



Stewardship

Our approach | 2021 report



**BARNETT
WADDINGHAM**
beyond the expected

We are delighted to present our 2021 stewardship report, building on our work in 2020 as signatories to the 2020 Stewardship Code. We believe the Code sets clear principles for asset owners, asset managers and, from our perspective, service providers, which if met will raise standards of stewardship.

In our report, we set out how we have helped clients understand, refine and agree their approach to stewardship, as well as how we represent their interests through our engagement with others in the investment industry. We provide a number of examples as well as case studies to bring this work to life.

We also cover how we have continued to develop our people, our capacity and our capability to promote effective stewardship, with training, development and regular discussion sessions for all of our Investing Consulting team.



Rod Goodyer FIA
Partner and Head of
Investment Consulting



Pete Smith
Principal and Head of
Sustainable Investment

Principles

04

Principle 1: Signatories’ purpose, strategy and culture enable them to promote effective stewardship.

14

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

28

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

32

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

40

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.

54

Principle 6: Signatories review their policies and assure their processes

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

Purpose

Barnett Waddingham is a leading independent UK professional services consultancy working with clients across investment, pensions, risk and insurance. We work in partnership with our clients to clarify and solve their complexities, in the right way. Our primary purpose is to provide clients with clear and accessible advice and services, through a personal, quality, tailored approach. We seek to build stable and long-term partnerships with clients, supported by our low staff turnover thanks to our ongoing investment in our experts and our particular culture.

Services

We offer a full range of professional services to pension schemes, charities, corporate foundations, insurance companies and friendly societies. These services include advising investors on setting investment objectives and policies, designing investment strategies, selection and monitoring of fund managers, oversight and evaluation of fiduciary managers, establishing effective governance frameworks and considering sustainability and climate change. All our work is advisory as we do not manage money nor manage or provide our own funds. We are striving to embed the consideration of sustainability and climate change in all aspects of the advice we give our clients and view this as an important goal for the coming years.

We also provide a broad range of actuarial services to pension schemes, insurance companies and friendly societies. And we provide full administration services to

pension schemes as well as specialist pensions management and governance services. Our risk advisory and management decision analytics experts support clients across the business.

We are a leader in the provision of self-invested personal pensions (SIPPs), through BW SIPP LLP, small self-administered pension schemes (SSASs), specialist executive pension plans (EPPs) and other retirement arrangements.

Our culture and values

"Do the right thing" – this is the simplest way to summarise our culture. This mantra applies to both clients and our people, and so the Partners work hard to instil this across the business.

Our people are key to the success of our business and we are proud of their loyalty and commitment to delivering a quality, efficient client service. People who join Barnett Waddingham tend to stay, thriving in a professional learning environment and a caring, friendly culture.

Our values drive how our people act. These values help guide us and bring us together as one team. We've distilled this down to four statements which are embedded across the entire business.



Principled - We are committed to maintaining our high ethical standards whilst considering the impacts on all our stakeholders. We behave in a manner that demonstrates our honesty, conviction, pride and responsibility to keep our promises. We continue to uphold our reputation as an independent partnership that has integrity at its core.



Quality - We don't compromise on quality; excellence is the norm across our whole business and we consciously look to provide innovative solutions that deliver ongoing value to every client.



Partnership - By working collaboratively within the business and with our clients, we are able to deliver a seamless service by encouraging both individual excellence and teamwork within our business. Our unified approach ensures we are working together toward the same goals and desired outcomes.



Respect - We recognise and respect the value of everyone's contribution to our success, honouring our diversity and the positive effect we have on our communities and the environment.

Business model and strategy

The governance structure of Barnett Waddingham is led by our Management Board who oversee our activities. They set the overall direction of the business, its key objectives, and the strategies to deliver.

The Management Board comprises eight partners, three of whom are elected, and has an independent chair, Elizabeth Renshaw-Ames, to ensure constructive discussions take place to reach the right decisions and to bring an external and independent view to ensure there is appropriate challenge. Figure 1 describes BW’s governance structure and services the business offers. Each service area is run by a Business Area Leader, with the investment consulting area led by Rod Goodyer, Head of Investment Consulting.

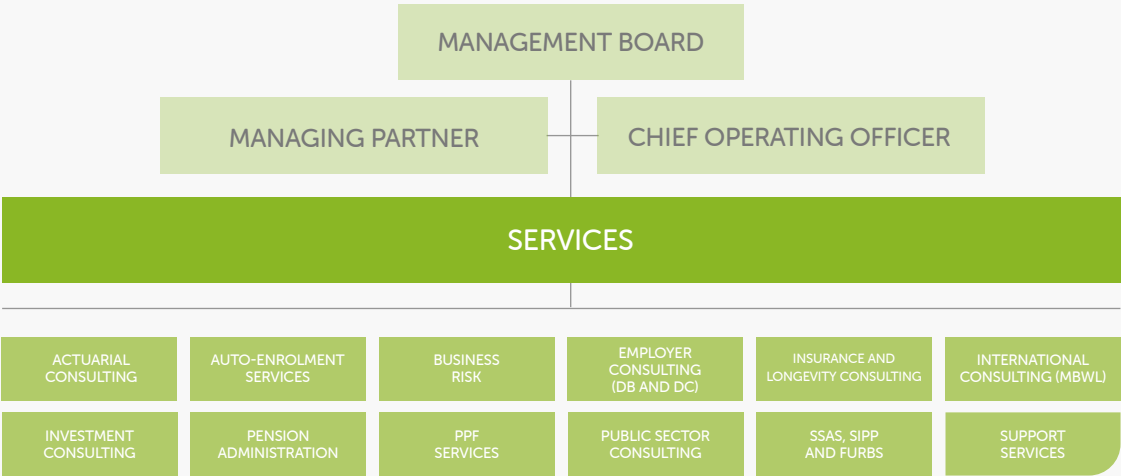
Management Board’s role includes setting our businesses’ overall sustainability objectives, as well as supporting the set-up and operation of sub-groups within the firm to deliver those objectives. In addition to Management Board, the firm also has a number of other boards reporting to it that oversee areas such as People, Professional Risk & Compliance, Nominations for promotion to Partner and other senior positions in the firm and Finance.

Our firmwide strategy is set by our Management Board based on the dual principles of focus and impact; we choose to actively focus on specific areas where we can have an outsized impact by our direct activities. Sustainability is a strategic priority for our firm, covering both our own sustainability but also providing advice and services to our clients.

We consider stewardship (i.e. the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society) plays a vital role in sustainable investment practices. We are signatories to the Stewardship Code to demonstrate the importance we place on effective stewardship activities, using the principles framework.

Barnett Waddingham forms a key link between our asset owner clients and the asset managers undertaking stewardship on their behalf. Stewardship is undertaken by fund managers selected by our clients based on the advice we provide.

Figure 1: Barnett Waddingham’s structure and services



Activity and outcome

Underpinning our work in this area is our long term partnership approach. As a business, wholly owned by our partners, we are focussed on maintaining long term relationships with clients. This is facilitated by our culture, which promotes sustainable relationships with clients by, for example, not setting individual income targets for consultants or by client, so that the focus can be on doing the right thing aligned with the interests of our clients and the business.

Economy:

- In 2021, we continued to work with all of our clients to set and report on the implementation of stewardship policies within their investment strategies - in our work advising clients on setting investment objectives we are increasingly including climate change, sustainability and stewardship as core objectives.
- We do this by undertaking training and discussions with our clients, and supporting our consultants with a programme of development to improve our capabilities. During 2021, we provided training and development for all of our investment consulting team on ESG and stewardship, building our knowledge and skills covering governance documentation, manager mandates, monitoring, implementation statements for pension schemes, and the regulatory framework and coming climate governance and reporting requirements. We provide more information on training and development for our colleagues under Principle 2 – Resourcing on p.16.

- We launched a monthly internal roundup newsletter in July 2021 covering developments and case studies on sustainable investment and stewardship, as well as a monthly drop-in session from October for the investment consulting team to come and discuss issues arising on sustainability and stewardship. The sessions are well-attended and the team engage in helpful discussions of issues as they arise and we share new developments in a timely way.
- Considering ESG criteria and stewardship credentials is a part of all of our manager research and fund recommendations – this includes reviewing manager voting and engagement policies, their resources, and their activity data. We assess managers (and asset classes) against their peers and against our own expectations of good standards.
- We report on the ESG and stewardship credentials of clients' managers and strategy on an annual basis. As part of this, we request data on PRI signatory status and ratings, Stewardship Code signatory status, and voting/

engagement statistics. We also discuss reports with clients and highlight any ESG and stewardship concerns and educate and encourage them on how they can engage with their managers on ESG and stewardship. In 2021 we expanded our coverage of managers and improved the robustness of our process, including introducing questionnaires for consistency.

- We incorporate ESG and stewardship in our internal training programmes. For example, in 2021 we held training sessions for all of our investment consulting team and actuarial practice, and ensured our new graduate intake understood the importance of sustainability and climate change by holding a series of training sessions with them. Our graduates rotate through our IC research teams so they gain exposure to working in the Sustainable Investment (SI) Team.
- At a firm level, we are members of the Investment Consultants Sustainable Working Group (ICSWG), we participate in Pensions for Purpose and are supporters of the Impact Investing Institute as well as other initiatives. The individuals who represent Barnett Waddingham within these groups share any discussions and learning with our Sustainable Investment Team, and the wider firm, depending on the nature of the information. We share more detail on our involvement in collaborative initiatives under Principle 4 on p.38.
- The outcome of this activity is that, in aggregate, our clients (and the collective value of their assets) are now more resilient to the evolving challenges of ESG and stewardship, and contributing to the economic challenges

ahead. In addition, our clients have better training and knowledge to carry out their fiduciary duties, ensuring more robust governance going forwards. Our SI Team also provided case study examples to the wider IC team on how to raise ESG and stewardship issues with clients, including sharing of key challenges faced, typical push backs and appropriate responses.

Environment:

- We work with our clients to educate them on the investment implications of the environment and climate change. For example, in 2021 we worked with an asset manager to help them launch a new fund after assessing the market for our client and identifying a gap in the market related to a focus on social governance and alignment with the Paris Agreement's acknowledgment of the imperatives of a just transition of the workforce and the creation of decent work and quality jobs. Our client were seed investors in the fund that integrates Paris-aligned reductions in carbon emissions with UN sustainability principles. We provide more detail in the case study on Implementing and communicating an ESG policy under Principle 5 on p.52.

- In June 2021, having made a significant reduction in our carbon footprint by reducing emissions across the business, we committed to be net carbon neutral for Scope 1 and 2 emissions (and net zero including Scope 3 emissions by 2025), which we believe is a material outcome of this process. BW are doing the right thing by reducing our carbon footprint and using high quality, nature-based offsets to achieve neutrality. We are also promoting and underlining the importance of ESG and climate change to our stakeholders (our clients, managers we work with, etc.) through this ambitious commitment.
- The outcome of this activity is that we have a lower environmental impact than in previous years and clear targets in place to continue those reductions over time.

Society:

- January 2021 saw the launch of six internal networks to lead the planning and delivery of our work on our focus areas and provide an environment where different voices are encouraged and heard. Our network leads and partners feed into and attend meetings of the D&I Steering Group, ensuring that they all have a voice in shaping work across D&I for BW. Our networks work together to build an inclusive and diverse place for us all to work. We provide more information on our D&I approach and activities under Principle 2 on p.22.
- Our D&I networks also work in partnership with our HR team who develop our policies, processes and procedures to make sure we are creating opportunities for success for everyone. In 2021, we have been:
 - Embedding our diversity networks to create spaces for colleagues to share, support and develop, as well as build an inclusive and diverse work environment

- Increasing engagement with our colleagues, sparking conversations and thinking about different perspectives through events, discussions and social media
- Undertaking development with our hiring managers and recruiters on unconscious bias, introducing software to hide candidate information that could cause decision-making bias and equality training for our recruiters and managers
- Our work on D&I links into our wider sustainability strategic priority as a firm, where we look to make a positive impact on communities, the environment and wider society. We support our wider community with our professional skills and expertise. In 2021, our colleagues:
 - Volunteered time as trustees on boards to support charity finance and governance
 - Used our IT skills to support charities set up computer equipment
 - Used our marketing talent to help charities with branding
 - Supported students with maths tutoring
 - Provided industry and workplace experience for people to help them get an understanding of our industry and a foot in the door

- Provided learning opportunities and welfare support to 4,741 young people through our volunteering and charitable education support projects in our Young People Development initiative
- Donated over 80 laptops to aid learning for disadvantaged students in 4 schools located in Cheltenham, Birmingham, Liverpool and Leeds
- Donated over 240 litres of hand soap and sanitising hand rinse to a number of education centres and local community projects to keep safe during the pandemic (donating directly to schools, community centres, homeless charities and an animal shelter, all of which were in need to keep their facilities open)
- In July 2021 we announced our new flexible working framework that allows our people to work in the way that delivers best for them and our clients. We developed our new WorkSmart framework following extensive and regular engagement with our clients and people over nearly twelve months. This collaborative approach ensures needs are met and the business can continue to thrive.
- WorkSmart provides a clear framework for teams to identify how and where they will work to get their best work done – for example, this might be at a BW office, at a client's office or at home. For the majority of BW's 1,320+ people, a blend of working locations is anticipated during a typical week. As part of this we will continue to invest in all of our offices with a continuing focus on enhanced team working, collaboration and learning as people and teams return to working in our offices on a regular basis.

- Ongoing investment in technology meant we were resilient and able to move our entire workforce to remote working from the beginning of the first lockdown, with minimal disruption, which ensured the ongoing high levels of service that clients expect. A recent independent survey¹ found that 98% of our clients felt the service they received while BW teams were working remotely was the same or better than before the pandemic.
- Continued investment in technology features strongly in WorkSmart to ensure continued delivery of innovative and high quality solutions to clients – all delivered in an agile and secure manner
- The outcome of this activity for our clients is improved diversity of thought and ideas within our team, so that the advice that we provide continues to evolve and innovate to support effective stewardship.

Understanding our effectiveness

Our Management Board is ultimately responsible for our purpose, strategy and culture and keep this under review through a number of measures to understand our effectiveness. Management Board receive quarterly reports on our performance on Investment Consulting as well as on Sustainability, providing multiple lenses for us to consider our stewardship activity and outcomes. We retain a large percentage of clients and we are successful in winning new business in competitive tenders for our investment consulting and fiduciary management evaluation services, where we see more clients placing greater emphasis on ESG, sustainability and stewardship in their selection exercises.

We also seek feedback from clients directly. We provide more detail on seeking clients' views and feedback under Principle 5 on p.43.

We received an "Outstanding" rating from Best Companies and are recognised nationally as the 34th Best Large Company to Work For in the UK and second in the financial sector. The survey results show we scored particularly highly on wellbeing - a fantastic achievement that demonstrates our positive workplace culture, values and flexible working arrangements.

Best Companies carries out anonymous workforce surveys, the results of which are announced every quarter, with the final rankings for 2022 unveiled in November. The survey covers issues relating to engagement, including wellbeing, pay and benefits, personal growth and leadership. Our survey response rate was 87%, showing a high level of participation and engagement from our workforce. More information is set out under Principle 5.

Overall, our retention rates as well as survey results and staff engagement demonstrate our culture, purpose and strategy enable our colleagues to provide effective advice and stewardship engagement. In 2022 we will continue to work to understand our effectiveness and look for further improvements.

Effectiveness



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

Activity and outcome Governance

Management Board set our strategy and direction, providing a firmwide sponsor for our sustainability activities and services and our investment consulting practice leads our work in promoting effective stewardship to clients, and in particular, our Sustainable Investment (SI) team.

The SI team ensures our investment consulting practice has the knowledge and ability to advise clients on all investment matters related to sustainability, like climate change, stewardship and integrating ESG, whilst supporting the sustainability objectives of Barnett Waddingham. We continued to refine and develop our approach within our sustainability governance structures in 2021.

The SI team forms a robust governance structure, made up of four teams (with some colleagues being part of more than one team, giving greater breadth of knowledge while ensuring accountability for delivering the team's objectives). The existence of each group is to provide focus as regards direction of work. The SI team works collegiately and aims to integrate with the whole of the IC area and the rest of the Firm.

The SI team steering group has the responsibility to drive the work of the SI team. It is the first point of call for all matters related to sustainability and the chair of the SI steering group reports to the Head of Investment Consulting. The steering group also works closely with Matt Tickle, Partner and Head of Investment Research, to ensure sustainability is embedded in all our research in a consistent manner – indeed, sustainable investment, stewardship and ESG is prevalent across our research teams. For example, as explained later in Principle 5.



All of our manager research activity includes assessment of managers' ESG and stewardship credentials.

The SI team steering group comprises:

- **David Clare**
Partner and Chair of Sustainable Investment
- **Pete Smith**
Principal and Senior Investment Consultant
- **Eva Grace**
Investment Consultant and senior member of Sustainable Investment
- **Jordan Griffiths**,
Sustainable Investment Consultant
- **Dave Moreton**
Partner and Training and Development Lead
- **Amanda Latham**
Associate and Policy & Strategy Lead

Projects are undertaken by a group of around 20 members of the wider investment team, covering research, propositions, training and development, with the core team shown in Figure 2. We continued to develop our SI team governance and ways of working in 2021, providing more focussed service to our clients to continue to support their effective stewardship.

Resourcing

Organisational and workforce structure

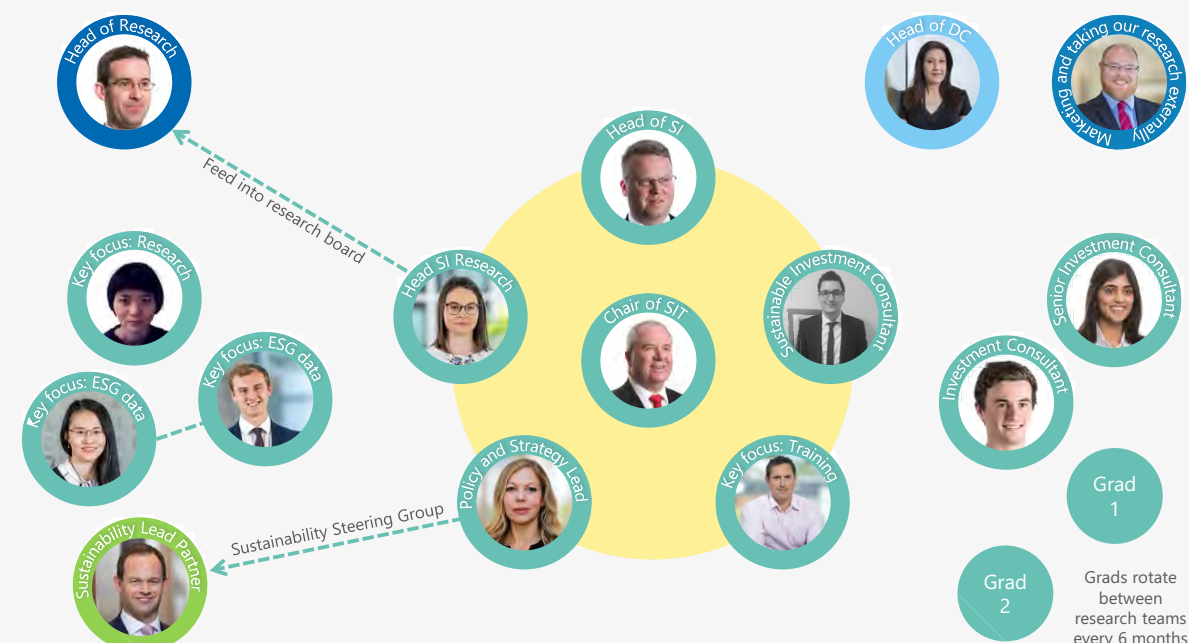
Our research team, including the SI team, comprises 18 full time equivalent members, made up of 8 dedicated researchers alongside our consultants. Our manager research team is part of the wider research team and are responsible for day to day integration and engagement with managers. Every researcher does sustainability and ESG research to inform our overall ratings.

The investment analysts and full-time manager research staff are the key individuals responsible for performance reporting for our clients. Our focussed team of generalists with in-depth knowledge across multiple areas encourages knowledge sharing and better challenge. This allows our opinion to be well thought-out and robust, with no pressure to “sell” a specialist area.

Our research team engage with investment managers to obtain performance data, and analyse and interrogate this on behalf of our clients. This is overseen by the IC Research Board, chaired by Matt Tickle, Head of Investment Research. Sustainability is built into the team’s objectives and annual assessment and review process. The SI team is represented on our Research Board by Eva Grace, Head of Sustainable Investment Research.

In 2021 we recruited two specialist members of the SI team, one sustainable investment researcher and one sustainable investment consultant, to further develop our capacity and to support our clients to manage sustainable investment and stewardship activities.

Figure 2: Barnett Waddingham’s Sustainable Investment Team



Quality and accuracy

In order to ensure the quality and accuracy of our services in respect of stewardship, we undertake a range of work within the team so that our consultants are best placed to effectively advise clients:

- We provide comprehensive training, including stewardship, to all members of the team, from introducing the high-level principles to new graduates, to detailed advice-focussed training for experienced consultants. The education for new graduates includes “rotating” into our different research teams as part of their induction programme. We also encourage all members of the team to regularly attend training provided by investment managers and industry bodies, so that we understand views and approaches, and can take new ideas to clients. Consultants also invite SI team members to support the training and discussions they provide to clients.
- The data that we receive from managers on ESG and stewardship is checked by both the SI team and individual client teams for both accuracy and reasonableness, so that we can identify any inconsistencies or areas that managers may have reported contrary to our expectations. As part of this process, we engage with managers on the data provided and emphasise the importance of stewardship to clients and the quality of stewardship data. We aim for best practice in the process of voting/engagement data collection by using the PLSA vote reporting template and ICSWG Engagement Reporting Guide.

- All of our advice to clients is subject to an internal peer review from a senior consultant outside of the immediate client team. This review will include raising areas of the advice that are “missing” including raising important issues such as responsible investment and stewardship.
- As part of helping clients to comply with the CMA Order, we encourage a beyond-compliance approach to the annual review of our performance against objectives, taking the opportunity to reassess what clients want from us as their advisor. This includes any objectives in respect of stewardship.
- By checking and reviewing the data, information and advice we provide to our clients we ensure we have a consistent and continuously improving approach to supporting clients’ stewardship.

Seniority, experience, qualification(s) training and diversity

We encourage all of our investment consulting team to undertake professional qualifications, with the majority of the team studying for or qualified as an Actuary or CFA Charterholder. Of the 97 members of the team, 33 are FCA-Regulated advisors. Members of the team who are studying to qualify with the Institute and Faculty of Actuaries (IFoA), or with the CFA, benefit from a comprehensive study policy, which provides both time and money to support learning.

In addition, all of our SI team were offered additional support to study the CFA ESG qualification alongside their broader qualifications during 2020. During 2021, two members of our team were provided support for the qualification. In February 2021, another eight members of the team attended the newly launched AllianceBernstein and Columbia University Climate School’s Climate Change and Investment Academy, receiving training on key climate-related finance issues including risks and opportunities arising from both predictable and uncertain elements of the earth’s climate system, and the social, political and economic responses to climate impacts.

Following feedback from our investment consultants, in 2021 we established monthly forums where we discuss current issues in Sustainability and provide an opportunity for sharing sustainability consulting issues.

These ‘SIT down and Chat’ sessions are voluntary and we monitor the number of attendees as an indicator of the influence our SI team are having in engaging with our wider team. Attendance each month ranges from 51-66 members of the IC team with notes provided summarising the discussion for those unable to attend.

The SI team provide the wider IC area with scheduled training, webinars, monthly newsletter, walk in sessions, a training hub, and have a dedicated email address and a dedicated team to answer any queries. SIT has a dedicated team member (Dave Moreton, Partner) who is responsible for training. Furthermore, employees undertake external CPD across various subjects including climate change and external speakers attend internal meetings to provide insight and training.

Our recruitment process evolves depending on the needs of the business over time, but key principles of our approach are:

- New recruits should ideally contribute not just academic expertise to the team, but also enhance the collective efficacy by providing diversity of thought and ideas. We continue to evolve our recruitment process to make it as effective as possible.
- A sustainable business is one which is built on a stable foundation of new graduates. During the Covid-19 pandemic, we continued to invest in our graduate programme, taking a full intake of recruits in 2021, as we believe this best supports our business and the provision of good service to clients now and into the future.

For some clients we provide support in implementing the movement of assets between funds and between managers. This challenging and risky area of work requires careful and expert oversight, for which we have a full-time team of asset transfer specialists.

We do not yet report on the diversity of our team. In 2022 we are developing our D&I programme and are planning a campaign to collect greater diversity disclosures from our colleagues, for example disability and ethnicity, to enable us to better target our D&I activities and

actions to improve our inclusive workplace culture. This will also enable us to understand the diversity of our teams across our business areas, so we can monitor and report where useful. We provide more information on our D&I approach later on in this section on p. 23.

We look to understand the behavioural diversity of our team through The Colour Works Insights Discovery Profiling, providing profiles and training to help colleagues recognise and adapt to different behavioural styles, improving self-awareness, communication and team dynamics. Each team member across BW develops a profile and we also look at our behavioural and communication styles across our teams both in-person and virtually, helping us to consider the different skills that can be brought to our client teams.

Investment in systems, processes, research and analysis

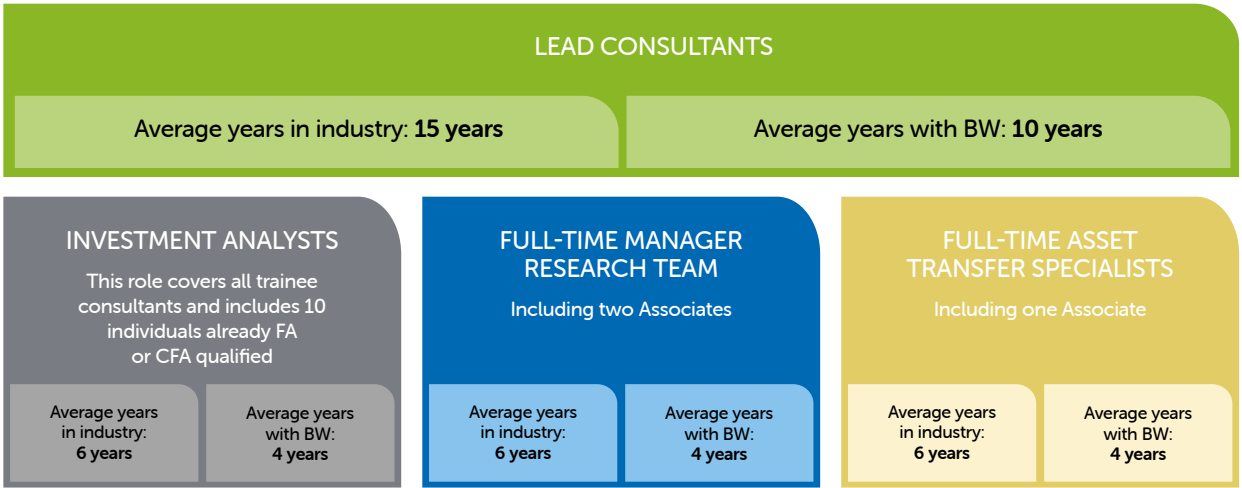
Another of the key operational sub-teams is our systems development team. They are responsible for developing our risk modelling tools as well as our internal systems for performance monitoring of client investments. By developing these systems in-house, we have full control and flexibility to adapt and tailor them to our client needs.

We have developed template ESG reporting structures, including on stewardship, which bring together the key metrics available from investment managers and presents

them in an easily accessible dashboard for clients (See Figure 8 on p.46). This allows clients to make effective decisions on their managers with respect to management of sustainability and practice of active stewardship.

Our process for preparing these reports, and also for preparing regulatory disclosures like implementation statements, is standardised at the data collection and analysis stage. This stage is undertaken by the research team to make this as cost efficient as possible for clients, and then allows the individual client teams to add value specific to client needs when the report is finalised, so that all clients get tailored advice. Our approach to monitoring ESG and stewardship continues to evolve as the information available improves, and the needs of clients evolves.

We updated and evolved our monitoring dashboard in 2021 focusing on what we believe to be the key actionable points for pension scheme trustees to discuss with investment managers on their approach to ESG (see Figure 12 on p.57).



We decided to align our carbon metric reporting with the preferred metrics on TCFD reporting following a consultation by DWP. We have also been in discussions with various asset managers, encouraging their adoption of these metrics i.e. carbon footprint. Within our reporting we encourage actions to be taken by Trustees. For example, asking managers for more transparency on reasons where they did not exercise voting rights or encouraging reporting of thematic breakdowns of voting and engagement.

In 2021 we enhanced the ESG data that we receive in order to further improve our research and reporting to clients. We updated our ESG questionnaire to ask for data points that we believe are most important and actionable for clients. This included asking for thematic breakdowns of engagements and voting. We are aware of the number of requests that investment managers have to complete and so took care to only ask questions we believed were of genuine value to assessing the ESG credentials of the manager.



Incentivisation

Our annual personal development review process promotes good practice throughout our team, being focussed on providing top quality advice to clients. As a minimum, this means helping clients to comply with the latest legislation on stewardship, but for consultants to demonstrate best practice they must be delivering beyond this, helping them to understand how good stewardship can enhance investment outcomes. All else being equal, remuneration will therefore be aligned with consultants delivering effectively on stewardship to clients.

Fees

During 2020 we set up a template fee modeller to assist our consultants in setting fees for clients, to help ensure consistency and fairness to clients. We regularly test the fees we charge against the market (e.g. by taking feedback following new business tender processes, through discussions with independent trustees and via external surveys such as that carried out by Greenwich Associates), so we are confident that our fees represent excellent value for the quality of service we provide. We updated our fees

for our basic ESG Monitoring report in 2021 to reflect the inclusion of our ESG ratings in the report. We felt it was no longer meeting the minimum requirement for ESG reporting to provide a report without an inclusion of our research and subsequent opinion.

In order to provide our clients with good value for money, we carried out the majority of the work needed to collate and analyse data for the first round of implementation statement reporting centrally, and then shared the cost across clients, rather than charge “time-cost” for each individual client. We believe this is good demonstration of fairness to clients, so that those who were first to complete the work were not subject to higher costs.

We also provide regular free educational material to clients, through our annual investment conference session on [“practically addressing ESG”](#) delivered in early 2021 and client briefings or blogs (e.g. [“helping meet your climate governance and reporting duties”](#)).

All of our advice to clients in respect of fund selection includes a section which compares the cost of investing on a like-for-like basis – we seek to include both explicit fund management charges, and implicit costs (e.g. turnover).

Diversity & inclusion

In 2021, we increased our focus on D&I and took tangible actions towards improving inclusion at BW and beyond, in the industries and the communities where we work. Our culture has always focused on the principle of “doing the right thing”, which is a great start for D&I.

We believe diversity of thought achieves better business results, for both our clients and for ourselves. We value access to a wide talent pool, without any boundaries or bias. And we want to develop teams who give – and welcome – different opinions, views and cultural perspectives, bringing a real richness to our day-to-day activities. We want everyone at BW to feel they can bring their whole self to work, confident they are included and respected.

Our D&I Networks

In January 2021, to advance our ambitions on D&I and increase engagement throughout our firm, we launched our D&I Steering Group, responsible to our Management Board for progressing our D&I strategy. We also introduced six D&I Networks – each led by a non-Partner and supported by a Partner to raise awareness, run education interventions, and interactive events. Our networks are working together to build an inclusive and diverse place for us all to work.



Early Careers Network - supports graduate roles, summer internships, apprenticeships and work experience placements, and helps those at the beginning of their careers to build confidence, knowledge and input as they develop. **2021 highlight:** Volunteering for UpReach charity, which supports disadvantaged students, by running actuarial workshops and mock interviews.



LGBT+ Network - raises awareness, shares experiences and works together to provide a safe, open work environment where everyone can thrive and be their best, authentic self regardless of gender or sexual orientation. **2021 highlight:** introduced ability for our people to add their pronouns to their internal directory profile and email signatures. Ran two lunch and learn sessions with external panel members



Gender Equality Network - promotes and champions awareness of, and engagement in gender equality to ensure the equal representation of all genders which have equal value and should be given equal opportunity. **2021 highlight:** held focus months on International Women's Day and menopause awareness. Held a leadership round table sharing challenges and experiences with our Non-Executive Chair Elizabeth Renshaw-Ames leading the discussions.



Inter-faith Network - promotes tolerance and understanding that real inclusion is wanting the best for each other, and encouraging each other to thrive, even though our backgrounds and beliefs may be different. **2021 highlight:** started conversations about the importance of faith across the business and organised discussion forums for different perspectives on religion.



Multicultural Network - respecting and celebrating the differences among our people and promoting and championing the many different cultures within BW and beyond. **2021 highlight:** increasing engagement with events such as the popular multicultural quiz social and the lunch and learn session with a guest speaker from Diversity in Pensions.



Wellness+ Network - improving wellness and related areas, from mental health, disability, and financial wellbeing to accessibility and inclusion. **2021 highlight:** provided wellbeing consulting services to our clients, including our wellbeing analysis survey, ran a focus month on supporting people with disabilities.

We selected our Steering Group, non-Partner leads and Partner supporters and network groups following an open call asking people across BW to set out why they were passionate about D&I and what they thought BW could do to improve things. This helped us bring together people across our firm with the knowledge, skills and enthusiasm to build our D&I agenda and programme through 2021 and beyond.

Improving our inclusive recruitment

We are always looking for ways we can continue to improve how we do things at BW, so in 2021 we looked to develop our inclusive culture through:

- Unconscious bias awareness sessions for 178 of our people who have recruitment responsibilities and are involved in interviewing and selecting candidates
- Introducing software to hide candidate information that could cause decision-making bias
- Equality training for our recruiters and managers
- Piloting a hiring manager development module raising awareness on protected characteristics with an initial pilot group of six people from across different Business Areas
- Delivering a series of webinars for our graduate assessors ahead of our 2021 assessment days to challenge 'group think' and shine a spotlight on benefits of diversity. Objectives were to improve effective selection of candidates, to ensure consistent selection processes when interviewing, reviewing and scoring candidates, to discuss ways of reducing bias during candidate presentations, and also included a simulation exercise to bring together the day's learning and lock in new skills.

Sustainability and social investment

Our work on D&I links into our wider sustainability strategic priority as a firm, where we look to make a positive impact on communities, the environment and wider society. In 2021 our employees have delivered 196 hours of volunteering to community care and support initiatives in eight locations in UK for nature and wildlife projects, support to armed forces and emergency providers. We also supported our wider community with our professional skills and expertise. We set out our achievements in 2021 under Principle 1, Society, on p.10.

Partnerships and collaboration

We also look to advance inclusion and diversity through collaboration, joining with others in our industry and challenging ourselves and others to go further, faster.

In 2021, we...

Partnered with [10,000 Black Interns](#) to transform horizons and prospects by providing paid work experience, training and mentoring to help provide the foundation for more black people to pursue careers in business.



Organised events and discussions across the industry through our membership and colleagues who are co-organisers of the pensions industry LGBTQ+ network group, [O:pen](#), an inclusive organisation for professionals working in pensions who believe in the importance of promoting and celebrating LGBTQ+ diversity and inclusion within the industry.

Joined the [Diversity Project](#) to collaborate with other firms, share experiences and commit to developing an inclusive culture

Signed and supported the [Asset Owner's Diversity Charter](#), committing us to helping to build an investment industry which represents a more balanced and fair representation of diverse societies through our manager selection, manager monitoring, and leading and collaborating with others in the industry to identify diversity and inclusion best practice



Began a partnership with not-for-profit organisation, [Speakers for Schools](#), to give young people access to quality work experience



Published an employer page on [VERCIDA](#) (Values, Equality, Respect, Culture, Inclusion, Diversity and Accessibility), a platform designed to reach diverse candidates.

Volunteered with [Investment Springboard](#) providing mentoring for university students from under-represented groups looking to join the investment and savings industry, and



2022 and beyond...



Continuing to support and develop our networks with a full calendar of events planned throughout the year, with each network owning a month to lead awareness-raising and engagement activities around their topic of focus, as well as intersectional events.



Appointing external specialists to help shape our D&I strategy and ambition with our Management Board. We are holding workshops and one-to-one meetings with specialist D&I consultants to collectively agree our D&I ambitions and strategy which will drive action plans for future years.



Improving the D&I data we hold to further support our work identifying areas of focus within our strategy. This will provide insights on characteristics beyond gender to support our goal setting and to help objectively assess the progress that we are making around inclusion. A company specialising in D&I data collection is helping us with this exercise to ensure we benefit from their experience with this project. Their industry benchmarks will also play a crucial role in helping us to understand where we sit in the wider UK employer market.

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

Figure 3: Conflicts of Interest Policy

Barnett Waddingham is committed to identifying, monitoring and managing all actual and potential conflicts of interest that can arise between both our clients and us, as well as between clients in all areas of our business.

For all conflicts of interest, Barnett Waddingham takes reasonable steps to prevent these conflicts giving rise to material risk of damage to the interests of any of its clients. There are a number of areas where conflicts may arise which are as follows:

- Barnett Waddingham provides advice to a wide range of organisations and their pension schemes. This includes entities in the same group as firms whose products Barnett Waddingham may recommend. We will notify explicitly any potential conflicts that we perceive have arisen;
- Barnett Waddingham provides advice to other clients in the same business sector;
- Barnett Waddingham provides a range of services to pension schemes. Barnett Waddingham's advice may include the undertaking of further work for which Barnett Waddingham is a potential provider.

Where we identify conflicts of interest we acknowledge the importance of taking appropriate steps to mitigate and disclose the risks as per our internal policies and procedures reference. In summary and wherever possible effort will be made to:

- Avoid conflicts between personal interests, or the interests of any associated company, person or group of persons, and duties to clients;
- Avoid conflict between any competing interests of one or more client, stepping aside if such conflicts cannot be resolved;
- Avoid conflict between personal interests, or the interests of any associated company or person, and duties to Barnett Waddingham.

Where conflicts cannot be avoided, efforts should be made to mitigate the risks as specified in the policies and procedures previously referenced, and/or where appropriate, by the following means:

- Effective procedures to prevent or control the exchange of information between the relevant persons where the exchange of such information may harm the interests of one or more clients;
- Separate supervision of relevant persons whose principal functions involve carrying out such activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the company/firm;

- Measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services and/or activities;
- Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest;
- Segregation of duties that could give rise to conflicts if carried out by the same individual.



Activity and outcome

We train all our staff on our conflicts policy on induction and provide regular updates to training (e.g. annual training on Anti-Money Laundering and compliance regime changes).

All clients are the responsibility of a Partner at Barnett Waddingham. Prior to and on appointment, we check for conflicts with each of the Partners and other senior members of firm's client-facing personnel. Any potential conflicts are raised with our Governance team for management.

Where a potential conflict is identified, we will investigate whether this is actual or perceived and whether it is manageable. If appropriate, we have the technology in place to set up separate client teams, with access to documentation restricted to ensure no breach of a conflict.



If this were the case, any proposed approach would be agreed with the clients beforehand, and in the event that an approach could not be agreed, we would decline to remain appointed to one or both clients.

We do not accept commission on investments unless our clients specifically instruct us to do so and it is in their interest, in which case we will offset it against our fees. Commissions are sometimes arranged on risk benefits, for example life assurance and stakeholder or personal pension arrangements but only with the client's agreement. All commissions are declared.

We do not manage any assets or provide fiduciary management services (where trustees delegate the majority of investment decisions). As independent consultants we offer our clients unbiased investment advice across the whole of the market. We are also ideally placed to provide an expert independent fiduciary management oversight service to trustees who are considering or who have chosen to go down a fiduciary management route.

Figure 4: Case study – Managing conflicts of interest

During 2021, we negotiated fees with two asset managers where a discount is provided where total AUM rises above a particular level. We considered that there could be a perception we would advise a client to invest in one of these managers in order to get a further (small) fee reduction for other existing clients. In practice, we took the view that individual consultants won't know total AUM (though it would be possible to find it out) and the fee levels of a fund are a very

small part of our selection criteria, while the level of discount in fees is immaterial from that point of view. We believe this is a perceived rather than actual conflict, so it was appropriate to negotiate the reduced fee levels.

BW receive no benefit from this fee arrangement - clients receive the benefit via a reduced fee.

Figure 5: Case study – Managing conflicts of interest

During 2020, one of our charity clients we work with experienced weakening of the historically strong employer covenant, so that a conflict in advising both the charity and the pension scheme trustees became unmanageable for one person. We therefore segregated the roles and applied barriers internally between the teams, working with the client to devise a conflict management plan. The high level principles of the plan were:

- To set up separate email folders and addresses for the charity advisory work and pension scheme advisor work, with access restricted only to members of the BW advisory teams of the respective entities.
- To set up separate system folders for files for the charity advisory work and pension scheme advisor work, with access restricted only to members of the BW advisory teams of the respective entities.
- Systems were password protected by user, to prevent circumvention of the email and folder controls system.

- Information in relation to the two entities would only be shared between the two advisory teams where permission is explicitly granted by the charity or pension scheme trustees.
- No client-related discussion between the two teams, except where given permission by the charity and pension scheme trustees.
- Appointment terms were updated, with separate Partners responsible for each appointment.

The conflict management plan resulted in an effective ongoing relationship with both entities. This included undertaking a robust negotiation around the Actuarial Valuation during 2020, under which the Trustees of the pension scheme were able to secure a funding plan to target greater security for members, along with greater certainty of costs for the charity.

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

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:



Changes in interest rates



Geopolitical issues



Currency rates

Systemic risks are those that may cause the collapse of an industry, financial market or economy, such as climate change.

Activity and outcome

Identifying and responding to market-wide and systemic risk

We identify market-wide and systemic risks through both formal and informal approaches:

- Our manager research team conducted over 200 meetings with managers during 2021. These meetings covered both specific aspects of the management of their funds, but also market-wide issues, so we can identify themes that continue to be raised, or “quirky” ideas which may grow into more significant issues.
- As a base, we ask all managers a consistent set of questions on their approach to stewardship, and then undertake specific questioning as part of our research meetings.
- Alongside our manager research team we also have a strategy research team responsible for carrying out our economic outlook research and research on individual asset classes. The overall research agenda of each of the research teams is set by our Research Board, to ensure that we have a robust strategy to the way that we deploy our resource.
- Our research is disseminated to the team through regular (monthly or quarterly) updates, and to clients in research papers and webinars throughout the year.
- By engaging in industry bodies and participating in consultations issued by regulatory bodies, we also maintain awareness of emerging risks and help shape the way that our clients respond (see Figure 6).
- We promote a “free-thinking” culture within the team so that consultants and trainees are able to spend time reading and attending seminars/webinars so that they can generate ideas or challenge our central research output.

Figure 6: Case study

– Working to manage systemic risk

In 2021, we identified a number of systemic risks facing our clients and the markets we operate in – we responded with research briefings shared with our clients and more widely, providing insight and analysis examining these risks and mitigating actions to take.

In March, we considered an area becoming more popular with many pension scheme investors, and asked [If Cashflow Driven Investment is the solution, what is the question?](#) The briefing looked in detail at what investors should consider, how to build a portfolio, understanding whether CDI is the right approach, as well as the issues the strategy does not solve.

Also in March, we looked at [Using long-term trends to build a sustainable portfolio](#), setting out five key trends we expect to be particularly influential in the coming years and how investors might use these:

- Climate Change: Increasing costs of tackling temperatures rises
- Demographics: An ageing population
- Debt: Rising debt burden
- The rise of China: The rise of the middle class
- Technological development: Digital innovation

Considering inflation, in July 2021 we presented a full assessment of the situation – from the economic background, to a clear evaluation of the current situation, through to detailed conclusions covering the options open to investors. This in-depth insight Are we moving into a new inflation regime? considered:

- Post-Covid-19 global inflation trends and their causes, linked to the pandemic and the response of policymakers to it
- Long-term economic forces and their expected impact on inflation
- Potential impacts of labour market changes
- Impact of inflation on asset markets
- Options and considerations for protecting portfolios from extreme inflation.



Our role in industry initiatives

We are members of the Investment Consultants Sustainability Working Group (ICSWG) collaborating with other firms to improve sustainability and stewardship across the investment industry. In 2021, BW are represented on the Steering Committee and play an active role in three workstreams, including chairing the Stewardship workstream. BW also coordinated resource to design and produce the ICSWG website for the group's Communications & Engagement workstream during 2021. The other activities and outcomes we contributed to in

2021 include:

Stewardship:

- ICSWG Engagement Reporting Guide (ERG) launched in November designed to improve the engagement reporting delivered by asset managers and platform providers to institutional clients, following extensive engagement with asset owners, asset managers, government and regulators to agree a common guide for engagement reporting. The guide provides targeted engagement metrics and case study formats to help investors evaluate their managers' stewardship, with an emphasis on the outcomes achieved. The information captured is designed to sit alongside the reporting which asset managers typically provide in accordance with the UK Stewardship Code. Case studies cover the engagement rationale and objective, the

approach taken including any escalation, and the outcomes. As chair of the workstream, BW led on engagement and facilitating adoption of the guide, successfully supporting and bringing together the work of the group to deliver the guide. See Figure 7 for more detail on our role in this initiative.

- The ICSWG sent a letter led by the Stewardship workstream to investment platform providers in March, engaging with them on investment consultants' expectations on the collection of voting data for investors.
- The workstream engaged with Greenwich Associates who provide annual rankings for investment consultants, providing survey questions on ESG and stewardship so that asset owners can rank their advisers on their expertise, resources to assess managers' capabilities and ability to provide actionable advice. These rankings will start in 2022.
- And the group undertook regular engagement with the Financial Reporting Council (FRC), Financial Conduct Authority (FCA), The Pensions Regulator (TPR), Department of Work & Pensions (DWP), Association of Member-Nominated Trustees (AMNT), Association of Professional Pension Trustees (APPT), the Investment Association (IA), and the Defined Contribution Investment Forum (DCIF) on stewardship expectations and how investment consultants can facilitate improved stewardship activities and outcomes.

Asset owner:

- BW were closely involved in drafting ICSWG's guide for asset owners who have any uncertainty over where to get started on their sustainability journey. It includes information on what they should expect from their investment consultant, a guide of guides and a sustainability glossary.

Regulation:

- BW worked closely initially with the Regulation group and then with a global group of investment consultants to draft and develop the Net Zero Investment Consultants Initiative (NZICI), committing investment consultants to align their operations and advisory services with the 1.5 degree emissions trajectory outlined in the Paris Agreement. BW provided drafting expertise, review and support for ICSWG's engagement with the Race to Zero campaign leads, PRI and other consultants. BW also signed the commitment in 2021 and will report on our progress in 2022.

- BW responded to DWP's climate change governance and disclosure consultations, TPR's climate guidance consultation, Law Commission 14th Programme of Law Reform, PLSA Responsible Investment Quality Mark (RIQM) and CFA Institute standards. BW led on drafting some portions of the submissions and collaborated in reviewing all consultation responses.
- Participated in a roundtable with Association of Pension Lawyers (APL) on fiduciary duties.



Figure 7: Leading stakeholder engagement on the ICSWG Engagement Reporting Guide (ERG)

In 2021, we jointly led on stakeholder engagement to develop the ICSWG ERG, attending meetings, forums, investor and asset manager groups, as well as seeking written feedback from many organisations. Over the year, we engaged with more than 100 organisations and individuals, including:

- Association of Professional Pension Trustees (APPT) and Association of Member-Nominated Trustees (AMNT) – professional and member-nominated trustees who hosted discussions with their members to give us their views on stewardship including implementation reporting and what would be helpful for end users of engagement reporting
- Financial Reporting Council (FRC), Financial Conduct Authority (FCA), The Pensions Regulator (TPR) and Department of Work & Pensions (DWP) – regulators and policymakers who helped us to fit our work into the broader stewardship picture and better understand their objectives and expectations
- Investment Association (IA), Defined Contribution Investment Forum (DCIF), and European Leveraged Finance Association (ELFA) – who hosted a number of discussions with their asset manager members providing extensive helpful feedback throughout development of the guide
- Individual fund management firms and service providers – who's engagement and stewardship teams helped us to understand what could be achieved as well as the balance of reporting and activities as we both shared and tested the developing guide

- Pensions and Lifetime Savings Association (PLSA) who produced a voting reporting template ICSWG member firms use to collect information and have ongoing work on stewardship
- ICSWG member firms – whose manager research teams helped develop and test the guide throughout 2021.

This activity enabled the ICSWG group to develop a guide that can facilitate dialogue and understanding of stewardship activity. Providing additional transparency around engagement activity, highlighting key areas of focus and outcomes in a similar format to these questions, should support more informed conversations. ICSWG members have seen increased client interest in this area and so we are pushing for additional information to aid discussions.

Using the ERG should assist asset owners in monitoring and disclosing stewardship activity. The guide should also increase efficiency via more consistent information requests. The firms that make up the ICSWG intend to use the metrics and case study formats from this guide as much as possible when they request engagement activity information.

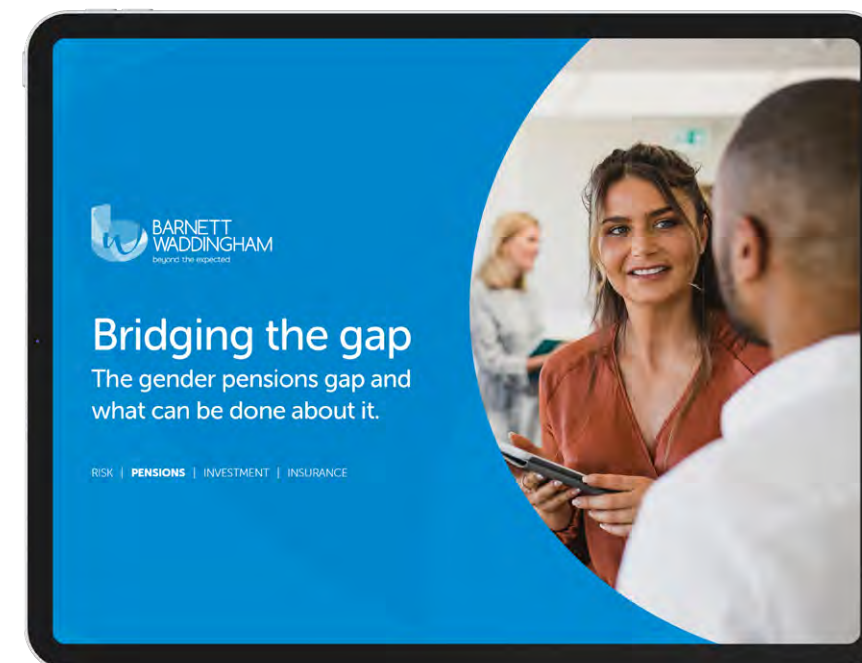
Finally, the ERG aims to be complementary to existing stewardship reporting frameworks (e.g. UK Stewardship Code 2020) by providing example metrics and case study formats to use. Ultimately the guide should lead to increased transparency and improved understanding of stewardship activity.

We are members of **Pensions for Purpose**, a collaborative initiative of impact managers, pension funds, social enterprises and others providing thought leadership on impact investment. We are also pro-bono supporters of the Impact Investing Institute, who work to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally. We routinely include impact as a topic for consideration, and support clients to review, set targets for and monitor the impact of their investments. We have signed up to the Impact Investing Principles and will report on our activities from 2022.



As a firm, we are active members of the **Society of Pension Professionals (SPP)**, with several of our people involved in committees. The Chair of our SI Team, David Clare, is a council member of the **Association of Investment Management Sales Executives (AIMSE)**, working to support the inclusion of ESG topics on the agenda of their conference, round table and academy sessions.

In 2021 we worked with other investment consultants and asset owners to produce the [Asset Owner's Diversity Charter](#), committing us to helping to build an investment industry which represents a more balanced and fair representation of diverse societies through our manager selection, manager monitoring, and collaborating with others in the industry to identify diversity and inclusion best practice. We set out more information on our collaborations to support diversity and improve inclusion under Principle 2, Partnerships & collaboration, on p.25.



Bringing attention to inequalities

During the spread of Covid-19, we recognised how the recent gains made in many sectors on gender equality began to be undermined, with job losses and caring responsibilities falling disproportionately on women, and gender-based violence increasing exponentially.

In this context, we worked throughout 2021 to bring focus and attention to the gender pensions gap. We wanted to go further than simply telling women to save more – we know the pension system is intrinsically biased towards men, creating stark disparities in wealth at retirement that need to be addressed at its core. As we start to 'build back better', women's financial futures must be a core part of our agenda.

We considered fiscal, behavioural, and societal issues collectively, and [set out actions](#) for individuals, employers and policy-makers to create a more robust and inclusive pensions framework offering fairer solutions for all.

We consider that our approach, in using our knowledge, skills and resources to effectively collaborate with others to advance stewardship, results in further development of stewardship in the investment process and helps our clients deliver long-term value in terms of their 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.

Our investment consultancy client base is summarised as follows:

- 474 UK pension schemes
- £62bn assets under advice
- clients range in size from £1m to multi-billions of pounds

In addition to pension funds, we also advise charities on their investment strategies and companies on their invested assets. This provides us with perspective across a range of asset owners, beyond only pension schemes.

Activity and outcome

How our services best support clients' stewardship

Our ABCs process – looking at clients' Aims, Beliefs and Constraints framework in setting investment objectives – is where we help investors identify their specific ESG considerations and develop their own ESG and stewardship policies. We undertake this process when considering how best to support new and existing clients to identify their investment beliefs and support manager selection.

In 2021, we continued to improve our manager research process, developing our approach where we look into how a manager integrates ESG risk-assessment into their investment processes and the extent to which a manager is an active owner.

Stewardship is a key part of our ESG rating system, where we set out for our clients the credentials of asset managers who can run their investments. The system assesses managers on their:



ESG research: the amount and quality of research into ESG issues.



Stewardship: the extent to which the managers use their voting rights and engagement opportunities to influence companies' business activities.



ESG integration: how well the investment process of the fund is refined in order to capture the relevant ESG risks and to put a "value" on them.



Climate considerations: how exposed the fund is to climate risk or how much it is contributing to climate change through its investments.

We assess and rate these four elements of the ESG approach (high conviction, acceptable and low conviction) and present our clients with one final ESG rating, along with sub-ratings for each of the four elements so that clients have full transparency on the manager's performance. This rating is the outcome of the evidence provided by the managers and a qualitative discussion by all members of the manager research team where the ESG approach is discussed in the context of the fund. The weighting, or importance, of each of the areas we assess a fund on in terms of ESG is determined by the SI team specialists in our manager research team and varies by asset type.

Where a manager rates low conviction in ESG, we would not expect to shortlist them in advice to clients. Our ratings also influence our clients. For example in 2021 when we provided a client with an ESG monitoring report, they focused their attention on Stewardship and Engagement and brought two lower scoring managers in to meet the trustees and be held to account for their approach.

The trustees are now considering bringing in further exclusions and instructions for their directly held segregated mandate with one manager, and have asked the other manager to clarify plans for reporting across the multi-asset fund on progress and developments to net-zero.

In order to raise industry standards, we provide feedback to managers on any areas of our assessment which have scored poorly, and also engage with managers in respect of specific client concerns or requirements, such as the case study set out later where we developed a new fund with an asset manager to meet a client's needs. We have also, when preparing client implementation statements and ESG monitoring reports, engaged with managers on their stewardship activities and reporting, to encourage greater transparency and data quality.

Through these discussions, we assist them in incorporating sustainability best practices into their "standard" funds, rather than launch new funds.

In 2021 we have had multiple calls with managers throughout the year to discuss carbon reporting.

We discussed the calculation methodology and inclusion of carbon footprint metrics in detail with one manager. They subsequently adjusted their methodology to align with ours (and TCFD) for the metrics they provide us. Another asset manager worked to provide us with carbon metric reporting following our requests over the year.

We have also followed up with multiple investment managers over the year to query inconsistent carbon reporting which has then been rectified e.g. for a manager who then used their internal system instead of externally provided data to improve the coverage of the carbon footprint they were reporting.

We also support the Association of Member-Nominated Trustees (AMNT) Red Line Voting initiative that aims to enable pension schemes to take a more active asset ownership role by providing investors in pooled funds with a template voting policy on ESG issues that they can ask their managers to adopt. For example, we confirm whether managers apply Red Line Voting guidelines and present the responses from managers within our ESG reporting.

As the market develops, our manager research process will identify where investors can implement their own voting policies, or adopt third party voting policies, in pooled funds.

An example is the recent development by one of the asset managers to allow investors in certain equity index pooled funds to incorporate their own voting policy, or adopt a third party voting policy. This was a development that we welcomed, and have assisted impacted clients when considering alternative voting policies to the manager's, which may be better aligned to their objectives. In doing so, we have communicated the various options to relevant clients, discussed the differences in policies and highlighted where policies both align, but also diverge, with their specific objectives. Investors have been given the opportunity to adopt a policy which better reflects their specific objectives, whilst maintaining the advantages of holding pooled vehicles. Team-wide communications have also ensured that consultants take this development into account when advising on equity investments and their stewardship credentials/options and / or an investor's own stewardship policy.

We also use technology to support our clients' stewardship and group decision-making. We use BW Swarm AI, a collective intelligence technology which mimics the biological principle of swarm intelligence to allow groups of decision-makers to collaborate and quickly converge on solutions that maximise their combined intelligence. It drives more accurate insights faster and works by connecting decision-making teams like boards into a real-time interactive platform moderated by AI algorithms and a BW consultant.

The interactive platform amplifies the knowledge and wisdom of a team, while reducing the impact of biases. In 2021, we used Swarm AI with trustee boards to help develop investment strategy and stewardship policies.

Seeking client views and feedback

We take the views and feedback from our clients seriously. At a specific client level, we seek feedback as part of our regular meetings and engagements with clients. This is typically undertaken by the Partner responsible for our services. We have also embraced the requirement for clients to set and review CMA objectives to undertake a thorough review of our services at least annually. We encourage clients to include an evaluation of ESG and stewardship as part of this assessment, by including them in the templates that we provide clients to assist in the assessment process.

We also have a programme of independent partner reviews for key clients whereby a partner otherwise unconnected with the day-to-day delivery of services meets with the client to hear views on our service. Such exercises provide useful feedback on the quality of service provided by our teams. These are normally conducted every two years. In 2021, there were independent partner reviews carried out for 48 clients which covered investment consulting services.

At a wider level, we commission Investor In Customers to undertake a client satisfaction survey on our behalf every 2 years. This covers the proactivity, clarity and professionalism of our advice. The feedback from these surveys is reviewed by the Partners, and used to develop our proposition, and to identify any areas for improvement at an aggregate or individual client level.



Investor in Customers

Investor in Customers (IIC) independently assesses companies based on feedback from clients, staff, managers, and IIC's own perceptions. We consider the framework is a recognised benchmark demonstrating customer satisfaction. Firms are assessed on a number of measures to independently verify their customer-centric approach.

In 2021, we achieved the highest level 'Gold Award' for our pension consultancy and pension administration services, achieving consistently high scores across the four guiding principles: understand client needs; meet client needs; delight clients and; engender loyalty.

Communicating with clients

We meet face-to-face (whether in person, or more recently, by video call) with most of our clients on a quarterly basis, and this forms the bedrock of our communication. In addition, written reports, blogs, webinars and conferences allow us to keep in contact in between planned meetings.

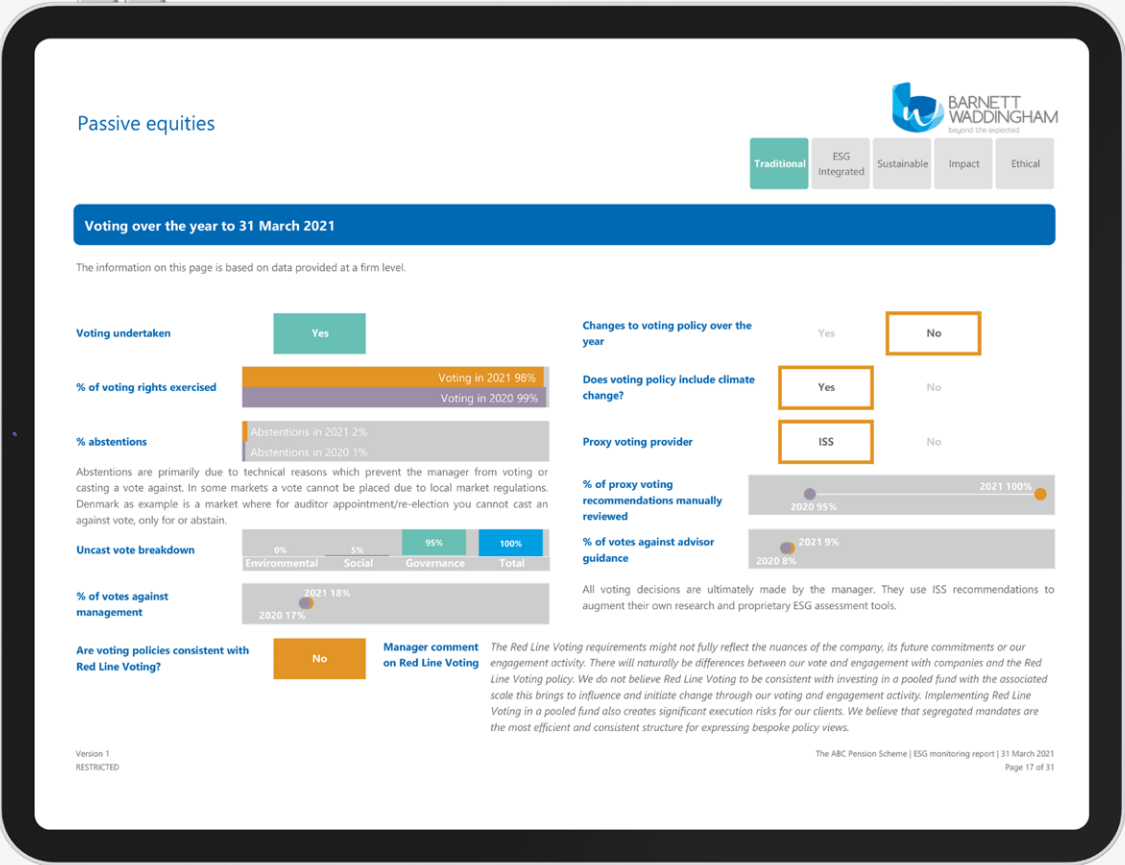


In 2021, following the publication of the first list of 2020 UK Stewardship Code signatories, we immediately identified non-signatory managers with whom we have clients invested and reached out to them. We requested these managers explain their signatory status and give us more details on their application if applicable, and their plans if they had not been successful in their application.

We then shared the information we compiled with our consultants for communication to clients. In 2022, we will follow up with managers to confirm any changes to their status and reflect this information in 2022 ESG monitoring reports and other communications to clients.

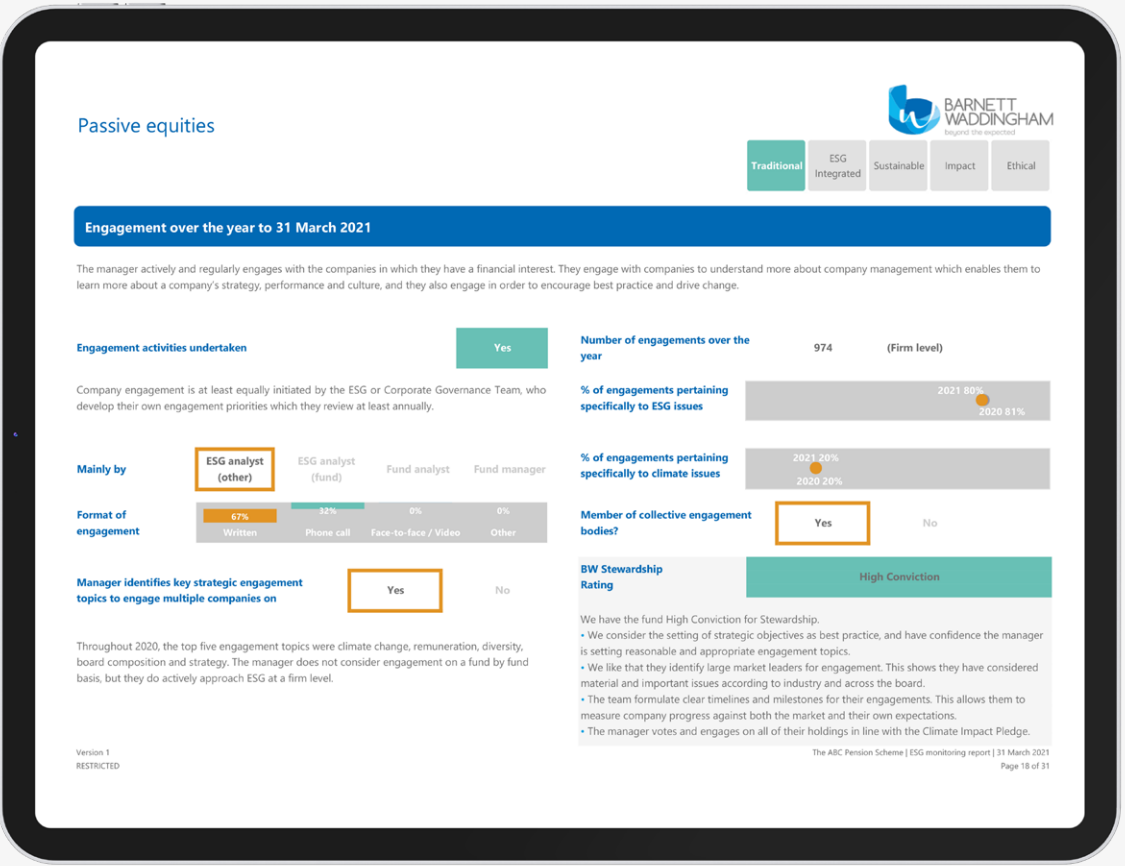
We also monitor investment managers and provide investors with an easy to interpret dashboard of what their investment managers are doing well and not so well in terms of ESG and stewardship. Our monitoring includes, as standard, how the manager has voted and engaged, any companies or sectors it includes and excludes, and our opinion on manager performance, in isolation and compared to their peers. Our monitoring includes reporting on climate metrics.

Figure 8: Example fund manager monitoring report



We help our pension scheme clients to understand the significant votes undertaken on their behalf as part of helping to prepare Implementation Statements, helping clients identify which issues are important to them. Some clients are beginning to set out their own thematic engagement policies, identifying the ESG themes they consider will be drivers of long term value and where they would prioritise engagement activities – we then feed this information to the client’s asset managers.

We also provide clients with regular research notes and blogs on a range of investment topics. These include ESG, climate change, stewardship and responsible investment. Where research is of particular interest to specific clients, we will supplement the briefing note with specific commentary on how the topic is relevant to that client’s circumstances. We regularly provide information to our clients on new regulatory developments. A recent example is our briefing on climate governance and reporting for pension trustees covering the TCFD framework, trustee requirements around climate change, and how BW can help meet governance and reporting duties.



Taking account of clients' views and feedback in provision of services

The feedback from clients is only worth taking if it is acted upon where concerns are expressed. Some examples of how we have adapted our service as a result of our 2021 client satisfaction survey and other ad-hoc feedback are set out below:

- Following feedback from some clients that, relative to other aspects of our service, we could be more proactive in raising issues with them. We continued our work to develop our proactive client service in 2021, providing training for all client teams during the year. This included developing client plans, sharing relevant research with clients, and buddying with colleagues to exchange ideas. We are further developing our buddying system in 2022 after successfully piloting this approach in 2021.
- We also developed our TCFD reporting framework, which provides a comprehensive but efficient assessment of where clients are at, with easy to understand scoring metrics for climate risks and climate opportunities as part of our scenario analysis. We are using this framework to help our clients work towards implementing a TCFD framework for governance and risk management, as the TCFD requirements spread beyond the biggest schemes, proactively preparing clients for future regulatory requirements in a way that adds value now for their arrangements.

- We enhanced our ESG monitoring to include clear actions so that clients can see what we are recommending as a result, to help answer the "so what?" question. Each client monitoring report has a clear summary at the outset including recommended actions – see Figure 12 on p.57 for an example.
- To reflect that our client base is varied in terms of the level of resource available in respect of making changes to pension scheme investment strategy, we have also proactively considered simple ways in which even clients with less resource can have an ESG impact. For example, in 2021 we provided a series of 1-page summaries of various sustainability and climate change issues and shared these with our clients. We are continuing this approach in 2022 after receiving positive feedback in 2021.

Effectiveness of communicating with clients and understanding needs and evaluating effectiveness

Effectiveness of communicating with clients and understanding needs and evaluating effectiveness

The continued strong growth of our business (e.g. winning new clients, doing more/interesting work with clients etc.), and specifically our investment consulting practice, is evidence of the effectiveness of our approach. Ultimately, this success is driven by us continuing to deliver to clients.

The feedback that we receive from individual clients and wider client surveys is key to the Partners when considering how we develop the business, and to identifying client needs and training needs to help our consultants to deliver those needs. There are a number of forums available within the team to promote this, but the primary body responsible for delivery of our services to clients is our Investment Consulting Proposition Forum. The forum meets on a monthly basis, bringing together the leaders in each of our proposition areas, as well as our head of client service, head of external profile and head of successful clients.

This forum drives forward changes to our offering for clients – this has included the development of a streamlined investment consulting services which helps to bring our best thinking to clients with lower governance budgets in an efficient fashion, reflecting feedback we'd received from new business tenders.

Within this service, the core portfolio design reflects our views on ESG, and all of the funds that we put forward are either rated "high conviction" or "acceptable" in respect of ESG, helping to bring good stewardship to clients which might otherwise have struggled to take such strong action.

We also drive change at individual client level by listening to their specific needs. The example below highlights a case where, through our communication with a client, we have identified a gap in their investment strategy, which allowed us to understand their needs, work with an investment manager, and find a solution which addressed the need.

Figure 9: Case study – Engaging with managers

We supported our client's Pension Committee for a local authority pension fund in engaging with their active and index-tracking equity managers about one of the companies held by the manager. A subsidiary of this company was involved in a social scandal in early 2021.

The Committee wrote to both equity managers enquiring how they were engaging with the company on this issue. The index-tracking equity manager shared a letter they had co-written with a group of investors and investment managers (with AUM of £3trn) to the company, asking for reassurance on how the situation would be resolved.

The active equity manager stated that they believed that the public apology issued by the company was "appropriate and proportional" and that they didn't believe any further action was necessary. The Committee followed up with a call to the active equity manager to note their disappointment at the lack of engagement with the company on this issue.

Figure 10: Case study – Supporting clients to embed impact investing

We worked with our client's Pension Committee for a local authority pension fund. The Committee took several years to investigate and implement their social housing mandate. They wanted to ensure that their investment worked for the Pension Fund from a risk and return perspective, and the Council, along with having the desired social impact.

Early on in this journey, the Committee recognised that investing in local infrastructure projects would bring social impact, however the rationale for doing so was driven by the

return opportunity that it created, as their principal responsibility is to pay and protect the pensions of the Fund's members.

The Committee ruled out infrastructure lending as an investment as they felt the social impact was not high enough. Social and affordable housing were therefore identified as a suitable alternative that met more of the Fund's targets.

The Committee, along with their investment adviser (Barnett Waddingham) and manager search provider (BFinance), worked with investment managers with credible social housing investment opportunities to come up with a proposal that:

1. Had attractive risk, return and impact characteristics
2. Provided investment in social housing within the council area
3. Didn't sacrifice diversification in order to achieve (2)

The Committee, along with its advisers, reviewed and discussed a range of options for this mandate. These included direct investment in social and affordable housing projects, or investing through funds in new-build social and affordable housing or specialist homelessness projects.

A key factor in designing the mandate was risk diversification. Whilst the biggest social impact for the council would have been achieved by solely investing in social housing within the council area, this would have created a concentration of risk. Therefore we worked with the shortlisted managers to put forward a solution that incorporated their UK wide social housing investments, with a guaranteed level of investment within the council.

A manager was eventually selected as their offering was felt to be the highest quality across the following areas:

- Their approach to engagement with the local community;
- The quality of care given to their residents – people who had experienced homelessness and/or who live with long term disabilities;
- Their commitment to improving the energy performance of the properties over time;
- Their commitment to affordability relative to real local incomes (rents capped at local housing authority levels).

The Committee is passionate about the social impact of this investment and wants to show other investors how this kind of investment can work for pension schemes to encourage others to invest similarly. The Chair of the Committee spoke about the Fund's social housing mandate at Barnett Waddingham's annual investment conference, to an audience of hundreds of trustees and investment professionals.

As the investment is relatively new, the Committee is at the beginning of their impact monitoring journey. Currently they rely on the manager's impact report (in conjunction with the Good Economy) to monitor the impact of this investment. They will meet with the manager in 2022 to discuss the investment and its impact.

Figure 11: Case study – Implementing and communicating an ESG policy

Our client had declared a 'Climate Emergency'. We helped them formulate, formalise, implement and communicate their ESG policy. A series of actions that they took saw them break ground for funds of their size, and be recognised for their governance and climate strategies at awards ceremonies along the way.

Conventional wisdom in 2018/19 around managing climate risk was to focus on reducing emissions. This is only part of the challenge. Seizing the opportunities, and using your influence as an asset owner, are also key. Our proposed solution did all of these:

- Move to a low carbon solution, that saw fossil fuel companies effectively excluded.
- Stressed the importance of the need to not ignore other aspects of ESG
- Focussed beyond simply equities, which at the time was where conventional wisdom was centred
- Introduced infrastructure/renewable energy into the asset mix.

What did we advise and why?

In 2018/19 the range of funds available to tackle climate change was limited, when a strong focus on social governance was needed. We are firm believers that the absence of a perfect solution should not prevent clients from taking action. We also believe it is important we help avoid unnecessary cost. Our advice took account of the desire to put a solution in place, but tempered it with a view of the future and the cost of delaying any actions.

We were aware of LGIM's ongoing work in relation to climate change. Having held detailed discussions with them, we were able to establish the cost and benefits of an interim solution using their Future World equity fund range. We then helped LGIM launch their more long-term appropriate Paris Aligned global equity fund in 2021 – where the client was one of the seed investors.

We also engaged with London CIV to highlight the opportunity for ESG focus in their bond fund. We knew PIMCO (the manager of that fund) had a more focussed approach, which was more climate aware, and better suited to the client. Through the negotiations with LCIV, a move to the more ESG aware approach is underway.

Finally, as part of the policy we also helped the Committee recognise the private market opportunities associated with climate change, resulting in infrastructure investment and an additional allocation to private equity – where climate opportunities will feature in the eventual manager selection.

How did we deliver the advice?

We held training courses with the Committee around the implications of climate change, from an investment perspective, advised on what this meant in relation to their carbon emissions and discussed the longer-term developments we expected to see. The advice itself was delivered in a series of workshops, slide decks and short reports for non-public discussion and reports to the Committee meetings.

How did we work with the client's internal team and stakeholders?

Working closely with Officers we identified the training needs of the Committee. This resulted in a series of events to help draw out the Committee's attitudes and requirements in relation to their investment objectives. We linked these to different aspects of the Council's climate declaration.

Using our familiarity with the investment management offerings available, and those in development, we helped Officers establish the business case to the Council for making changes to the strategy to manage climate risk and opportunity.


Throughout the process we ensured any action addressed these climate and social ESG beliefs, whilst meeting the Committee's fiduciary responsibilities in relation to their investments. Working constructively with the Fund Actuary we also ensured our advice would not unwittingly add to the cost of the Fund.

How will we measure success?

Fund ESG monitoring is undertaken and the Fund's carbon inventory established annually. Comparison will be made to previous years, and desired future trends, to check improvements are taking place.

We formalised the ESG and voting policy and helped support the creation of a video presenting the benefits the new policy brought in terms understood by members e.g. cars taken off the road etc.





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

Activity and outcome

Reviewing policies and activities to ensure they support clients’ effective stewardship

During 2021 the Sustainable Investment team chaired by David Clare met at least monthly during the reporting period to review our policies and activities to ensure they support clients’ stewardship. Areas in which we have undertaken specific reviews in 2021 include:

Areas in which we have undertaken specific reviews in 2021 include:

- The overall structure of our sustainable investment research, which was completed during 2020, was implemented in 2021. The changes make for more effective integration of ESG and stewardship factors within advice to clients.
- Preparing a template ESG monitoring report to provide clients with a clear and comprehensive way to assess investment manager credentials in respect of ESG, and updating our database system to more efficiently allow analysis to be carried out by the team.
- Updating our central database of training materials to help when educating clients on ESG and stewardship
- Regular training provided to the team to ensure that they are well-equipped to advise clients and gathering feedback from them and encouraging them to share client feedback on advice. We also launched our monthly SIT Down and Chat sessions with the IC team
- Adopting a flexible approach to the structure of our implementation statement reports prepared for clients, to reflect the scarcity of data available from some managers, while ensuring compliance with the reporting requirements. We aim for best practice for our voting/engagement data collection using the PLSA voting template and the developing ICSWG guide on engagement activity reporting.
- Developing systems & processes with help of our IT team and the wider investment consulting team to support data collection, checking, and reporting of stewardship information for clients, including pension trustees’ implementation statement reports.
- Ongoing review of ESG rating framework (including how manager stewardship is most effectively assessed) jointly by our manager research team and SI team
- Reviewing SI team membership regularly, and continuing to grow the team, to ensure freshness of thought to achieve effective stewardship for clients.

Assurances in relation to activities that support clients' stewardship

Although the SI team lead the review and development of any changes we make to support client stewardship, we take feedback from across all of our Partners and consultants when rolling out new developments to clients, so that improvements can continue to be made. In particular, our Proposition Forum, which is an internal group responsible for delivering quality services to clients, considers the efficacy of all of the work that we do for clients, including in respect of stewardship.

Ensuring stewardship reporting is fair, balanced and understandable

When reporting on our own stewardship policies externally, the way in which we set and develop our policies ensure this reporting is fair, balance and understandable:

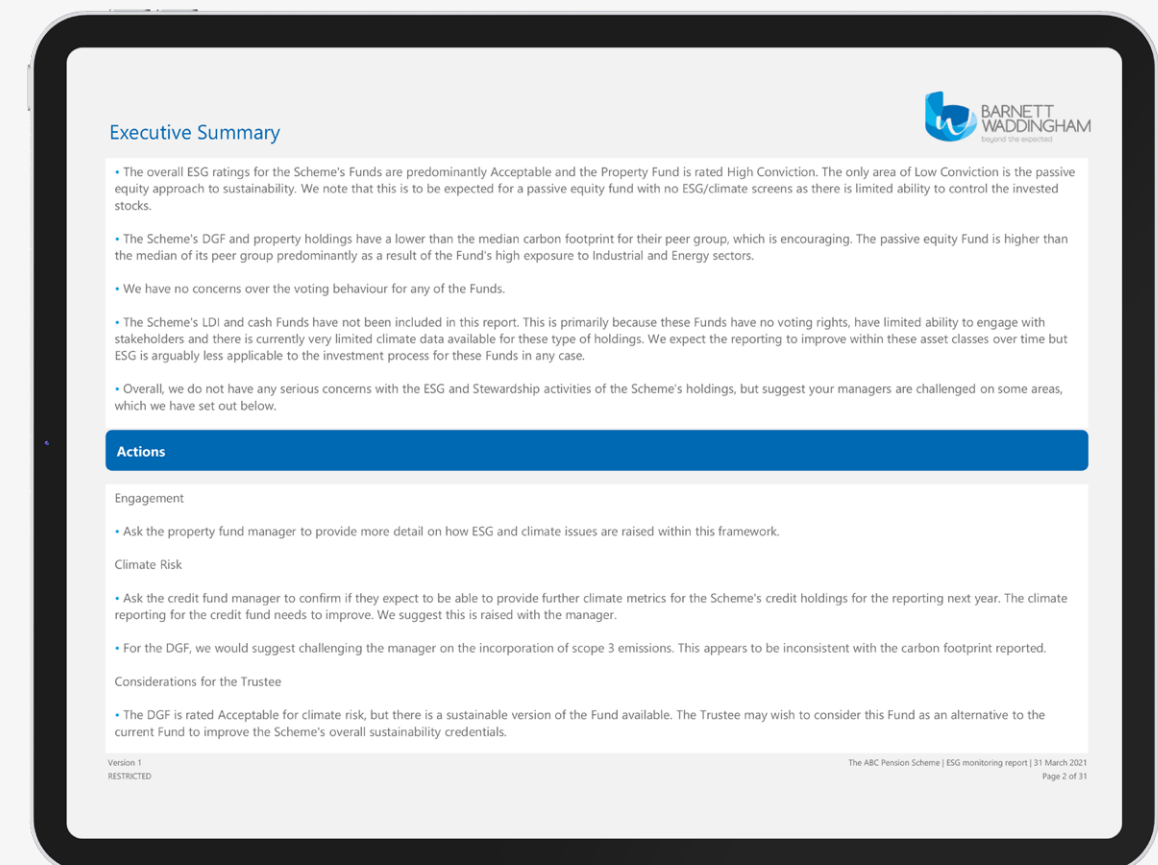
- Our polices on ESG and stewardship are ultimately the responsibility of Management Board, which means that our reporting receives a high level overview and support, with communication focussed on those with or without significant knowledge of the topic.
- By having specialist SI team to drive the development of ideas, which includes research on the wider market's approach to stewardship, we are able to assess own approach against our peers. Participating in industry groups, such as the ICSWG, for example, helps to establish standards for reporting, which we have helped develop and support. As described above, we have been regularly reviewing and evolving our processes and policies during the period, and this work continues into the future, reflecting the rapid developments in the industry at this time.

To ensure that stewardship reporting to clients is fair, balancing and understandable, we recognise that the quality and completeness of data from investment managers on stewardship is variable and evolving. As a result, we standardise the information we receive by asking managers consistent questions, and provide clear definitions of the information we expect to receive.

This allows us to compare like-for-like information, or be clear where information is missing. When we report to clients, we include definitions and explanations of the information and then highlight issues which may need addressing when we meet with clients to discuss the reports. We internally review and check the information we receive before sharing with clients.

While we consider we have been successful in 2020, we are working to improve this process by learning lessons from the initial data collection exercise, so the process is more efficient and effective going forwards and hold managers to account. We are also adding a "conclusions and actions" section to our reporting during 2021 so that we can clearly highlight to clients where their managers are falling short of best practice.

Figure 12: Example Summary and Actions from our ESG monitoring report



**Continuous improvement
of stewardship practices**

Our SI team stewardship project will continue to refine and develop our approach across our investment consultancy services, taking into account market developments and client feedback, along with developing policy and regulatory changes like the Department of Work & Pensions’ increasing focus on social aspects of investment. We consider this the most appropriate approach to developing and maintaining our policies and processes for stewardship and other sustainable investment practices and have evolved our team structure and governance during 2021 to focus our efforts, including bringing in additional specialist resources described under Principle 2 on p. 16. We continue to use our peer review process described at Principle 2, Quality and accuracy, on p.18 and our customer feedback actions described under Principle 5 on p.48, as our experience shows these provide us with helpful actions for continuous improvements to our services.

Rod Goodyer FIA
Partner and Head of
Investment Consulting



Pete Smith
Principal and Head of
Sustainable Investment



We are also committed to the Impact Investing Institute Principles for Pensions for investment consultants and fiduciary managers in 2021 and we will evidence on an annual basis how we are embedding these principles from 2022. In 2021, we also became signatories to the Principles of Responsible Investment (PRI) to further demonstrate our commitment to sustainability and increase transparency on our alignment with responsible investment principles, including stewardship. Embedding reporting against the principles into our advice and operations, including annual review of our investment beliefs, policies and activities, will take place alongside continuing to develop our alignment with the Stewardship Code.

**Reviewing, approving and signing
our Stewardship Code report**

Our Stewardship Code report was produced by members of our SI Team and wider IC partners, with initial review undertaken by a Senior Investment Consultant, and final review by the Chair of the SI Team. Management Board has delegated sign off of our annual Stewardship Code report to the Head of Investment Consulting, given the focus of the activities within the IC practice area. BW is a partnership and does not have independent non-executives, other than our Management Board’s non-executive chair.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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