XPS Investment

# XPS Investment

## UK Stewardship Code Submission 2021

**April 2022**

This report provides details of XPS Investment's application of the **6 Principles of the UK Stewardship Code 2020** during the period 1 January 2021 to 31 December 2021.

**Executive summary of key activities in the year**

| 199 | 11 | 08 | 03 | 01 |
|---|---|---|---|---|
| Funds ESG rated with feedback given | New recommended sustainable funds | Sustainability-based thought leadership pieces | Webinars on sustainability | Firm-level commitment to net zero |

# Principle 1: Purpose, strategy and culture

## Our purpose, services, culture, values and strategy

XPS Investment sits within XPS Pensions Group, the largest pure pensions consultancy in the UK. XPS Pensions Group provides pensions actuarial, investment consulting and administration services to over 1,500 pension scheme clients in the UK, combining expertise, insight, and technology to address the needs of both pension trustees and sponsoring employers.

Our business strategy is best summarised with reference to our mission, vision, and purpose:

- **Mission Statement:** We strive to be leaders in pensions, investment consulting and administration, with brilliant people and leading technology delivering better outcomes for pension fund members and rewarding careers for our people.
- **Our Vision:** We will constantly challenge the pensions industry to improve and achieve better outcomes for members.
- **Our Purpose:** We exist to shape and support safe, robust, and well-understood pension funds for the benefit of people and society.

XPS Investment is a fast-moving, exciting business, with **a team of 89 people** across **8 locations** exclusively focused on the UK market. We advise DB and DC pension schemes on all aspects of investment, from objectives and strategy to fund selection and monitoring. We do not provide fiduciary management services as we believe it would create a conflict for us to do so, but we do provide fiduciary management oversight services to clients.

We take pride in delivering great service in our clients' best interests. In *Principle 5 and 6* we provide more detail on the feedback we receive from clients and other parties as part of assessing our effectiveness, and how we use that to inform our progress and development of our approach.

### Our culture and values

As a progressive company we acknowledge our responsibility to shareholders, clients, suppliers, our employees and the wider community in which we operate, to work responsibly. Our approach to corporate responsibility helps us manage our business more efficiently, mitigates risk and supports the communities in which we operate, for the benefit of all our stakeholders.

**Our values are as follows:**

- **We are ambitious** – We're aiming high to achieve our purpose of benefiting people and society. We have ambitious goals for our clients, our industry and ourselves. This means leading our industry in thought, action and opinion. It means we are progressive and think differently about pensions.
- **We are agile** – We're forward-thinking, innovative and quick-moving. When we see a better and more sustainable way to do something, we make change happen. We don't just follow the way things have always been done in our industry.
- **We are helpful** – We are one firm who build and sustain great relationships with our clients and with each other. This means we're always ready and willing to help out – clients and colleagues know they can trust us. We work hard together, we support each other, we listen and we are helpful.
- **We are expert** – We know our stuff and we each bring something special to our collective knowledge. We make a point of cultivating our individual expertise and diversity of thought – and we use it, share it and support each other for the benefit of our clients and colleagues every single day.
- **We do the right thing** – We're inclusive, approachable, honest and fair; both with our clients and each other. We value everyone's unique contribution, recognising and rewarding hard work. We act with integrity and honesty, speaking up if something doesn't meet our standards.

Our culture, driven by our values, has yielded benefits for our staff and clients alike. Our core values of agility, helpfulness and always doing the right thing were at the heart of our successful response to the challenges posed by the COVID-19 crisis. In a survey of our people, **95%** stated that they thought XPS Pensions Group was a good place to work. And in a survey of our clients, **93%** were 'satisfied' or better with their relationship with XPS with **86%** being 'likely' or 'very likely' to recommend XPS.

## Commitment to Inclusion, equality and diversity

We are committed to a culture of 'Belonging' at XPS. One where differences are valued and respected, where all staff can be their true selves at work and where we can all contribute to, and be recognised for, creating the best possible XPS.

Our Board has clearly and regularly expressed its support for inclusion, equality and diversity (IED) in the workplace. It is the responsibility of everyone to make XPS a great place to work, where colleagues feel able to share their ideas, views and concerns and are supported, trusted, valued and respected.

## Our IED strategy has 4 main pillars:

**1** Our culture

**2** Fair processes

**3** Attraction and retention

**4** Diversity & Inclusion within society

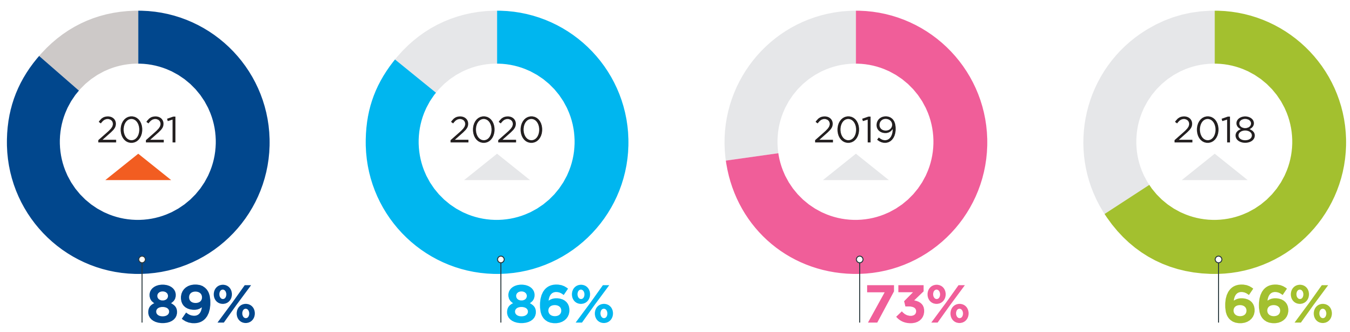
All our activities and messages are aligned so that staff know they have the responsibility for actively promoting equality of opportunity and diversity, speaking up and actively listening to others and everyone should respect each other and take the time to understand different perspectives.

We launched our **Inclusion and Diversity Framework** in 2021. It was created with input from colleagues from our Diversity Working Group, our Employee Engagement Group and our Employee Networks. Working with our inclusion specialists, the 'Inclusive Group', and colleagues, we identified what was important to colleagues, clients and other stakeholders, where we could make a difference and what we should prioritise.

We have asked and trained our managers to set clear expectations, to lead by example and uphold the highest of standards and to ensure decisions are fair and free from bias. For example, we conducted a 2-hour mandatory inclusion training for line managers, as well as a mandatory 5-hour mental health training session. Further, XPS hosted 2 mental health seminars, and 2 sessions on menopause awareness, one specifically for line managers and one to raise wider awareness.

In our **Staff Survey**, October 2021, **85% of staff** said they felt like they '**belong**' at XPS. We are using this as a baseline for measuring the impact of our diversity and inclusion activities going forward.

The survey also shows that the percentage of staff who agree the XPS leadership team is committed to **Equality**, **Diversity and Inclusion** has increased over the last 4 years to **89%**.




**Source**: XPS Employee Survey 2021

XPS has been part of the Actuarial Mentoring Programme (AMP) since 2017, and we have been members of the 30% Club for the last four years, both of which support senior representation of women. Additionally, XPS has internal mentoring to help develop gender equality.

We now have **5 employee networks**, which play a key role in encouraging and supporting all employees to bring their whole self to work. Networks greatly contribute to creating inclusive environments and building a sense of community.

XPS Menopause Network

XPS Women's Network

XPS LGBTQ+ Network

XPS Multicultural Network

XPS Disability Network

XPS prides itself on being an inclusive company that cares about employees which is demonstrated by the results of our **employee survey**.

**95%** | **of employees said XPS was a good company to work for**

## Business ethics

All XPS employees have access to our **Business Code of Ethics**, which is based on laws and values that we expect all our employees to adhere to in relation to areas including harassment and bullying, treating customers fairly, diversity and inclusion, financial crime and dealing with vulnerable customers.

We have a zero-tolerance approach to bribery and corruption. The Board has responsibility for oversight of the Group's anti-bribery and financial crime policies and carries out a review of their adequacy annually.

# Actions to ensure our strategy and culture enable effective stewardship

Our culture and values described above set the platform for us to promote effective stewardship for our clients.

ESG integration and stewardship are embedded throughout our processes and interactions with our clients, investment managers and at firm level in the following ways:

## As a firm

### Commitment to zero carbon

- In 2021 XPS Pension Group pledged to become carbon neutral by offsetting carbon emissions across our value chain, as part of our journey to limit the business's environmental impact while helping clients and stakeholders also move towards a more sustainable future.
- The Group's Scope 1, 2 and 3 carbon emissions have been offset by the purchase of high-quality, UN-approved renewable energy. As the UK carbon offsetting market is still relatively immature, we have chosen to invest in a Hydroelectric plant in Chile.
- We do, however, recognise this can only be part of the solution in solving the climate crisis, which is why we're committed to undertaking multiple initiatives to reduce our absolute carbon footprint directly.

### Sustainability Committee

- We have firm level commitment through our Sustainability Committee. The Committee was created in 2021 to support the XPS Board with driving ESG initiatives that have a material impact on business strategy, business performance and the long-term sustainability of the Company. It is chaired by one of XPS's non-executive directors. It has oversight of the views and interests relating to sustainability of the internal and external stakeholders of the Company, with activities revolving around our 5 sustainability pillars (governance, employees, clients, communities, and environment).
- We demonstrate our commitment through participation in various industry initiatives. Under *Principle 4* we provide more detail our contribution to the broader industry effort around stewardship and sustainability.

## Our investment research that underpins client advice

- Our philosophy is captured within our stated Principles and Preferences. Our **six Principles** underpin all our advice and our **six Preferences** reflect how we steer clients in the absence of them having a strong view. This year we have updated our Principles and Preferences:
  - We enhanced *Principle 5* to embed the importance of robust stewardship (in addition to ESG integration) in effective risk management.
  - We clarified our belief that sustainable investment will improve long term outcomes under *Preference 6*.

### Principles

1. **Clear objectives and strategic direction.** Objectives taking into account liabilities are a vital requirement for setting the strategic asset allocation - which is the most important investment decision.
2. **Remove undesirable risks, diversify desirable risks.** Unwanted or undesirable risks offer no benefit to a pension scheme and should be reduced as far as practically possible. Diversification can be a powerful way to manage risk within limits. Investors should understand and ensure strategies will deliver in a range of economic environments.
3. **Avoid short term tactical positions.** They are difficult to get right consistently and the temptation to second guess markets should be resisted.
4. **Cost control.** Costs can have a significant drag on returns and all costs should be fully understood and tightly managed.
5. **ESG and strong stewardship are fundamental elements of risk management.** Investment managers should incorporate ESG considerations into day to day investment management to drive better practices in underlying investee companies.
6. **Clear accountability.** Advice should be accountable and set with reference to clear objectives. It should be independent, minimising conflicts and putting the clients' interests first.

### Preferences

1. **Simple is good.** Portfolios should be pragmatic and free of unnecessary complexity. Excessive numbers of managers and funds should be avoided.
2. **Passive management where appropriate.** It is very difficult for active managers to consistently outperform the market over the long-term after the deduction of additional charges.
3. **Active management to access new markets.** Active should be used where passive management isn't viable or as a means of allocating between mainstream and specialist asset classes to improve governance and diversification.
4. **Illiquidity presents opportunity.** For long-term investors it is an important source of risk reduction, diversification and return enhancement.
5. **Leverage is a powerful tool.** It can reduce risk or enhance returns but needs to be carefully managed.
6. **Sustainable approaches improve outcomes.** Allows for the pursuit of wider sustainability objectives and the management of risks such as climate risk, whilst not coming at the cost of lower expected returns.

- We fully incorporate ESG criteria within our research and require that the funds we recommend to our clients demonstrate an appropriate minimum level of ESG integration and stewardship – we will not recommend funds which fail to meet our minimum requirements on our ESG scoring system. Furthermore we encourage clients to set high expectations of fund managers in this regard.
- We believe ESG is a critical and fundamental component of investment decision making and that investor engagement should not be seen as optional for investors. Our proprietary ESG research framework has been developed using the UN PRI principles as a foundation and aims to assess the genuine commitment of managers to ESG and stewardship activity.
- We annually review ESG integration and in particular stewardship across all asset classes and provide feedback to managers – as described further under *Principles 4 and 5*. We consider this to be key in promoting effective stewardship across asset classes.

## Helping our clients

- We have a clear framework for helping our clients with their approach – rooted in establishing their own beliefs on ESG and climate change, including the importance of engagement with their managers and underlying holdings.
- To support this we've invested in ensuring our people are constantly building their knowledge by conducting internal training and through ongoing engagement with investment managers to understand evolving best practice in this developing landscape.
- We are committed to educating clients on ESG and stewardship-related topics through training programs, webinars and conferences.
- We help our clients monitor and engage with their investment managers in respect of their ESG integration and stewardship practices.
- We support our clients in meeting regulatory requirements such as preparing annual Implementation Statements that disclose voting and engagement activity over the accounting year.
- Through ongoing feedback, for example through the Greenwich Associates survey where we received 30 evaluations in the year and our client survey with over 200 responses, we get insight into how effectively we are meeting our clients' needs. Our senior leadership review the results and we look to continually develop our approach to ensure we continue to serve their best interests.
- During the reporting year in review we prepared for the 2022 ratings cycle where we have expanded our ESG ratings questionnaire to include detail on engagements which have taken place on E, S and G factors within the mandates, adding to the transparency our clients receive in terms of what engagement takes place on their behalf. We have added specific questions on the proportion of the fund engaged with and asked for more detail on underlying exposures to certain activities. Overall the changes made increase the importance of robust stewardship in the rating, and we have raised the minimum score required for acceptable ESG approach overall.

## Assessment of our effectiveness in serving our clients' best interests

We believe that our culture, values, business model and strategy are completely aligned to serving the best interests of our clients.

As described above, this year we've raised the minimum ESG requirements for funds to be recommended to clients. We've also continued to focus our research on sustainable funds (*see Principle 5*). These allow our clients to express stronger beliefs and preferences around ESG and climate change in their investments and seek to support the direction of travel in the industry towards targeting sustainable outcomes alongside financial returns.

We continue to evolve the ESG ratings process and extent of our client reporting, recognising how important ESG factors and effective stewardship are for our clients' long term interests.

# **Principle 2:** Governance, resources and incentives

We continuously strive to improve our capabilities and our structure allows for challenge from various different stakeholders, ensuring we are keeping up to date with the wider evolution and changing needs of the investment industry and risk landscape. This continuous challenge from everyone in the team is exactly what we want as it pushes us to continue developing and progressing, which is our desired outcome.

## Our governance structure, processes, and appropriate resourcing of responsible investment and stewardship

Our approach to responsible investing is led by **Alex Quant, Head of ESG Research**, and overseen by **Simeon Willis, Chief Investment Officer**. The role of various teams involved in our approach to effective stewardship and wider responsible investing are described below:

### Investment Committee:

The Committee is comprised of the most senior members of the investment team and led by **Ben Gold, Head of Investment at XPS and a Director of XPS Investment Limited**. The Committee has oversight of the overall XPS Investment approach. This includes ensuring how ESG and stewardship are embedded in our advice to clients. All fund recommendations are reviewed by our CIO and ratified by our Investment Committee. This ensures consistent application of our approach.

A key activity in the year for the Investment Committee was a 5-hour ESG strategy session, where the group set out the key priority areas for the business with regards to ESG and stewardship. This set the foundation for many of the key developments for the coming year, including publication of our Responsible Investment Policy, updating our Principles and Preferences to stress the benefits of stewardship and sustainability, strengthening our minimum fund recommendation requirements, and further promoting awareness amongst the wider team and clients through training.

### ESG research team:

The ESG research team has grown in the year and is comprised of **12 individuals** from across the team, including three of our Investment Committee, and led by **Alex Quant**. It is focussed on implementing and evolving our ESG research approach and framework to assess ESG and stewardship practices of investment managers, and producing client materials.

### Our Investment Database 'ID':

ESG information is shared across the team along with huge amounts of other information using **ID** (our online database which captures: all aspects of our clients' investments; quarterly performance monitoring; team responsibilities; as well as fund and manager research including a record of meetings held with managers), giving all team members ready access to all ESG information on specific funds. We have invested heavily in building **ID** over the last 3 years and it is central to the efficient management of our clients and our advice.

We routinely utilise **ID** to monitor compliance and wider exercises to ensure complete accuracy and coverage across the full client base. **ID** permits detailed information/actions which which are relevant to all clients to be centrally monitored, notably when communication has taken place and when confirmation has been received that a task has been completed.

We keep a central log of our clients' adherence to key regulatory requirements. As in previous years, in 2021 we took it upon ourselves to provide guidance and keep a checklist of all clients' compliance in relation to the CMA Order confirmation to support our clients meeting their regulatory obligations ensuring full compliance across our client base.

### Asset class research teams:

**5 specialist asset class teams** which incorporate the ESG framework as an explicit stage within their respective investment manager research. This is tailored to the characteristics of the specific asset classes.

## Ensuring quality and accuracy of services

We recognise that clients can only act on the information and advice received. Therefore, the overarching way we promote effective stewardship is by providing detailed and tailored reporting on our clients' investments. For the majority this is in the form of quarterly investment reports covering valuations, performance, risk analysis and other key matters which may include ESG issues. We also provide specific annual reporting on ESG integration and climate change risk within our clients' portfolios (*described further in Principle 4 and 5*) as well as supporting with implementation statement reporting. This reporting enables clients to really understand the approach and outcomes of their managers and whether these are in line with their intentions and policies. Clients can therefore react accordingly, for example by engaging with their managers on issues identified, which we actively encourage.

We ensure that our teams have the appropriate level of expertise to provide this reporting and advice.

Across XPS Investment we encourage everyone to take professional exams to help build their knowledge. We currently have **18 qualified actuaries** and **9 CFA charterholders**. Additionally, we currently have **43** people actively studying for one of these qualifications. We also offer the CFA Certificate in ESG Investing, and during the period under review **Alex Quant** was studying for this and has subsequently completed this Certificate.

All aspects of ESG form an integral part of our graduate training programme. We provide ongoing training to our consultants around responsible investing through our quarterly cycle of training sessions. During the year we held two team-wide ESG training sessions, and an additional dedicated session for qualified actuaries on how they can incorporate sustainability into their advice to clients. We also encourage all consultants to attend seminars hosted by fund managers to raise awareness of the different approaches taken across the industry alongside achieving relevant professional qualifications.

Our consultants are incentivised through their remuneration to provide high quality tailored advice to our clients and conduct themselves in a manner that is in keeping with our values. This relates to the full range of aspects of their advice to clients, including the importance of ESG matters. All consultants are expected to understand ESG matters and advise clients appropriately. Through our annual performance development process, each consultants' end of year rating, which informs their bonus, is linked to performance against each of our values and based on doing a great job for clients, which is everyone's number one objective. Line managers hold their people to account in terms of proactively bringing ESG and climate change advice to their clients.

## Ensuring appropriateness of fees

*Principle 4* of our Principles and Preferences is **Cost control**. We help clients understand the sources of cost within their portfolio in terms of both explicit costs, such as fund management charges and expenses, and implicit costs, such as turnover costs. During the year we undertook a detailed trial to identify the best third-party to work with XPS to provide detailed information to clients on cost via the **Cost Transparency Initiative template**. Following the year-end this service has been offered to all clients.

We also follow a pricing matrix for our fees to ensure fairness and consistency across our clients. Through participating in many tender processes and the associated feedback we receive, whether successful or not, we are confident our fees are fair and competitive versus our peers. Given client circumstances can be unique and complex, where pricing is to deviate from the pricing policy this needs to be agreed with a member of the Investment Committee to ensure it is appropriate.

## Effectiveness of our governance structure and processes

Over the year our proactive and thorough approach has supported all our clients in meeting their regulatory requirements and achieving appropriately high standards in terms of their investment arrangements through tailored advice and attention to their specific needs.

We feel that the structure of our research and consulting teams combined with our use of precise technology is effective to support robust stewardship for and on behalf of our clients.

Our proprietary database **ID** is a powerful tool in supporting our clients with the provision of robust information on all aspects of their investments including ESG, and also supports our internal recording of engagement with managers and progression of their approach. We are constantly upgrading the database capabilities to improve the usefulness of the data stored.

We will continue to develop new propositions (e.g. support under the Cost Transparency Initiative) and services (e.g. expanding our lists of recommended sustainable-rated funds, and providing enhanced reporting on ESG integration and engagement) to help our clients incorporate even more effective stewardship.

We are clear on the need to continue to educate our staff on ESG and the importance of stewardship, and this will permeate through our advice to clients. We recognise the importance of the ESG research team in supporting all asset class teams and our consultants, and to improve its effectiveness will continue to grow this team. Outside the ESG Research team we feel that ongoing training, including offering the CFA Certificate in ESG Investing to more of our client facing consultants, will increase knowledge of the pertinent issues more broadly and therefore the quality of our advice.

# **Principle 3:** Conflicts of interest

We've seen examples in our industry of clear conflicts of interest that have damaged firms' reputations and the industry as a whole. Our focus is on doing a brilliant job for our clients. We know that we will maximise our success if we build long-term relationships with clients on mutual trust rather than trying to maximise short-term profits by abusing our position of influence. We have built a great company with a highly regarded brand doing just this, and we are proud and very protective of that. So, it is in our DNA to avoid or carefully manage any perceived conflict of interest.

We have a Conflicts of Interest policy which outlines how we manage confidentiality and conflicts of interest. This outlines that XPS will always act in the best interests of our clients and treat them fairly in line with one of our values 'We Do the Right Thing'.

We have included our *Conflicts of Interest Policy* in Appendix 1.

In our capacity as a service provider, XPS neither owns its own funds nor does it take the role of a fiduciary manager. We decided early on that to act as both an independent advisor and fiduciary manager creates conflicts and, as such, we wouldn't do it.

A conflict does not automatically mean that XPS will cease to act. We always disclose actual conflicts to conflicted clients in writing, together with details of the risks and the actions taken to manage the conflict.

We have a policy on being fair to all clients. This is particularly relevant when communicating a rating downgrade to Red for a fund as it leads to sale of assets and potential for first mover advantage. We address this by coordinating in such a way that all clients are notified of the news at the same time so no single client is advantaged or disadvantaged. We experienced two examples of funds being downgraded to Red during the year, both in relation to redemptions from other investors potentially compromising the medium-term viability of the funds. All clients were communicated with in keeping with our policy.

**Other examples of managing conflicts in the year have been:**

- A situation where we were invited to tender for a very large Fiduciary Management opportunity. There were 2 parts of the required project: 1. Advise the trustees (who had received traditional investment consulting up to that point) whether traditional consulting was right for them, vs a new Fiduciary Management appointment; and 2. Assuming a decision was made to appoint an FM, assist with the selection and appointment. Whilst it was a very attractive opportunity and we believed we could provide exactly what they wanted under 2, we explained that we would need to withdraw from the process due to their insistence that 1. was required; we explained that due to our policy decision, and the fact that we are a traditional investment consultant we could not advise on the governance model as our potential conflict would be too great.
- Instance of a Scheme Trustee who is also a company representative – we were mindful of this conflict and spoke to the Trustee repeatedly to ensure he didn't act conflicted during meetings. The Trustee has subsequently stepped down, and those discussions have meant that the replacement company representative at meetings is not formally a trustee, to avoid conflict of interest going forward.

## Assessment of our approach to managing conflicts

Our approach to managing conflicts means that clients of XPS can be confident they are receiving the high-quality independent advice they should expect from a professional financial services organisation.

Through the decisions we've taken as to what we will and won't do, i.e. no Fiduciary Management, and no fund management, potential conflicts are quite limited, so unsurprisingly we haven't had many conflicts to manage through the year.

# **Principle 4:** Promoting well-functioning markets

In our capacity as a service provider, our role is to deliver clear, independent advice to pension scheme trustees to enable them to make appropriate investment decisions for their scheme's assets.

## Identifying and responding to systemic risks and promoting well-functioning markets

**Market-wide risk management:** Our *second Principle* within our Principles and Preferences is to 'Remove undesirable risks and diversify desirable risks'. We help clients understand their exposure to interest rate, inflation and currency risks, and in the main encourage them to hedge these risks as far as is practical whilst still achieving their return target. We also encourage clients to diversify by geographic region, investor base, underlying entity and sector, whilst also ensuring portfolios have enough liquidity to meet short, medium and long-term liabilities and cash requirements.

**Risk modelling:** We use proprietary software to design solutions that can be used to mitigate interest rate, inflation and longevity risk. This is done alongside asset/liability modelling software with forward-looking views of investment returns, risk parameters and correlations to help our clients implement an investment strategy to help meet their target investment return and risk objectives. We also use scenario analysis and stress testing routinely as part of our modelling to ensure, as far as is possible, that the investment strategy is resilient against future market shocks. During the year we added an embedded version of our user-friendly scenario modelling tool to our website, available to all clients and prospects free of charge together with our latest scenarios to help promote the importance of this analysis. Our approach to advice is tailored and does not employ house views. This reduces the scope for central decisions and policies to have a systematic effect across all of our clients. We trust our consultants to apply the principles of our approach to each client's specific circumstances.

**Climate change:** We recognise climate change to be a systemic risk that needs to be assessed, managed and mitigated. This is reflected in how we engage with our clients and investment managers on climate change and ESG issues.

This year we formally established an internal Climate and Environment solutions team covering all aspects of our pension scheme advisory services. The team is focussed on helping clients meet climate related regulatory requirements both from an investment, actuarial and covenant review perspective.

We have enhanced our climate change risk dashboard, which provides our clients with a clear insight into their climate change risk exposure. More detail is provided in *Principle 5*.

**In-depth manager research:** We have a highly structured and disciplined approach to manager research at XPS. Our approach is deliberately designed to balance the broad and deep research our scale enables. Our process is focussed on assessing investment managers against eight key factors, which we call the '7Ps and ESG', to ascertain their ability to manage market and systemic risk. These consist of:

- **Parent** – ownership of the business
- **People** – leadership/team managing the strategy and client service
- **Product** – key features of the investment and the role it performs in a portfolio
- **Process** – philosophy and approach to selecting underlying investments including operational risk management and systems
- **Positioning** – current and historical asset allocation of the fund
- **Performance** – past performance and track record
- **Pricing** – full details of underlying cost structure
- **ESG** – consistency and extent to which ESG analysis is incorporated into the process of selecting underlying investments (*more detail on our approach to assessing managers on ESG on behalf of our clients is provided under Principle 5*).

**Raising industry standards:** A key aspect of our manager research is providing detailed feedback to managers on areas for improvement across the areas above, including ESG, so as to drive improvements in their processes and practices. This happens as part of new market searches but also on an ongoing basis during quarterly catchups with research teams. We are also asked to feed into discussions around development of new products, drawing on best practice we observe around the market.

- In 2021, for the first time, we published the results of our ESG fund rating review. This transparency to the market is important for helping investment managers understand where their ratings sit relative to others as well as highlighting the broader market areas for improvement that they can act upon.


*View* ***here***

**Engagement:** In addition to providing direct feedback to managers regarding the outcome of our research view, we facilitate engagement between our clients and their investment managers in relation to ESG and stewardship. For example, where the fund manager rating is not satisfactory, we will have a discussion with our clients regarding the next steps which may include; engagement/discussion with the manager, providing alternative fund recommendations or other appropriate steps which are all considered in the context of the wider scheme circumstances and objectives. Where an incumbent fund manager was assessed to be unsatisfactory in ESG terms, but good quality in other respects, we typically provided advice that engagement with the investment manager be the initial action, with a clear time period over which improvement be evidenced, typically 2 years.

**Avoiding speculative holdings:** Given the long-term time horizon of our investors, we avoid advising schemes to take tactical asset allocation positions as we believe market timing is notoriously difficult to get right and getting it wrong can have significant financial implications for our clients. This was evidenced in our high-profile criticism of cryptocurrency as an institutional investment in a research paper in March 2021 and analysis of short-selling in February 2021.

**Highlighting systematic market events:** Through our free monthly market updates, combined with timely ad hoc briefing notes on developments, we keep clients abreast of current issues and action they should be considering, for example rising inflation rates affecting liability hedge accuracy. More details are included under *Principle 5*.

**Use of technology:** We recognise that there may be situations which require swift action and using our proprietary software, Radar, we are able to provide our clients real time information on their scheme's funding position and risk based on market movements. This enables us to be proactive in helping our clients navigate periods of market stress and staying on track to achieve their long-term objectives.

**Cost control:** We avoid high turnover solutions and focus on providing cost transparency to our clients. This involves close scrutiny of fee arrangements of funds that we research, combined with a targeted approach of seeking justification for any and all fees charged by fund managers, as well as applying competitive tension into discussion around fund manager costs on behalf of our clients. We supplement this with assessment of turnover and transaction costs as an integral part of our research, and during the reporting period have begun supplementing this with additional cost information in line with the Cost Transparency Initiative by working with an independent firm to supply this data.

**Thought leadership:** Our investment team provide a breadth of research covering the key issues. We produce a series of bulletins and host seminars and conferences that capture the latest investment market developments and technical issues. In 2021 this included pieces on: latest guidance on Taskforce on Climate-Related Financial Disclosures; the green gilt market; investing in Emerging Markets; the use of carbon offsetting for pension schemes; and much more.

## Working with wider stakeholders and industry collaboration

We actively participate in the wider industry efforts to advance effective stewardship. This is demonstrated through the following channels:

### Investment Consultants Sustainability Working Group

In our role as a member of the Investment Consultants Sustainability Working Group (ICSWG), our Head of ESG research attends the Steering Committee and is a member of the Asset Owners workstream. We have contributed to The ICSWG Metrics guide which brings clarity to ESG reporting, and we have seen take up from managers on the guide which over time should lead to additional decision-useful reporting from investment managers. We have incorporated the results of the metrics review into our own fund manager ESG questionnaire.

We have also provided input into an Asset Owners guide, providing clarity on the steps asset owners can take when integrating ESG.

We are currently reviewing our processes against the ICSWG climate change competency framework.

We recognise the benefit of collective action in making progress in this rapidly evolving space and are committed to contributing more to this group.

### UN PRI

We are a signatory to the UN PRI. We assess ourselves against the **six principles** and report to the PRI annually on how we meet them. We are awaiting feedback on our latest submission.

### Pensions for Purpose

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment.

We participate in the Paris Alignment Forum and Impact Forum, attending sessions and contributing to the debate on how investors can align their portfolio to successful delivery of the Paris Agreement and incorporate real world impact alongside financial returns. The learnings from these sessions feed into our research and client advice.

**During the year we have published our thought leadership on their dashboard:**

- Investment Fund ESG Review 2021
- ESG beliefs survey results 2021
- Do you fully understand your fiduciary manager's approach to ESG?

Our ESG beliefs survey article was included in a shortlist of featured articles circulated to Pensions for Purpose members in October 2021.

### Impact Investing Institute

The Impact Investing Institute has developed four principles to accelerate the growth and improve the effectiveness of the impact investing market. We will be formally reporting on our adherence to these principles in the coming year.

We review our policies and approach to ensure ongoing support of the principles for our clients on an ongoing basis. In summary our internal assessment against the 4 principles is as follows:

- **Set impactful objectives:** We encourage our clients to form their own beliefs on ESG and our questionnaire that helps them do this includes a question on whether the trustees want to pursue impact outcomes as well as financial returns.
- **Appoint investment consultants and managers with impact integrity:** Our ESG rating research framework is a critical component of our manager recommendations. This ensures suitable consideration of ESG factors in all recommended funds. We have a comprehensive range of 17 sustainable funds which offer impact alignment above and beyond a responsible approach, and we encourage clients to take this approach. We intend to expand this range of funds materially over time.
- **Manage and review your impact:** Measuring and monitoring the impact of investments is an evolving area of practice. In respect of climate change, we produce a carbon dashboard for our clients setting out their current carbon emissions and other forward looking climate change risk indicators. We recognise the need to provide more reporting on impact alignment, for example SDG mapping, and are looking at options to provide this for scheme portfolios.
- **Use your voice to make change:** Our research framework has a specific sub-area relating to stewardship, allowing our clients to review the extent to which their managers are effective with their voting and engagement. Managers with unacceptable stewardship practices are not put forward to our clients.

**Promoting awareness of the UK Stewardship Code:** We notified clients on whether their managers had successfully become signatories or not. We also raised the potential for clients to sign up to the Code themselves.

We contacted those managers who were not successful to understand why and reiterated the importance of being a signatory of the Code as part of our ESG ratings process. We introduced a threshold that those managers who are not signatories to the 2020 Code cannot be given our sustainable designation. Our previous requirements in this requirement related to the 2012 code.

**Consultations:** We actively participate in consultations in the interest of supporting our clients and wider stakeholders. During the reporting period XPS Investment actively participated in 26 consultations in total, demonstrating our commitment to supporting well-functioning markets, including the following focussing on ESG and stewardship:

- WPC inquiry into Pension Stewardship and COP 26 (June 2021)
- Consultation by the Pensions and Lifetime Savings Association (PLSA): Responsible Investment Quality Mark (Sept 2021)
- IFOA Consultation on proposed changes to regulatory framework on climate change & sustainability (Dec 2021)
- FCA Consultation on Sustainability Disclosure Requirements & Investment labels (Jan 2022)
- DWP consultation on Climate and investment reporting: setting expectations and empowering savers – consultation on policy, regulations and guidance (Jan 2022)

## Assessment of our risk management and contribution to well-functioning markets

We have remained committed to encouraging our clients to focus on longer term outcomes rather than knee jerk reactions – this was critical given continued market volatility through 2021.

We're confident that our expert research teams supported by market leading technology and collaboration with wider stakeholders gives us a clear picture of systemic risks so that we are able to effectively address these in our clients' best interests.

Our feedback process to managers on their ratings, bolstered by our publication of a summary report of all ratings, seeks to drive an improvement in policies and practices across the market. As explained further in *Principle 6* we have received good feedback from managers on our research approach, including comments that our feedback is unique to them and ahead of the market – in this way we remain confident that our process adds value to the industry and ultimately our clients who benefit from the higher standards this generates.

By evaluating the overall trend in ratings from year to year we can form a view on the effectiveness of our feedback with managers. From 2020 to 2021 we saw an overall improvement in ESG ratings, which we feel we have contributed to. This trend is good news, but we recognise there are many areas where improvement is still needed.

Through being proactive with projects such as the Cost Transparency Initiative we are being helpful in shining a light on excessive costs. We will continue to look for innovative, cost-effective and scalable ways of helping our clients like this.

# **Principle 5:** Supporting client's integration of stewardship and investment

Our overall client base during the period totals approximately **£143bn of Assets Under Advice** as at 31 December 2021. All clients are institutional and are UK based.

## Investment clients base breakdown by service

| **Service** | |
|---|---|
| **UK DB trustee** | 250 |
| **UK DB corporate** | 11 |
| **UK DC** | 50 |
| **UK FM oversight** | 24 |

## How our services best support clients' stewardship

### Helping clients develop their approach

ESG and stewardship are an integral component of investment decision-making and therefore a core part of our advice to clients.

We work with our clients to understand their specific beliefs and priorities to help develop a tailored approach using our Responsible Investing framework. This provides trustees with practical steps they can take to meet their responsible investing objectives aligned with generating long term sustainable returns for their members. To support this, we have undertaken numerous training sessions with trustee boards on ESG and stewardship issues, helping them understand the risk management and upside opportunities that effective stewardship can offer.

We reported last year on the development of an **online questionnaire tool** to collate and summarise views of the individual trustees on a trustee board around ESG and sustainability. The output is an anonymised summary for each client, indicating areas of strong consensus and areas for further discussion. Given the use of technology to provide scale we offer this service at no charge to both clients and non-clients.

During 2021 we collected the views of **299 trustees** and investment professionals to help them better understand their collective views on ESG and sustainability. This has been well received by clients, providing a powerful tool for aiding a productive discussion and unearthing views from the whole trustee board.

We published the collective results of this exercise in June 2021, at which point we had **over 200 responses**, finding that whilst **90%+** felt ESG and climate change represented material financial risks, only **40%** felt their current approach reflected that belief. By establishing ESG beliefs in this way clients are able to develop bespoke ESG and stewardship policies, covering their approach towards ESG integration, managing climate change risk, and stewardship.

We also use online surveys as a powerful means to help clients gauge their members' views and set out in the following case study:

## Case study

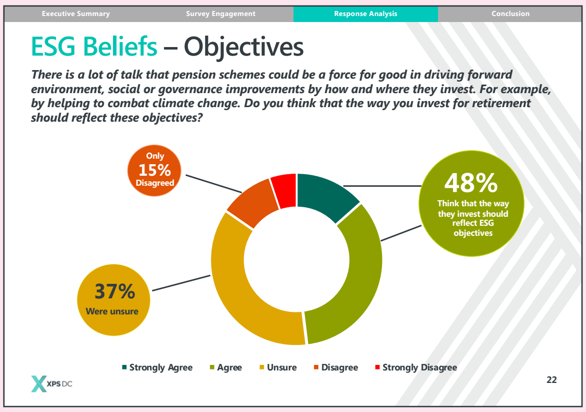
### Member analytics for DC pension scheme

**Background:** One of our DC scheme clients wanted to understand the beliefs and preferences of their membership across a range of issues. This was recognising their role as fiduciary and the importance of strong stewardship with regards to their members' investments. This was off the back of COVID-19 and employees were beginning to return to the office en masse, so the employer wished to re-engage with members and demonstrate that they were listening to their views.

The intention is to use the results to provide a scheme-wide member-focused newsletter about future developments and important news.

**Solution:** We used an online survey to gather member views across the following areas: communication and engagement, member choices, value for money, and ESG.

**Added value:** The trustees now have clear sight of member views. The results indicated that a large proportion wanted to reflect their ESG beliefs in their investments, with a greater need for education on ESG issues. The trustees are therefore in a position to use the results to inform the approach taken going forward, and ultimately deliver better member outcomes.



## Thought leadership and webinars

Taking advantage of our scale and the commonality of issues across the pension industry, we routinely provide clients with ongoing tailored advice pieces on topical matters at no extra charge. During 2021 we provided 6 pieces of such advice including the new climate change reporting requirements, sustainable equity investment options and fund manager status with regards to the 2020 Stewardship Code.

During 2021 we issued 8 thought leadership papers specifically on ESG matters including topics such as 'Does your scheme's ESG strategy reflect your trustees' views?'; 'Do you fully understand your fiduciary manager's approach to ESG?'; and 'What happened at COP26 and what does it mean for pension scheme investments?'. This was alongside our 12 monthly investment market updates with corresponding videos. We issued many others on wider topics, all aimed at supporting our clients understand various issues affecting the security of their schemes.

In 2021 we hosted three events specifically focused on sustainability:

- **How Employers are Getting Proactive on Key DB Investment Issues.** Including a session considering alignment of the ESG beliefs of the sponsor with the pension scheme.
- **Pension Schemes and our Planet – Can schemes afford to wait to tackle climate change?** A session covering the implications of climate change regulations on pension schemes and discussing practical steps that pension schemes can take to support the transition to a low carbon economy.
- **Women's Network – One Planet, One Person, One Promise**. An event aimed at improving understanding of sustainability and how it can factor into personal, business and investment decisions. We asked all participants to commit to a personal sustainability pledge, for example to review their personal pension to ensure it aligns with their sustainability preferences.

These sustainability related events supplemented **19 other webinars** we ran during the year on a range of topics, with over **4,000 registrations**. Feedback from these events was consistently very high. For example, our most recent investment webcast was, on average, rated 4.5 out of 5 by delegates.

We had **over 500,000 unique views** on our website, an **increase of 15%** during 2021.

## Research approach

We assess investment managers using detailed ESG questionnaires that comprise of around 70 targeted questions covering 5 key ESG aspects, alongside face-to-face meetings as required. The 5 key aspects include:

- **Philosophy** – Firm level philosophy relating to ESG, stewardship and broader sustainability issues.
- **Integration** – Implementation of the firm's ESG philosophy at individual fund level through robust processes.
- **Climate Change** – Explicit climate change considerations within the investment processes and stewardship.
- **Stewardship** – Approach to voting and engagement including being a UK Stewardship Code signatory.
- **Reporting** – Transparent communication of activity to stakeholders.

Our assessment in each of the areas described above hinges on outcome-based evidence in each of the key areas. We ask for detailed examples to support claims.

Our due diligence results in an **overall ESG rating of Green**, **Amber** or **Red** as well as individual ratings for each of the 5 key aspects.

We have a clear minimum threshold with regards to ESG to the extent that a fund that is rated 'Red' on ESG will not be recommended to our clients.

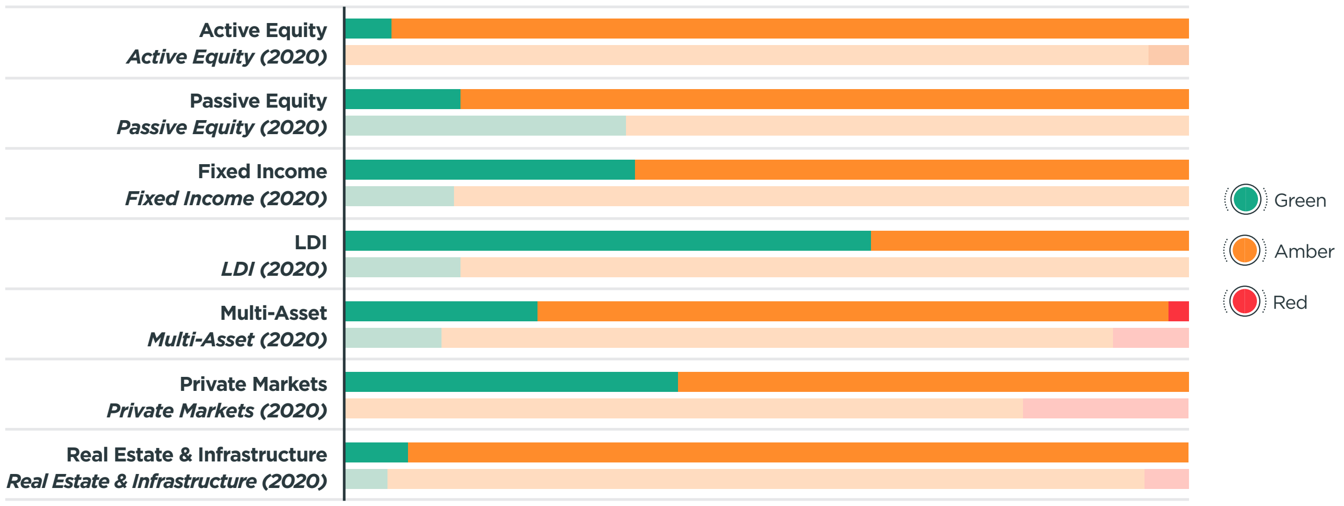
## Our ESG monitoring process

In addition to our established approach to researching new funds, which has been in place since 2018, we conduct a comprehensive review of our clients existing holdings from an ESG perspective each year. Investment managers' policies and practices are evolving rapidly in this space and this annual review ensures we will continue to provide assessment of suitability along with assessment of improvement relative to prior years. We encourage all our clients to participate in this review, and our ESG ratings report provides a clear summary of the strengths and weaknesses of their managers

In 2021 we assessed **54 managers** on **199 individual funds** that our clients held. Our findings were that the industry still had a long way to go.

The chart below summarises the overall ESG ratings grouped by asset class:

## Overall XPS ESG ratings for 2021 by asset class (compared with 2020)




**Source**: XPS Investment

**Note:** The apparent reduction in green rated passive equity managers over the year is due to the number of funds reviewed increasing from 3 to 21, where we had grouped passive funds at the same manager last year where this year we have reported individually. Therefore, we do not believe this represents a deterioration in the practices of managers.

| | Rating explanation |
|---|---|
| **Green** | Manager has a credible ESG capability implemented consistently within the investment process on this fund. |
| **Amber** | Manager has credible ESG capability but extent to which it is applied in decision making varies. |
| **Red** | Manager has either no credible capability or does not factor ESG into decision making on this fund. |

## Carbon footprint monitoring

We have enhanced our climate risk monitoring dashboard and provided this to clients along with our ESG ratings report. The dashboard provides an summary of exposure to climate change risk within the current investments vs peer group of funds and fund benchmarks. We have found this to be a useful tool in prompting discussion with investment managers around plans to reduce emissions, or increase their investment in companies with well-defined climate transition plans.

We collected this data where it was available across the 199 funds analysed, of which around 50% were able to supply some level of carbon measurement. We do note considerable limitations in the availability of suitable data from the fund management industry at this point in time, with only a small (but growing) proportion of funds having the necessary comprehensive information readily available.

This is an area where we continue to have a dialogue with the fund managers to seek improvement driven by TCFD recommendations and impending UK SDR reporting requirements.

## XPS Sustainable designation and promoting sustainability

In 2019 we recognised there was a lack of clear definition of sustainable funds. In response to this XPS developed our own Sustainable designation that we would award to funds that met our criteria. In addition to meeting our 7Ps and ESG criteria these funds also need to:

- Involve portfolio construction tilted towards sustainable practices and/or away from unsustainable practices, which may include an explicit sustainable objective
- High degree of ESG integration into decision making reflected in an XPS Green rating for ESG
- Strong active ownership – including a minimum requirement to be a signatory of the 2020 UK Stewardship Code
- UNPRI fund score of at least A+
- Exclude UN recognised unacceptable practices

In 2021 we continued further whole-of-market searches to expand our range of sustainable funds available to include active equity, multi-asset, and multi-sector credit. We began a search for sustainable real assets (diversified private markets, infrastructure and real estate).

We **increased the number of sustainable funds by 11** during the year and now have a **total of 17 funds** across various asset classes.

During 2021 we produced a thought-piece for our consultants to take to their clients which set out considerations for moving to a sustainable alternative within a given asset class.

Our sustainable approach has also been comprehensively adopted within XPS's mastertrust as described in the case study below:

## Case study

### National Pension Trust (NPT) adopts climate aware solution into default strategy

**Background:** NPT, XPS's DC Master Trust, undertook a strategy review for its default plan and wished to explore the use of sustainable passive equity having undertaken training on ESG and having established strong beliefs around the financial materiality of ESG and climate change in their strategy.

**Solution:** We presented a range of investment manager ideas from our green-rated sustainable passive equity funds. This list includes funds which either focus on tilting towards climate risk-aligned companies, or tilt towards companies which score highly in terms of broader ESG risks. The client expressed a preference for climate-risk alignment and therefore selected a fund constructed using the TPI methodology for company assessment – this favours companies best placed for the transition to a low-carbon economy, over and above companies which simply have lower current emissions.

**Added value:** The overall portfolio has significantly reduced risk exposure to climate change in the long term, as well as materially reducing its overall current carbon footprint.

*Developing our new default fund is an important step for the National Pension Trust. It is another example of how NPT is committed to providing market leading investment strategies that reflects the preferences of our members while helping employers meet their ESG responsibilities.*

**Ian Davies** – Chair of Trustees for the National Pensions Trust

## Methods and frequency of communication with clients

Our business model is moulded around a culture of personal relationships and making ourselves available to clients, either face-to-face or via video or conference calls. We also provide in-depth reporting and written advice on various different aspects. Our reports are flexible and will be tailored to client's specific needs.

We engage with clients on ESG and stewardship issues through the following channels:

- **Quarterly investment meetings:** Our consultants meet with the majority of our trustee boards on a quarterly basis. Increasingly ESG is a standing agenda item, which may be to discuss the ESG ratings report, an ESG training session, deeper discussion on the development of a bespoke RI policy or implementation of a sustainable fund. We do recognise (in line with the feedback we have received from clients as described below) that clients have varying degrees of interest in these issues, and therefore the same approach cannot be taken for all schemes.
- **ESG ratings reports and carbon dashboard:** Provided to trustee meetings usually on an annual basis in line with the annual review of fund ESG ratings. Ratings are then discussed through the year and of course any changes during the year will be flagged. We believe that communicating formal ratings on an annual basis is appropriate to reflect the pace of change in policies and practices.
- **Ad hoc meetings with investment managers:** As a matter of good stewardship we actively encourage trustees to speak to managers about ESG and other investment issues. These meetings are very effective and bring ESG and climate change issues to life for trustee groups – particularly as an opportunity to challenge managers on examples to substantiate the approaches they describe. For the most part this happens on an ad hoc basis at the moment but we believe engagement will become more frequent and regular.
- **XPS Arena:** New portal launched 2021 for any trustee to use anytime which provides access to training and other market updates. We have a standalone ESG section on the platform. This is an effective way of driving engagement in ESG and climate change issues outside of the above approaches.

## Feedback from our clients

We're clear in our commitment to deliver tailored advice bespoke to our clients' circumstances. This requires building great relationships built on trust and open dialogue. We seek to understand their views and discuss where their views differ to ours.

By establishing an open and honest relationship, we encourage an environment in which informal feedback on our services and people is commonplace. We conduct annual reviews with our clients where we review the year past and plan the year ahead.

We have sought feedback from clients on our approach to ESG. A common thread was that some clients (typically smaller) were most focused on minimum compliance whilst others were focused on doing as much as they could to improve ESG governance within their remit. We have factored this feedback into our approach, avoiding a 'one size fits all' approach to engaging with our clients.

We also undertake a periodic Client Satisfaction Survey, covering aspects such as timeliness, competence, clarity of communication, helpfulness and pro-activity. Over 200 clients responded and overall the feedback was very positive. In particular we noted 50% of schemes were 'very satisfied' or better with our focus on responsible investment within supporting their decision-making, and 24% of respondents want to increase their focus on ESG investing.

We collate detailed feedback via the Greenwich Associates survey. This year we received evaluations from **30 clients** and the assessment is given particular focus at the Investment Committee level. We proactively encourage clients to participate in this survey with a charitable donation offered in exchange for their participation.

Our clients are required by the Competition and Markets Authority to set us investment adviser objectives against which we will be assessed on an annual basis. Whilst not a strict requirement we actively encourage clients to assess us annually, which we support by providing a template scorecard based on the TPR guide which includes an evaluation on ESG and stewardship and how we have helped our clients achieve their wider objectives.

## How we have taken this feedback into account in provision of services

We review feedback on a case by case basis but also look at trends across the client base. This includes our advice, but the feedback also drives development of our tools, policies and activities in pursuit of supporting clients' effective stewardship that we think they will find valuable.

Based on direct feedback and also our view of the shifting sentiment from our clients on areas of focus for them, specific developments in the year included:

- Enhancing our ESG reporting template to include more detail on managers' participation various groups (e.g. UK Stewardship Code, TCFD, Net Zero Asset Managers), and further detail on our ESG ratings themselves
- Enhancing our carbon dashboard to capture a comparison against peer group funds and also capture information on forward looking climate risk

## Effectiveness of how we have supported clients with stewardship

We're clear in our commitment to deliver tailored advice bespoke to our clients' circumstances. This requires building great relationships built on trust and open dialogue. We seek to understand their views and discuss where their views differ to ours. We regularly seek feedback which then influences future interaction/advice and our feedback reflects that this has been well received and valued.

Our minimum ESG criteria within our fund ratings continues to ensure ESG integration and stewardship are embedded in all of our advice. There is a clear direction of travel now towards sustainable funds, which pursue long term sustainable ideas, including climate transition alignment, supported by strong active ownership. We think the approach we have taken to date has enabled effective stewardship by and on behalf of our clients. Our focus going forward will be on continued education and support for our clients to bring solutions to them which enhance long term outcomes for their members.

# **Principle 6:** Review and assurance

## Internal and external review and assurance of our policies and activities

### Internal assurance

We believe it's critical to constantly challenge ourselves and evaluate our approach to improve our processes and ultimately deliver better advice and outcomes for our clients.

Our research function is overseen by our CIO and Investment Committee, which comprises the most senior members of our investment practice. During the year the Investment Committee conducted a detailed ESG strategy session, *as mentioned in relation to Principle 2, supporting the evolution of our tools and processes described in Principle 5*.

The ESG research team has monthly meetings to discuss ongoing tasks and market developments and it is these meetings which prompt production of new materials such as thought leadership or ideas around new funds to research.

We feel the combination of these review processes is appropriate and enables our policies and processes to develop at the pace required.

In terms of assuring wider credibility of our people providing these and other services to clients, XPS Investment certifies 37 staff to carry out FCA regulated work covering Investment, Group Risk, and Risk Transfer work. As part of that certification XPS Investment carries out annual checks on staff fitness and propriety, staff competency, and provides training on the Senior Management and Certification Regime (SMCR), including Conduct Rules and non-financial misconduct.

This training is in addition to the mandatory training for all XPS Group employees that covers subjects such as data protection, bribery and gifts, fraud and other topics. Completion of this annual cycle of training is monitored closely.

As part of their professional qualifications all qualified staff are required to complete Continued Professional Development (CPD), which ensures ongoing education to support their client service.

In terms of our advice and services, our Risk & Compliance team do spot checks of certain advice. Furthermore, various aspects of our policies and procedures are audited annually to ensure they're robust and represent best practice. In 2021 this exercise highlighted the need to use IT to automate more of the transition process and enable a broader group to be able to see progress, tasks, deadlines and other items, in case of an emergency. This adds value to our services and security for our clients. XPS employs PwC to provide internal audit assurance on various aspects of our internal processes and in 2021 highlighted that we need to automate more of our transition processes to enable greater resilience in the event of unforeseen events. This extension to the functionality is being built into ID and is being rolled out in Q2 2022.

This stewardship submission was drafted by **Alex Quant**, reviewed by **Simeon Willis (CIO)** and peer reviewed by **Ben Gold (Head of the Investment business)** to ensure it represents a fair and balanced reflection of our approach.

### Client feedback

As set out in *Principle 5,* we seek feedback from clients through the Client Satisfaction Survey and the Greenwich Associates survey, and through the CMA objectives. We have explained under *Principle 5* how this feedback has informed our progress and development of tools.

### 3rd Party Feedback

We submitted our first report to the UN PRI during the reporting period and are waiting for the results of the assessment, which we will receive in 2022. This will provide an objective assessment of our processes and regular milestone for our review as part of our continuous improvement.

We received feedback from the FRC in relation to our first UK Stewardship Code submission and have specifically sought to act on the areas needing improvement. The resulting actions and development of our approach in response is reflected in this submission, noting that we pursue continual improvement.

We have participated in numerous round table discussions and forums to promote improving market practices. Our participation of the Investment Consultants Sustainable Working Group provides a peer group comparison of our activities to help us benchmark our offering. With our participation, this group has subsequently established a set of criteria that consultants and clients alike can use as a framework to assess the effectiveness of their approach. As previously mentioned we are assessing ourselves against the ICSWG climate change competency framework. We also support the Impact Institute Principles for Investment and consider our policies and practices against the 4 principles on an ongoing basis and will be reporting against this in 2022.

## Fund Manager Feedback

We seek annual feedback from investment managers on their assessment of our research approach and suggestions on how we can work with them more successfully. This reflects XPS's commitment to working in partnership with the fund management industry for the benefit of our mutual clients. This review covered 4 key aspects of our overall research and ESG. We show a summary of the feedback in relation to our overall research and ESG below.

| Assessment of XPS's overall approach to research | Average manager feedback score (0-10) | Number of respondents |
|---|---|---|
| **Quality of research capability** | 7.7 | 43 |
| **Technical understanding** | 8.0 | 43 |
| **Professionalism** | 8.5 | 53 |
| **Clarity of communication** | 8.0 | 52 |

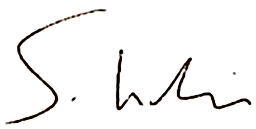
| Assessment of XPS's approach to ESG research | Average manager feedback score (0-10) | Number of respondents |
|---|---|---|
| **Quality of research capability** | 7.7 | 26 |

Additional detailed comments were provided by **33 respondents for ESG**. All feedback was reviewed by our CIO who responded to all managers and collated a short list of actions in response. In summary the feedback highlighted that fund managers appreciated our direct approach to fund assessment and our professionalism, however the managers highlighted some areas that could be improved, notably a desire for more regular contact to discuss evolving processes and practices and, more detailed and timely feedback following fund research. As well as the responses we provided directly to managers, we addressed some of the issues and actions at our investment manager conference webinar in November 2021. These actions included a new approach to providing tailored comments for all funds dismissed at the screening stage, rather than more generalised collective feedback,

In December 2021, driven by a desire to be more transparent, we communicated our intention to share all fund ratings, ESG ratings, sustainable designation and whether the fund was actively promoted to clients. This exercise has subsequently taken place in Q1 2022 and involved securely emailing **330 contacts** across **184 fund managers** with this tailored information about XPS's ratings of their funds.

## How the feedback received ensures continuous progress

We believe this combination of internal and external review provides a comprehensive assessment of our policies and practices. It is on the basis of the variety of feedback and review mechanisms including peer group comparison, fund management industry feedback and assessment in context of the associations we are affiliated to, that we believe our approach towards stewardship is fair, balanced and understandable. However, we seek to continue to enhance the approach we take.

**Signed:** 

**Print name:** Simeon Willis, Chief Investment Officer

**Date:** 29 April 2022

# Appendix 1

## Conflicts of Interest Policy

# Conflicts of Interest

## 1. Background

1.1 This document summarises the XPS Pensions Group plc (XPS) policy to handling conflicts of interest. It is for external use with clients and supports Compliance policy 08 which provides detailed actions for conflict management.

## 2. Why is this important?

2.1 There are a number of reasons why we have a conflicts policy, including professional body requirements and regulatory expectations.

2.2 A conflict could impair our objectivity when providing services and also create an unfair competitive advantage. A client may also have a perception of a conflict that we need to recognise.

## 3. What's our policy on conflicts?

3.1 We will always act in the best interests of our clients and treat them fairly. Our values incorporate how we should act: **we do the right thing**.

3.2 That means we'll take all reasonable steps to prevent conflicts occurring or mitigate/manage any conflicts we identify.

3.3 All staff must follow our detailed conflicts policy and, if they become aware of situations which may give rise to a conflict, must report it to their line manager or the Lead Consultant who will then consider what action to take.

## 4. What's a conflict of interest?

4.1 Whilst it's not possible to list all types of conflict, they can be generally defined as where our responsibility to a client conflicts, or could be seen to conflict, with the interests of a staff member (**personal conflict**), XPS (**employer conflict**) or another XPS client's interests (**client conflict**).

4.2 There are many different types of conflict that can arise and our policy is regularly reviewed and updated for current types of conflicts and issues. These include where we are asked to work on projects for an existing client, working for a listed client, providing a range of services that could in themselves lead to a conflict and personal conflicts (for example when acting as an appointed Scheme Actuary).

4.3 Where conflicts cannot be managed in a proportionate manner even after discussion with our client we will consider ceasing to provide services. In this instance, support and guidance can be obtained from the Compliance team.

## 5. Conflict checks

5.1 Conflict checks are carried out either when a new business lead is received or as part of our client take on process.

5.2 We also carry out a fresh conflict check if something significant changes such as a material change in the services we provide, M&A activity or changes in corporate structures.

5.3 The process for carrying out a conflict check is detailed in our Compliance policy.

## 6. Actuarial conflicts

6.1 Our conflicts policy also details the professional requirements for members of the Institute & Faculty of Actuaries (IFoA) and includes guidance on implementing a Conflicts of Interest Management Plan. Guidance is also provided by our Professionalism Committee and our Compliance team.

## 7. Conflicts management

7.1 A conflict does not automatically mean we must cease to act. Our conflicts policy details examples of the actions that could be taken although these will depend on the nature and extent of the conflict.

7.2 We always disclose actual conflicts to conflicted clients in writing, together with details of the risks and the actions taken to manage the conflict. Our explanation is always be in enough detail to allow clients to make an informed decision. Clients must consent in writing to our controls.

7.3 Any XPS staff working on conflicted clients should be made aware of the agreed measures in writing and should confirm they will comply with those measures.

## 8. Other instances where conflicts can arise

8.1 These are covered by other policies and hence not covered here but they are available to all staff on the intranet. These include:

> Insider trading
> Financial crime
> Bribery and gifts
> Signing authorities

## 9. Records

9.1 We must keep records for at least five years from the event in question.

# About us

**XPS Pensions Group** is the largest pure pensions consultancy in the UK, specialising in actuarial, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs of more than 1,500 pension schemes and their sponsoring employers on both an ongoing and project basis. We undertake pensions administration for over 948,000 members and provide advisory services to schemes of all sizes, including 47 with over £1bn of assets each.

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