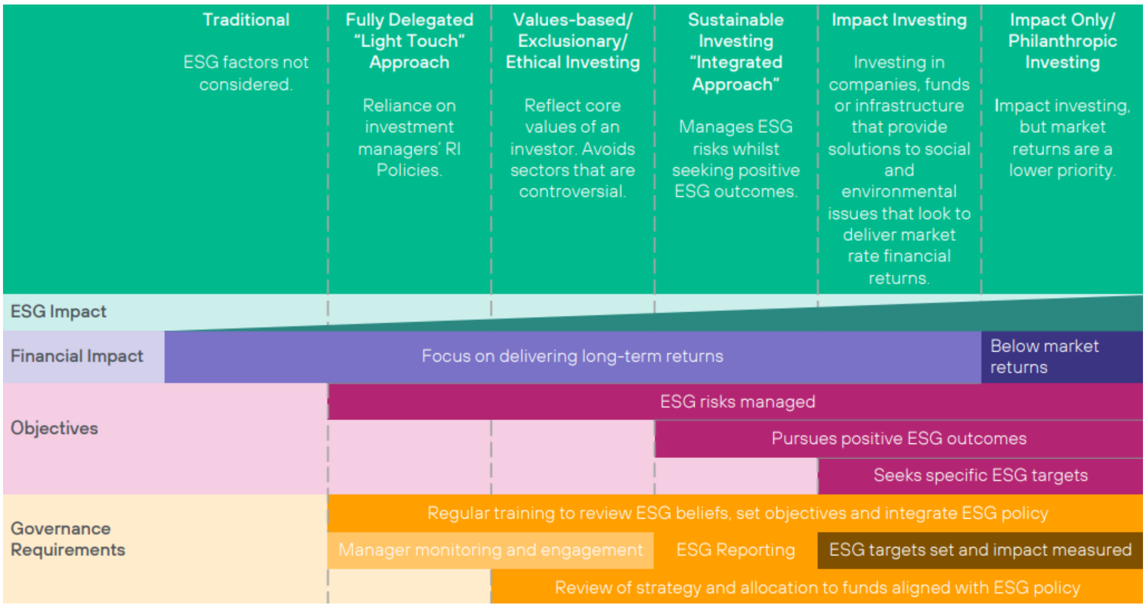
For further information on the climate emergency, please refer to our paper, '**Climate change and your portfolio**'.

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

This paper was nominated for the Pensions for Purpose Awards, taking place in November 2022, for Environmental Impact Thought Leadership.

Agree beliefs, policies & targets

We understand that there is a myriad of perspectives on how ESG should be integrated within client portfolios. We help our clients identify where they lie on the spectrum of approaches to ESG (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 an ESG 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 risks and opportunities within the portfolio.



In order for our clients to agree a bespoke set of ESG 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 ESG 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. An example of this would be to set out a net zero target in 2050 or earlier, or interim decarbonisation targets over the shorter-term.

Consider strategy changes

Following the articulation of ESG views within a client's investment beliefs and policies, the focus moved to integrating these ESG views within the investment strategy. We will review our client's investment strategy to check the compatibility of the investments with their policy. This step seeks to take account of the current

Client Feedback

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

portfolio, in terms of the consideration of ESG objectives within the strategic asset allocation and assessing specific asset class opportunities (with stronger ESG solutions available within some asset classes than others), versus where the client wants to get to.

For example, over the past year, one multi-billion DB client has set ambitious climate change targets for the portfolio. In so doing, we have engaged with all managers within the portfolio on increasing exposure to climate opportunities and better managing climate risks (in particular decarbonisation in line with the Paris Agreement on climate change). We provide further details on this case study example in outcomes, below.

Implementation

We carry out a review of the extent to which our client's investment managers identify and manage ESG risks and opportunities, and how they align with the client's ESG 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 ESG manager research – helps us to engage with our clients on manager selection and manager monitoring processes. Isio undertake an annual ESG assessment of the funds our clients are invested in, and this information forms the basis of reporting to our clients. We use asset class specific ESG scorecards where we rate managers across five assessment criteria, as shown below, as well as explicitly on climate change and social issues.

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.
Voting & Engagement	There is evidence of exercising voting rights (where applicable) and ongoing engagement with companies and other parties on ESG issues to help initiate change.
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 outcome of these assessments is presented to clients via ESG impact assessment reports.

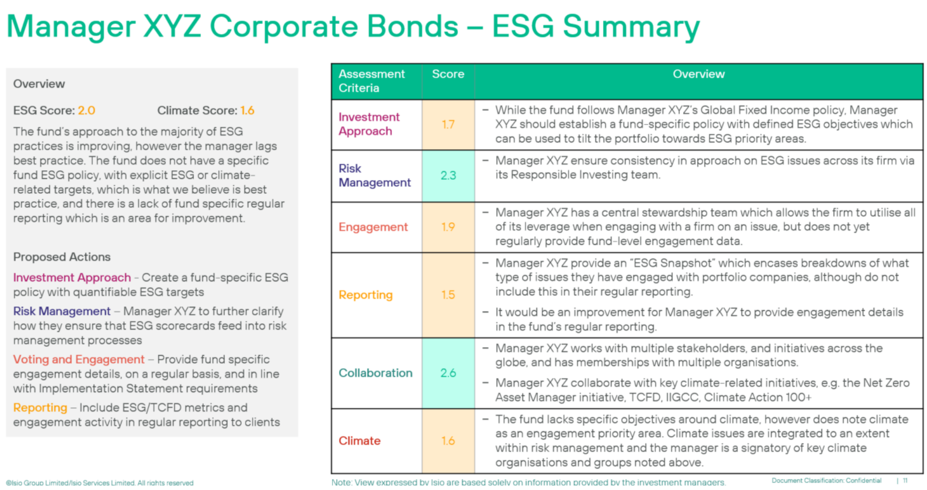
The scorecards are used annually to assess all of funds in which our clients are invested. Funds will receive a Green, Amber or Red rating, with an associated numerical score (of 1-5, see below) across the five assessment criteria, as well as at an overall fund level. Impact and sustainable funds are expected to score above 3 based on our additional sustainable or impact criteria (sustainable or impact funds that do not meet these criteria would score below 3).

Score	Description
Score > 4	**Meets additional impact criteria:** The fund qualifies as a specialist ESG/climate 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.
Score > 3	**Meets additional sustainability criteria:** The fund qualifies as a specialist ESG/climate fund with ESG and/or climate-focused 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.
Score = 2-3	**Meets traditional criteria:** The manager scores highly on our ESG and/or climate scorecard and is in line with best practice in terms of ESG and/or climate integration.
Score = 1-2	**Partially meets criteria:** The manager has scored strongly on some (but not all) of the ESG/climate assessed criteria and ESG and/or climate integration is on par with the majority of investors.
Score = 0-1	**Significantly fails to meet criteria:** The manager fails to meet most of the criteria on our ESG and/or climate scorecard and is significantly behind best practice in terms of ESG and/or climate integration.

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

- Agreeing quantifiable, fund specific ESG targets such as net zero journey plans
- Developing further climate modelling capabilities
- Broadening the ESG metrics and stewardship activities included in regular reporting to investors

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



Manager XYZ Corporate Bonds – ESG Summary

Overview

ESG Score: 2.0 Climate Score: 1.6

The fund's approach to the majority of ESG practices is improving, however the manager lags best practice. The fund does not have a specific fund ESG policy, with explicit ESG or climate-related targets, which is what we believe is best practice, and there is a lack of fund specific regular reporting which is an area for improvement.

Proposed Actions

Investment Approach – Create a fund-specific ESG policy with quantifiable ESG targets

Risk Management – Manager XYZ to further clarify how they ensure that ESG scorecards feed into risk management processes

Voting and Engagement – Provide fund specific engagement details, on a regular basis, and in line with Implementation Statement requirements

Reporting – Include ESG/TCFD metrics and engagement activity in regular reporting to clients

Assessment Criteria	Score	Overview
Investment Approach	1.7	– While the fund follows Manager XYZ's Global Fixed Income policy, Manager XYZ should establish a fund-specific policy with defined ESG objectives which can be used to tilt the portfolio towards ESG priority areas.
Risk Management	2.3	– Manager XYZ ensure consistency in approach on ESG issues across its firm via its Responsible Investing team.
Engagement	1.9	– Manager XYZ has a central stewardship team which allows the firm to utilise all of its leverage when engaging with a firm on an issue, but does not yet regularly provide fund-level engagement data.
Reporting	1.5	– Manager XYZ provide an "ESG Snapshot" which encases breakdowns of what type of issues they have engaged with portfolio companies, although do not include this in their regular reporting. – It would be an improvement for Manager XYZ to provide engagement details in the fund's regular reporting.
Collaboration	2.6	– Manager XYZ works with multiple stakeholders, and initiatives across the globe, and has memberships with multiple organisations. – Manager XYZ collaborate with key climate-related initiatives, e.g. the Net Zero Asset Manager initiative, TCFD, IIGCC, Climate Action 100+
Climate	1.6	– The fund lacks specific objectives around climate, however does note climate as an engagement priority area. Climate issues are integrated to an extent within risk management and the manager is a signatory of key climate organisations and groups noted above.

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Note: View expressed by Isio are based solely on information provided by the investment managers.

Document Classification: Confidential | 11

Over the past year, we have updated the scorecards to reflect the latest industry best practice in the ESG space and expect managers to raise the bar each year. We will continue to evolve our approach year-on-year. As can been seen, there is now an explicit climate specific score which has been created to reflect the ability to report on climate specific metrics, such as carbon footprint. This can therefore be used to compare the ability of funds to respond to TCFD requirements and further climate considerations. We are also in the process of trialling a social score, aligned to the latest DWP response on social risks and opportunities. We are in the process of understanding what the impact of these developments will be on the scoring of manager mandates. We, on the whole, expect a slight worsening in scores for those managers that aren't continuing to pursue ESG industry best practice.

Separately, we have been conducting new research on market-leading ESG investment solutions across asset classes, for example:

- Working with a manager on developing a best-in-class approach to sustainable multi-asset credit, which includes transitioning all issues to alignment with a 1.5°C scenario, targeting 2050 net zero emissions
- Seeking to understand best-in-class solutions in nature-based solutions, including timberland, agriculture and oceans, including both private and public market solutions (with some managers exploring thematic funds which transect the public/private market divide)
- Working with an external partner to research market-leading social investment solutions, for example, focusing on topics from social infrastructure to the just transition and financial inclusion

Monitoring & reporting

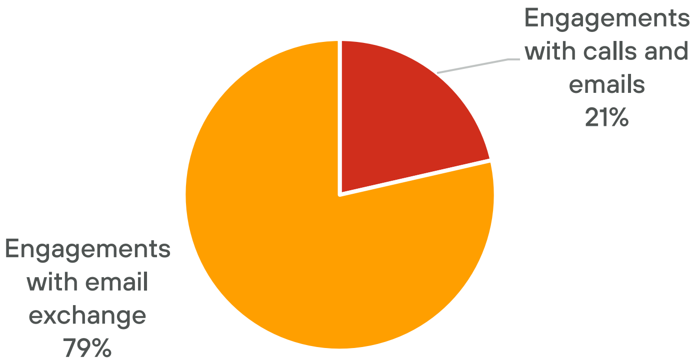
A key part of the ESG policy framework is engaging with investment managers, encouraging positive changes to their policies and monitoring progress. We engage with all investment managers on the issues highlighted and we detail any changes to their ESG capabilities as a result of this engagement in a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

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.

We engage with managers both via email and calls, depending on the size of manager, importance of the issues at hand, and our client exposure invested, where significant managers are engaged with by call in order to discuss in detail progress made and ongoing actions, while small managers are engaged with via email with the option for a call if more information is required. In 2022, we have engaged with a total of circa 126 investment managers, of which we had calls with circa 27 managers in our mid-year update to provide updates and engage on proposed actions across a multitude of funds.

2022 ESG manager engagements



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.

ESG Metrics Summary

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 an ESG impact journey for clients 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 ESG journeys. For example, if they have undertaken a climate change training session, the client team will automatically progress to setting climate-related beliefs, policies and targets, appropriate for the client. Even where they have travelled with Isio across the entire ESG client journey, we circle back to ensure any implemented ESG objectives and strategies remain fit-for-purpose in an ever-changing landscape.

We will also tailor the journey to the needs of individual clients, to ensure that any advice is received in the most effective manner. One example is for a multi-billion-pound DB scheme, where we have begun to create interactive quizzes for Trustee ESG and investment training. This helps to ensure that training isn't just trying to tick a box but engages with Trustees interests whilst also gauging their level of understanding. We will always ask for feedback from clients, to continue to ensure we are effective in how we serve them.

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. To bring this to life, we provide some further examples of client journeys below.

Case Study

Broadening monitoring services

Multiple members of the ESG team have worked with the Chartered Institute of Public Finance and Accounting (CIPFA) to discuss how new reporting requirements, such as TCFD requirements, will affect LGPS Funds. This process outlined that committee members and officers have an oversight and scrutiny role to play and that monitoring and engagement with managers is key.

Isio has since partnered with CIPFA, who have endorsed Isio's ESG impact assessment framework for use by LGPS Funds, in order to monitor investment managers' ESG and climate-related capabilities, as well as progress against set priority actions to improve moving forward. As part of this, members of our team have attended LGPS webinars and supported in the issuance of newsletters to LGPS Funds on the importance of engaging with their managers on ESG issues.

Case Study

Tailoring ESG solutions to client-specific needs

Over the past year, we engaged with one of our multi-billion DB clients who has set ambitious climate-related objectives which led to decisions to revamp the majority of the mandates within the DB portfolio, towards more climate ambitious investments.

We identified and short-listed managers which we rated highly within the buy and maintain credit space, both from an investment and ESG perspective. We however believed that the ESG credentials for these funds were not as forward thinking as we believed was possible within the asset class – we therefore engaged with investment managers on behalf of our client to design a market-leading investment solution. Isio worked with an investment manager to develop a market-leading sustainable buy and maintain solution, targeting 1.5°C alignment by the end of this decade and net zero emissions by 2050. Discussions are ongoing with another manager on the launch of a new multi-asset credit solution that delivers 2050 net zero alongside the increase alignment of assets this decade. Whilst many of the remaining mandates also agreed to introduce climate-related exclusions or improve climate-related reporting towards these aims.

Moving forward: ESG capabilities

Isio will continue to ensure we have the right resources to be able to provide relevant ESG advice to our clients. This will include looking inwards – ensuring we have the right staff (with hiring ongoing) and ongoing reviews of our internal research processes – and looking outwards – with ongoing research on ESG issues, relevant to our clients, whilst continuing to monitor developments in the external ESG 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 (e.g. how investors can engage with the circular economy)
- Setting beliefs, policies and objectives - developing investment research on how to holistically implement multiple objectives in the portfolio, from climate, to nature and social factors, whilst understanding there will be complementarities and trade-offs in doing so
- Strategy - we will continue to update our climate model on an annual basis, to reflect the latest thinking in the climate change science and investor landscapes. We will also seek to expand the number of sustainable asset classes we can model (using a 'climate greenium')
- Implementation - continuing to explore cutting edge ESG investment ideas, including sustainable private market offerings
- Monitoring - using technology to better serve our clients, including looking to establish an Isio ESG data platform, which can generate ESG-related data for our clients in real-time.
- Other areas:
  - — Collaboration - continuing to collaborate with the wider market in order to maintain and develop best practice, with a strong focus on nature social disclosures for investors
  - — Team - hiring the best ESG talent in the industry, and in so doing, seeking to expand the ESG expertise within the ESG Research Team (with one recruitment for an ESG specialist currently ongoing)

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

Activities

Review and assurance of products, services and policies

In order to ensure that the work that we conduct at Isio is at a continually high standard, we have as a minimum a do (2eye), check and review (4eye) process in place. For higher risk work we also have a peer review (6eye) process in place. This is applicable across all of our work streams and client deliverables including ESG assessments. Quality assurance is particularly important in the case of ESG 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 ESG 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 an ESG 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 that ESG is continually evolving, each year we review and refine our ESG manager assessment request for information (RFI) surveys, and the scorecards upon which they are assessed to ensure these remain fit for purposes and account for the evolving ESG market and regulation. The Head of the ESG Research Team, supported by the Deputies, will annually revamp the scorecards assessing managers on ESG issues, to ensure these remain fit for our clients’ purposes, with sign off by the Head of Research, Ajith Nair. This in turn allows our clients to conduct effective stewardship, with a continually evolving approach to engage with managers on relevant topics. This year, this has included a self-standing climate change score, separate to the broad ESG score, and we are also trialling a social score (to speak to the DWP response on social factors).

United Nations Principles for Responsible Investment (UN PRI) submission

As part of our commitment to supporting clients in their stewardship activities and in integrating ESG considerations in their approach, in our first year since our departure from KPMG (2020) we became a signatory of the UN PRI and hence undertook our first UNPRI reporting activity during Q1 2021. This allowed us to carefully consider how our approach supports the integration of responsible investing factors. Each year, Isio will continue to submit a report in order to continually evolve our ESG approach via the scoring and feedback. This activity is led on by the Head of ESG Research and supported by the ESG Research Team, with sign off by the Head of Research and Senior Research Sponsor. This year, we have received feedback from our first round of reporting and will integrate this into our next submission.

Case study

Third party data services

Third party data

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

With a focus on ESG, the ESG Research Team will lead on due diligence for ESG-related third-party providers, with sign off by the Head of Research and Senior Research Sponsor. We will also work with the Head of Compliance and Chief Technology Officer to ensure that these adhere to our internal risk and compliance, as well as technology policies. We conduct climate change scenario analysis using Moody's Analytics, which is integrated into our SOFIA modelling tool. This is based in the NGFS climate change scenarios (as described in Principle 4). The NGFS are aiming to create consistency in the climate change scenarios adopted by the financial sector, and so helps to create a "common view" for comparability across the industry. As such, this provides an industry stamp on assurance, in terms of the consensus on climate change scenarios we should bring to our clients.

For other ESG data, we currently rely on external investment managers to provide ESG data for client reporting. We note that this can create some discrepancy of reporting, and as part of the work we are leading with the ICSWG on consistency of ESG metrics reported by investment managers (see Principle 4), we are also working to ensure consistent methodologies for reporting. As previously noted, we are in the final stages of contracting an ESG data provider, to contribute towards further ESG analytical services for our clients. This will enable us to provide assurance on the ESG data being provided by investment managers, towards the quality assurance of that data. This will not only allow us to track data quality, but ensure that managers are on track to achieve ESG objectives they have set out for the funds our clients invest in.

Internal and external assurance

As part of our internal assurance, we will review all the external data and advice that we receive, to ensure it is coherent in light of other data sources, market developments, and information we are receiving from managers. We believe this is appropriate in reviewing all external resources we use at Isio. We believe that in the hiring of experts, specialising on anything from ESG 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 new Sustainability Action Group that Isio established early in 2022 has progressed the selection of a third-party provider to support the development of Isio's sustainability approach, including accountability in the setting of climate change objectives. The new third-party provider will also support Isio with gathering ESG data to feed into higher level thinking, recognising the importance of data verification for our internal decision-making.

A shortlist of corporate sustainability advisors has been presented to the CEO, with a preferred provider having now been agreed. This will ensure the external assurance and verification of the sustainability targets we set ourselves. We will be able to report further progress on this, in next year's report.

Outcomes

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. Isio defines an engagement as an 'interaction with a company to drive change'. Specifically, for Isio this can involve letters, emails, calls and collaborative efforts.

As previously noted, via our manager ESG assessment framework, Isio assess and engage with managers twice a year (see principle 5 for further details). We firstly email managers to request they fill out a request for information and, if necessary, hold a call with the manager to fill any gaps in order to assess the manager effectively. As part of this assessment, we detail the areas in which we think the manager can improve across the different categories and will then follow up with the manager six months later to engage on the areas to understand progress. When engaging with managers on these areas, we will ensure to have calls with managers where we have significant client exposure in order to really challenge their progress and to thoroughly understand their approach. We remind managers of these areas for improvement and provide them with the opportunity to provide updates on whether these have progressed or improved. As mentioned in Principle 5, in 2022 so far, of the circa 126 investment managers engaged on ESG topics, 21% were engaged with in-depth calls, whilst 79% relied on email communications.

Client Feedback

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

Case study

Updating the Isio ESG Policy

The Head and Deputies in the ESG Research Team review our ESG policy annually in January, to ensure this remains fit-for-purpose in responding to the evolving ESG landscape, Senior sign-off was provided by the Head of Research, Ajith Nair, and Senior Research Sponsor, Nick Evans.

The Sustainable Investment Policy was updated this year to reflect Isio's evolving research stance on ESG issues, and client requirements in this space (see Principle 2). We will proactively update this policy on an annual basis to reflect our latest thinking. For example, why our clients should engage with the nature emergency as a systemic risk for investors.

We work with clients who will continue to engage with us on cutting-edge issues, from carbon markets to social issues, and we work in partnership with them to develop new thinking. Annual updates of the ESG policy become important to reflect these developments.

Case study

Ensuring Isio policies reflect market developments

Following the significant market movements that emerged in Autumn 2022, we have reviewed our Investment Strategy guidance and setting process, which informs the ways in which we develop investment strategies for our clients.

With unprecedented volatility in gilt markets, we want to ensure our clients' portfolios remain robust. The market volatility has created a new normal, which will impact on the recommendations in terms of holding liquid investments and recommended levels of leverage, for example.

We will continue to review our investment strategy advice, in response to market developments, on a reactive basis.

As mentioned, there are also cases of collaborative engagement which has involved working with managers to develop new products which are appropriate for our clients' needs. These have involved ESG versions of existing funds which we rate highly.

As a result, we have 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.
- **ESG Impact Assessment:** Developing more "client friendly" ESG manager summary pages for inclusion in our 2022 ESG manager assessments based on direct client feedback. This now includes more concise commentary and clearer areas of focus.
- **Climate Impact Assessment:** Developing a Climate Impact Assessment for a client with a focus on climate change requiring a deeper understanding of how their managers integrate climate change considerations into the investment process. The Climate Impact Assessments have since been rolled out across a broader range of clients.

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

Moving forward: Assurance

Isio will continue to review assurance processes to make sure these are fit for purpose, on at least an annual basis. We understand that high quality service delivery is critical to maintaining healthy relationships with our clients. With a focus on ESG and stewardship risks, this will require a constant monitoring of the ESG 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:

- Additional refinements and reviews of our scorecards to reflect best practice and new developments, and similarly reviewing and expanding our ESG and stewardship focus areas and priorities to inform engagement activities. Whilst our ESG manager assessments are internally assured, we will seek external guidance for industry collaboration on best practice.

- We will also continue to engage with our modelling and data providers on best practice developments in the industry landscape. This will help us to provide an internal stamp of assurance for our clients.
- For the ESG 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 ESG landscape evolves.
- 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 second response to the 2020 UK Stewardship Code, we set out the approach to the six principles applicable to service providers. The main areas of focus include to:

- Respond to the 2020 UK Stewardship Code guidance on the principles
- Capture FRC feedback on our first submission to the 2020 UK Stewardship Code, in October 2021
- Set out the areas where we have evolved the Isio approach to ESG and stewardship, both within our internal business and how we engage with external clients. Reporting is for the year to October 2022
- Set out our stewardship priorities moving forward, including to continue to improve ESG outcomes for our clients, deliver cutting edge advice on climate change, nature and social factors, and roll-out new ESG data analytical services.

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 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 news areas we should be engaging with.

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

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