The UK Stewardship Code

April 2023

Introduction

Playing our part.

Aon's stated purpose, and of all that it does, is

"To shape decisions for the better – to protect and enrich the lives of people around the world".

Aon's purpose of shaping decisions for the better and protecting and enriching the lives of people remains at the core of all that we do. Here at Aon, we embrace our investment values and use them to shape the daily decisions we make on behalf of our clients, stewarding their assets towards resilience and better long-term sustainable choices.

Investment stewardship remains an integral part of our work for clients, and we are continually refining our services to provide better outcomes. As we reflect on the year 2022, we are proud to have continued this work and we hope the examples we have included in this report, on behalf of our UK business, illustrate the depth and breadth of our commitment to investment stewardship.

Our experience has shown that more and more of our clients are responding to the critical issues of our time, such as climate change and geopolitical risks, and make increasing use of our stewardship services. Over the year, we have continued to develop bespoke, comprehensive, multi-year engagement frameworks for some clients on these issues and offered others the transparency they need to understand the stewardship profiles and activities of their underlying investment managers.

We also continue to add to the number of responsible investment solutions our clients need. Providing the right solutions for clients is an important way Aon can help steward capital flow into solutions which address the needs of clients and reflect their responsible investment objectives. Aon's Global Impact Fund is the proud winner of a new award from Professional Pensions this year.

An exciting highlight for this year has been the launch of the Aon Climate Team. This team brings to the investment business technical expertise and the ability to collaborate with policy makers and key market players, on behalf of us all. Aon was represented by the team at the COP27 and COP15 events, a channel of communication we will be strengthening next year. The team is an important part of Aon's story of helping clients to make better decisions and we introduce the team and its work in our report. The investment team works closely with Aon Climate Team and our UK Fiduciary business has made progress engaging with underlying managers for the integration of carbon reduction decisions into investment stock selection processes.

Another aspect is the launch of our responsible investment insights platform, RI-360i. This platform offers clients visibility and decision-useful insights into the active ownership behaviours of their underlying asset managers. We made responsible investment insights the key focus of the tool, more easily highlighting ESG issues with the potential for constructive client engagement with its managers.

There are ESG issues which are currently less recognised by investment markets, but which are fast becoming urgent. Nature loss and the need for biodiversity is one of these and we are pleased to continue collaborating with the Cambridge Institute for Sustainability Leadership (CISL) on this critical topic. We report on our work with the group in this report and regard the topic as a key engagement theme for our Engagement Programme and clients. Another key collaboration is our work with the industry's Investment Consultants Sustainability Working Group (ICSWG), currently looking to help move the dial on several stewardship issues. We receive and share best practice approaches through our many collaborations and by using the wealth of internal expertise which Aon has globally. Aon is well placed to mitigate and raise awareness across the market on the responsible investment issues we all face.

As in previous years, we offer in this document our combined response to the twelve Principles as both a service provider and asset manager, in the UK. The reporting from Aon, as either an Advisor, or a Fiduciary Manager, gives our clients the flexibility to choose how to access our principles, expertise, and resources. We look forward to sharing our progress in the coming year as we continue to build on our responsible investment offerings and capabilities.

Tim Giles,
Head of Investment, UK and EMEA

[1] All data in this report is as at 31 December 2022 unless otherwise stated.

[2] Our Fiduciary asset management services do not directly hold any assets and therefore the focus of our stewardship policies and activities is predominantly on the next 'step' of the value chain — the asset managers.

Contents

Please note: This Stewardship Report has been prepared on behalf of Aon Investments Limited (AIL) in the UK and does not apply to assets advised in the U.S.

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Principle 1

Purpose, strategy and culture

Principle 1
Purpose, strategy and culture

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

In this section we give context to:

- **Purpose:** of Aon generally, and of the Investment businesses specifically.
- **Business Model:** a high-level view of the Investment business.
- **Business Strategy:** an outline of the UK and EMEA Investment business, our strategy and the rationale that underpins it.
- **Investment Beliefs:** our set of clear investment and responsible investment beliefs.
- **Stewardship:** how the above elements combine to frame our approach to the stewardship of our clients' assets.
- **Culture and Values:** We describe the diverse and inclusive culture at Aon, which has been built from strong shared values.

Purpose

Investment (Advisory and Fiduciary Services) is a core business for Aon in the UK, EMEA and indeed globally. In this report, we focus principally on our UK Investment business, though many of the processes we describe are global and where required, we explain the role of more regional functions.

In terms of stewardship, our investment approach naturally aligns with our corporate purpose. We call this 'Aon's Story', the heart of which – shaping decisions for the better - is why we do what we do, and how we deliver client value. Within our investment business we create value for our clients by identifying investment risks and opportunities, and then helping them to navigate these. A responsible approach to investment is natural and fundamental to Aon and reflects our values and stewardship.

Our clients are institutional investors, typically pension funds but we also advise corporates and other asset owners.

The Aon story

Better decisions for a better world.

"Aon exists to shape decisions for the better - to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business."

At Aon, helping clients manage risk is at the core of what we do.

Why we do what we do

Purpose and proposition

To shape decisions for the better - to protect and enrich the lives of people around the world

Aon is in the business of better decisions

What we deliver for stakeholders

Colleague experience

- More relevant
- More connected
- More valued

Achieve their full professional potential

Client experience

- Better informed
- Better advised
- Better decisions

Protect and grow their business

How we make it happen

Working together as one firm

Strategy

- Delivering Aon United (DAU)
- Inclusive People Leadership (IPL)
- Innovation at Scale (I@S)
- Aon Business Services (ABS)

Aon United Blueprint

Operating model

- 4 solution lines creating content and building capability
- 5 regions leading delivery to clients
- Tailored delivery based on client needs
- Shared services optimising the firm

Sustainable growth

Who we are as colleagues

Values

- Committed to one firm as our purpose
- United through trust as one inclusive, diverse team
- Passionate about making our colleagues and clients successful

One firm

=

Business and societal impact

- Navigating new forms of volatility
- Building a resilient workforce
- Rethinking access to capital
- Addressing the underserved

Shareholder impact

- Mid-single digit or greater organic growth
- Continued margin expansion
- Double-digit free cash flow

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Business model

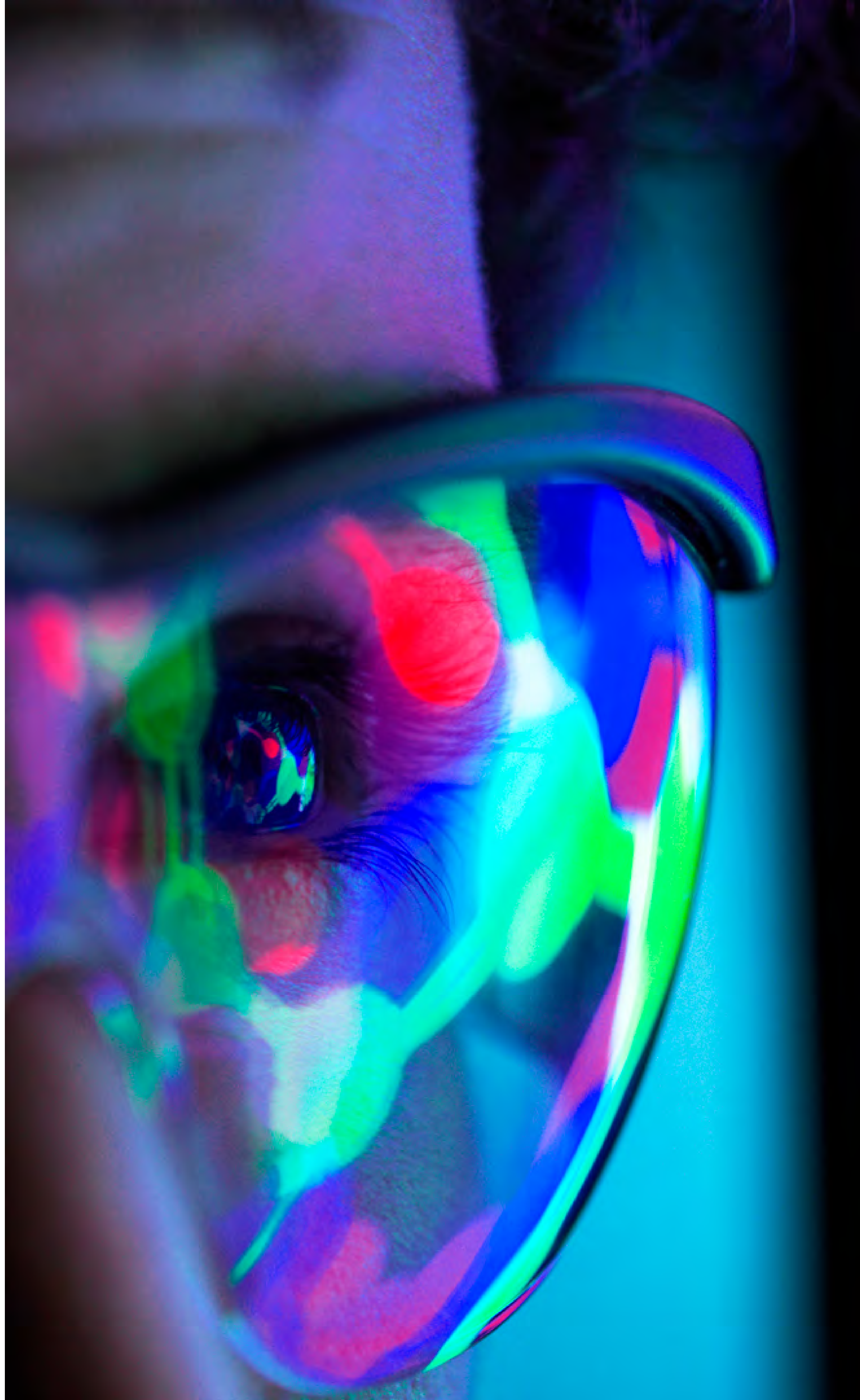
Throughout this report, we demonstrate how we look after our clients' assets and our approach aligns to responsible investment, caring about the creation of sustainable long-term value. For example, in Principle 2 of this Code, we show how our colleague experience is one of working together across teams in a connected and valued way, bringing our best insights forward. In Principle 4, we illustrate some of the many ways our teams work together. For example, informing, guiding and advising clients, promoting well- functioning markets through the exchange of information, evaluating factors, educating on issues, and engaging across the industry. We trust in return that our clients' experience is one where they are better informed and advised - to make better decisions.

Most of our clients tend to have a long-term investment horizon (ten years or more) and we recognise that the investment landscape is constantly changing, with each of our clients facing a unique set of circumstances which evolves over time. Our aim is to support each individual client through their entire investment life cycle. Therefore, we not only continually review and update our advice and services, but also select and tailor those to each client's specific current and emerging needs.

In contrast to some of our peers, we offer both Advisory and Fiduciary services. We believe that our clients should be free to choose how they access our expertise and knowledge at any given moment in their investment life cycle — either by using our advice to support their own implementation decisions, or by delegating the implementation to us through our Fiduciary solutions, or by a combination of the two. All of our clients benefit from our central teams and resources such as responsible investment, manager research, risk and modelling, asset allocation, risk settlement and actuarial.

We are one of the world's largest investment Advisory firms with over £3.1tn of global assets under advice. Alongside this we provide Fiduciary management services in 15 countries globally for 674 clients with around £145bn in assets under management; of which ca 20% is managed for UK and EMEA clients.

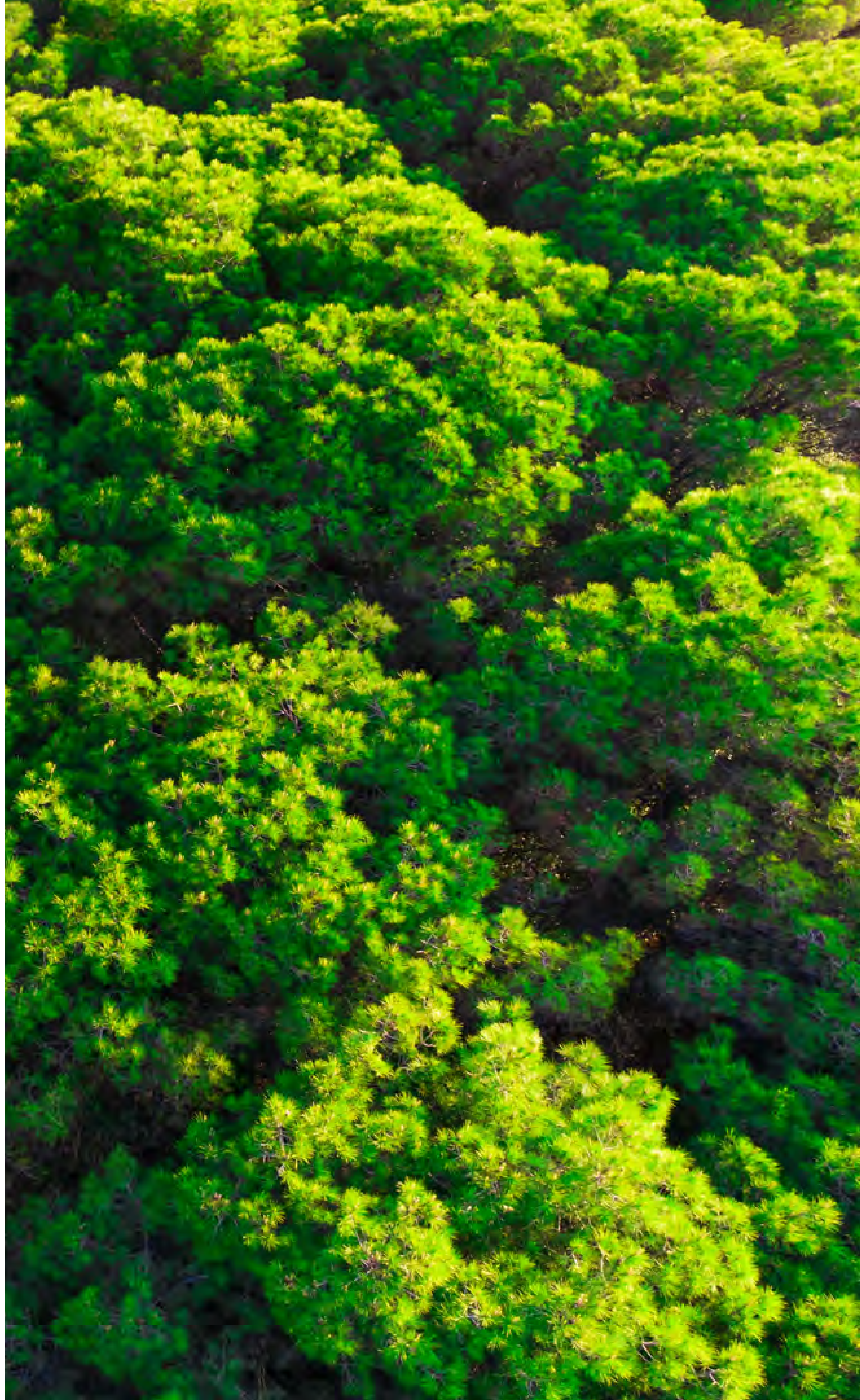
The focus of this report is on behalf of those assets advised and/or managed in the UK.



1 Business strategy

Aon is committed to a thriving and growing investment business that is focused on improving our clients' net (after fees) returns and long-term outcomes in a measurable way. There are several important strands to this strategy:

- We aim to build long-term partnerships with clients since these foster deeper mutual understanding and better decisions. This means we have a strong focus on client satisfaction. We ask our clients to evaluate and score us each year, and we pay careful attention to the results and trends over time.
- We recognise that, for investment, the long term is not just a series of short terms. This means that we focus on sustainable, long-term investment strategies which leads to reduced turnover costs and better risk management for our clients.
- We offer 'open architecture' solutions. As such, we are not tied to any particular approach and we can share best ideas and opportunities with our clients.
- We understand that investments are increasingly complex and varied. We know that the investment landscape, and our clients' needs, are constantly evolving. This means that we are always open to change in our advice and services to clients, and that we are willing to embrace the new, challenging old ideas where there is potential to open up better outcomes for clients.
- We consciously seek to create a diverse and inclusive culture, encouraging internal challenge and debate. This ensures that we bring a wide range of views, experience and expertise to bear on each client's investment needs.
- The complexity of the investment landscape means that we need a large number of specialist colleagues and resources to properly understand a wide variety of investment risks and opportunities, and to help our clients to navigate them. It needs a large and vibrant business to support those specialist resources. So, for example, we have expanded our client base beyond pensions to ensure that we can continue to provide the breadth and depth of support that our clients need.
- There is great strength in collaboration. We recognise that no one firm has a monopoly on insights or good ideas. Therefore, we partner with our clients and with other organisations to develop and deliver robust, innovative, value-adding services.



1 Investment beliefs

Aon's global investment beliefs define our overarching investment philosophy. They describe how we believe institutional investors should pursue portfolio development and construction. Our beliefs are based on sound investment theory and the insights we have gleaned from working with sophisticated institutional investors around the world. As shown in point 4, which relates specifically to responsible investment, we believe that good governance and the stewardship of the assets is essential for good investment outcomes.

At a high level, our global investment beliefs are:

1. **Investment strategy should be driven by long-term objectives and risk tolerance**

   Strategies should have a target return that is focused on the long-term target, over an agreed time horizon, and in line with an agreed risk tolerance.

2. **Diversification is a critical tool and needs to be used wisely**

   Naive diversification can lead to unnecessary loss of return and excess costs. We balance the risk reduction of diversification with the return dilution and cost to achieve an optimal outcome.

3. **Good governance improves return and risk management**

   Board members, trustees and their advisers / delegated providers must understand their investments and their associated risks. Decision making bodies should be diverse in their thinking and regularly review their effectiveness.

4. **Investment decisions should give ample weight to environmental, social and corporate governance factors**

   ESG factors have the potential for material adverse tail risks, introducing volatility that is often under-appreciated by financial markets. Stewardship and engagement provide opportunities to preserve and enhance the value of assets.

5. **Investor skill adds value in both mitigating risks and accessing opportunities**

   Implementing decisions at the right time is an important factor in driving positive investment outcomes, so market dynamics should be considered when making decisions. Furthermore, thorough evaluation can identify skilled asset managers who are able to improve outcomes for investors.

6. **Costs and fees erode return**

   Whether it is transaction costs or management fees, cost is a drag on performance and should only be tolerated if it can be justified in terms of extra return or reduced risk. It is important to both identify and understand all costs incurred.

7. **Liquidity and complexity can create opportunities for skilled investors**

   Factors such as liquidity and complexity are barriers to entry for some and therefore present attractive risk and reward opportunities for others. Where risks are not sufficiently compensated, these investments should be avoided.

8. **Markets evolve over time and solutions should adapt accordingly**

   At Aon, we innovate and will create new solutions where we see opportunities to improve outcomes.

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Our UK responsible investment beliefs

In addition, responsible investment beliefs on behalf of our UK Fiduciary and Advisory Businesses are as follows:

- Material environmental, social and governance factors can impact risk management, volatility and long-term returns.
- Sustainability risks introduce new forms of volatility that may be under-appreciated by financial markets and present the need to future-proof portfolios as well as the opportunity to generate long term value for beneficiaries.
- Stewardship, active ownership and engagement provide opportunities to preserve and enhance the value of assets.
- Climate change is an urgent and critical global challenge that poses systemic risks to financial markets due to both the physical impact of climate change and the effects of a transition to a more sustainable global economy.

Our UK responsible investment beliefs correspond with our global policy document at the following link: Aon's Global Responsible Investment Policy 2023. Aon updated its global responsible investment policy in Q1 2023.

1 Stewardship

Careful and thoughtful asset ownership and stewardship is an important long-term responsibility for investors. It can enhance the value of assets whilst also improving outcomes for the planet, society and the economy. Our commitment to good stewardship in the strategies our clients invest in, is strongly reflected in our own purpose, culture, values, business model, strategy and investment beliefs.

We have made a number of public statements and commitments over recent years, including:

- **Climate change:** Aon corporation has publicly committed to achieving Net-zero emissions by 2030. By reducing the environmental impact of our operations and becoming a more resilient, sustainable organisation, Aon is committed to achieving net-zero greenhouse gas (GHG) emissions by 2030, and we have set targets in the process of being validated by the Science Based Targets initiative in line with a 1.5-degree pathway.
- We will achieve this important goal by refining our sustainable sourcing strategy, driving energy efficiency across our real estate portfolio and technology, reducing our real estate footprint and enhancing options for virtual meetings.
    - **Net-Zero investment:** In 2021, to demonstrate further our commitment, we started the drive for our UK Fiduciary business to achieve Net-Zero investment portfolios by 2050, with a target to arrive at the halfway point and achieve a 50% reduction in the carbon emission profile of investments by 2030.
- **Women in Finance Charter:** As part of our commitment to Gender Balance at Aon, we are proud to be signatories of the Women in Finance Charter. This charter is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair financial industry in the UK.
- By signing the charter Aon has pledged to promote gender diversity by:
    - Having one member of our senior executive team who is responsible and accountable for gender diversity and inclusion.
    - Setting internal targets for gender diversity in our senior management.
    - Publishing progress annually against these targets in reports on our website.
    - Having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity.

Aon is a member of selected industry bodies where we believe we will be able to learn and promote better investment stewardship standards. Most of our collaborative memberships are ongoing year after year and we list below those collaborations and initiatives where Aon has had long standing relationships and memberships.

United Nations

- We are a signatory to the **United National Environment Programme Finance Initiative (UNEP FI)** which supports using global finance sector principles to catalyse integration of sustainability into financial market practice. Within this initiative, Aon is the executive sponsor and the first risk intermediary signatory for the United Nations Principles for Sustainable Insurance (UN PSI). Aon is supporting the United National Environmental Program – Principle for Sustainable Insurance (UNEP-PSI) engagement to enhance collaboration across the insurance ecosystem by working clients and their captives to join the PSI.
- We were actively involved in the Expert Group which convened to create the United Nations **Principles for Responsible Investing (PRI**) and we were the first investment consulting firm to become a signatory to the Principles on a global basis. We continue to be active signatories to the PRI.
- **United For The Paris Agreement -** A reinforcement of the conviction that a commitment to staying in the Paris Agreement is foundational to driving progress on addressing climate change, which in turn will help protect economic health, and jobs.

Human Rights and Opportunity:

- Aon supports the principles contained within the **Universal Declaration of Human Rights and the International Labour Organisation Core Conventions on Labour Standards.**
- **CEO Action for Diversity and Inclusion Pledge -** Aon has pledged to act on supporting more inclusive workplaces.
- **UN LGBTI Standards of Business -** Aon has committed to supporting five Standards of Conduct to support the business community in tackling discrimination against lesbian, gay, bi, trans and intersex (LGBTI) people. These Standards were developed by the United Nations Human Rights Office, in collaboration with the Institute for Human Rights and Business.
- Aon has signed Leaders for the **Partnership for New York City Pledge Apprenticeship Program -** Aon's programs in the U.S. and UK support high-potential colleagues from a large and diverse talent pool, all of whom help us shape better decisions for our clients. In the U.S., Aon has built a two-year full-time job and educational program that provides opportunities for those without a traditional four-year college degree. Aon provides apprentices with an entry point to a professional career at the company — including a salary and benefits — as well as tuition and books as they pursue an associate degree at a partner community college. The program was piloted in the UK in 2012, launched in the U.S. in Chicago in 2017 and expanded significantly in 2021. We have committed $30 million to expand the program and are launching similar initiatives throughout the U.S.
- **OneTen -** Aon is a founding member of OneTen, a coalition of leading executives committed to seeing one million Black Americans, hired into family-sustaining jobs with opportunities for advancement, in 10 years. The aim of the OneTen coalition is to connect employers with employees of colour to bridge the diversity divide and ensure that talented Black employees get the same opportunities as their Caucasian counterparts.

Sustainability

- **Value Reporting Foundation - SASB Reporting Standards**
  Aon has long been a member of SASB and welcomed its recent merger to form The Value Foundation. SASB standards for financial materiality across sectors has global recognition and we expect the SASB standards to feature strongly in common reporting and accounting frameworks going forward.
- **The Institutional Investors Group on Climate Change (IIGCC)**
  Aon joined the IIGCC in 2022 and we give more detail as to our decision to join, below. The IIGCC is a key European membership body for investor collaboration on climate change and by becoming a member of the IIGCC, Aon is able to help shape policies and industry standards that will govern aspects of our Fiduciary business' Net-Zero commitment.
- **Taskforce for Nature Related Financial Disclosures (TNFD)**
  Aon joined the TNFD in 2021 as a forum member. The loss of biodiversity is an area of focus for Aon and a theme which we have collaborated on with the CISL, details of which are given in Principle 10.
- **ClimateWise**
  Aon is a founding member and the current Chair of ClimateWise which supports the insurance industry to better communicate disclose and respond to the risks and opportunities associated with climate change and the global protection gap.
- **Terra Carta**
  In Support of the Sustainable Markets Initiative (SMI)
  As part of our work with the SMI, Aon co-led two of the workstreams — one devoted to developing a Public-to-Private Solution Framework for a variety of catastrophe perils and economies and the other seeking to accelerate product innovation across the insurance industry.
- **Vatican's Energy Transition Initiative**
  Support for carbon pricing that would encourage changes in business practices, consumer behaviour and the development of innovations that would advance the energy transition. The initiative also supports disclosures providing greater clarity for how companies are planning and investing for the energy transition.
- **Institute and Faculty of Actuaries (IFoA) and its Sponsored Taskforce on Climate Risk**
  Aon continues to be an active member.
- **Insurance Development Forum**
  Aon continues to participate in this insurance industry forum.
- **Task Force on Climate-Related Financial Disclosures (TCFD)**
  Aon continues to actively support the TCFD, aligning our processes and advice with its recommendations. Aon promotes the application of the TCFD framework in its manager research and investment consulting work.

Stewardship

- **The Investment Consultants Sustainability Working Group (ICSWG)**
  We describe in Principle 4 of the Code our activities supporting our organisation's stewardship and our participation in this key initiative feeds into our Engagement Programme work.
- **Cambridge Institute for Sustainable Leadership (CISL)**
  Aon is a member of the Investment Leaders Group, an initiative that brings together academic research from the University of Cambridge and corporate leadership to advance the practice of responsible investment. The group publishes thought leadership papers and working frameworks within its various working groups across responsible investment themes. Aon continued to drive forward initiatives on biodiversity as a theme for 2022; we describe how this collaboration has evolved over 2022 in Principle 10 of the report.

Diversity, Equity & Inclusion

- **The Diversity Project**
  A cross-company initiative championing a more inclusive culture within the savings and investment profession. Tim Giles, Head of Investment, UK and EMEA, sits on the steering committee, and Aon colleagues are involved in a number of workstreams.
- **The 30% Club**
  The 30% Club aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations. Aon is a member of the 30% Club and has engaged a number of colleagues in its mentoring scheme, which offers cross-company, cross-sector mentoring to women at every layer of the career pyramid.

Aon liaises with government and non- governmental organisations where we network and share ideas and provide information from our vantage point. Examples of this over the year are our discussions with the Pensions and Lifetime Savings Association (PLSA), the Association of Member-Nominated Trustees (AMNT), Share Action and Pensions for Purpose. These interactions enable us to remain informed, exchange ideas, understand and further best practice. Aon is keen to work towards common standards such that the transparency around key issues enables us to give better guidance for our clients.

1

Culture and values

We believe businesses succeed when the communities they serve — and the people they employ — flourish. We are committed as one firm to our purpose, united through trust as one inclusive, diverse team, passionate about making our colleagues and clients successful. Everyone is called upon to lead aon united values and behaviours. We believe that no individual person or piece of aon is stronger than the whole.

Delivering Aon United (DAU)

One of the practical examples of our unique culture is our executive drive to Deliver Aon United ('DAU'), a key aspect of our client offering, which underpins a highly collaborative culture throughout the business. Exchange of ideas, across the business and externally, leads to results.

Our 'Delivering Aon United' strategy defines how Aon colleagues work together to deliver value to clients and sets a new standard for client leadership. Delivering Aon United is brought to life through our common client value creation model which scales expertise and experience from across the firm and has helped teams bring the best of the firm to clients.

Inclusive People Leadership (IPL)

Our people are the heartbeat of our firm. Our passion for clients is what unites us, drives us, and brings out the best in us. Across Aon, we create a culture of opportunity for our colleagues — driven by collaboration and innovation. Ultimately, Aon colleagues are more relevant, more connected, and more valued in ways that enable them to achieve their full professional potential. Aon has a strategy for 'Inclusive People Leadership' which ensures that all our colleagues- at every stage of their journey – are equipped and motivated to model our Aon United values and behaviours. In doing so, it creates a culture where Aon colleagues engage one another in a manner that enables all of us to achieve our full professional potential.

Overleaf we highlight three areas of Aon's culture and values which support our colleague experience.

1. Diversity and inclusion

We are committed as one firm to our purpose, united through trust as one inclusive, diverse team and passionate about making our colleagues and our clients successful. Everyone is called upon to lead Aon United values and behaviours. Transformational change only occurs over time, through the consistent and cohesive efforts of many individuals. It is imperative that we reflect on the principles of diversity and inclusion and commit to infusing them into our daily work.

> **"At Aon, we are committed to supporting one another, appreciating each other's strengths and embracing multiple perspectives. That spirit of inclusion is at the core of the Aon United mindset. We also know that diversity is more than simply a number or a measure. It's about creating an environment where each and every colleague is at their very best for Aon—and can bring the best of Aon to our clients. That spirit of inclusion pervades the Aon Colleague Experience."**
>
> **Greg Case, Aon President and CEO**

At Aon, DE&I leadership-driven initiatives are set out by our Global Inclusive Leadership Council (GILC) and Regional Inclusion & Diversity sub-committees (RIDS). The UK Regional Inclusion & Diversity Subcommittee exists to own and drive our Inclusion & Diversity strategy in the UK. The committee is supported by Business Resource Groups (BRGs) which are open, voluntary and colleague-led forums, organised around a particular dimension of diversity or shared background. BRGs create opportunities for colleagues to connect, learn and celebrate as part of a diverse, inclusive workplace.

2. Aon in the community

Aon has an important role to play in managing its impact on the environment, supporting the communities in which we operate, and the wellbeing of our colleagues.

Aon's four main areas of focus for our community work:

Matched Funding	Payroll Giving	Mentoring and Volunteering	Aon UK Charitable Foundation

Championed by volunteers, our 'Community Champions', gather support and help spread the word of our community activities in the offices they are involved and provide feedback on the fund-raising and community related events.

1 Bringing sustainability to corporate Aon

Aon's organisational purpose and culture drives our determination to support sustainable stewardship at a corporate level. Aon's colleagues want to be a part of a business which itself supports sustainability through its own environmental and social goals.

We recognise our role in contributing to a clean and healthy environment and through our Environmental Policy, we have established a range of controls to ensure our operations are responsibly managed and reduce the risk of adversely impacting the environment.

Our Aon Business Services (ABS) operating platform has been instrumental in helping us achieve our environmental goals. The leading infrastructure and technology capabilities of ABS has enabled Aon to reduce its physical office space, move on-premises data centres to the cloud, develop alternative communication solutions that allow us to limit air travel, and implemented tools which are delivering real results when it comes to cutting back on consuming natural resources.

Aon's ESG Impact Report, 2022

Aon is proud to share its ESG Impact Report for 2022 and is committed to driving commercial and societal action to decarbonise the economy and improve resilience in a changing climate.

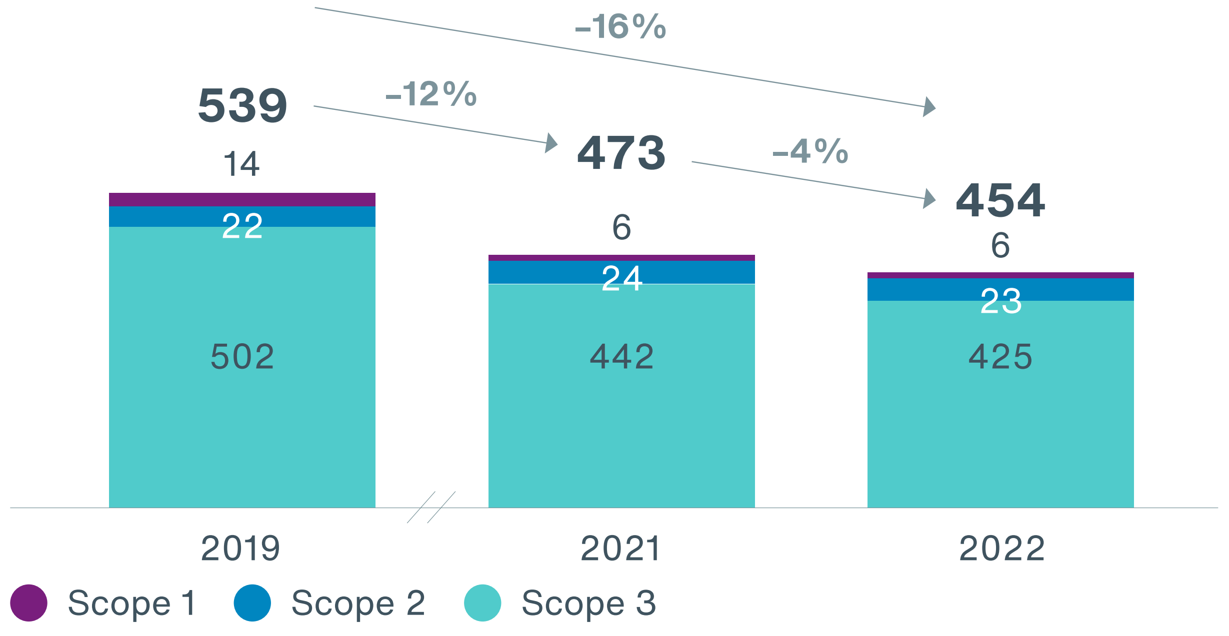
Our ESG strategy is focused on three major areas of environmental impact:

- Decarbonisation and sustainability efforts and investments.
- Climate solutions for clients to help assess, quantify and address risk.
- Global collaboration, partnerships and philanthropy.

We report in detail, how we are implementing our environmental strategy in Aon's ESG Impact Report and believe we are transparent in the progress we make, working at corporate level to achieve environmental and social goals.

We continue to thoughtfully enhance our global and regional climate disclosures, such as through our TCFD Disclosure, and further drive centralisation of our ESG Policies. For more information, see Supplemental ESG Information..

Aon's Progress on its Net-Zero Pathway



Source: Aon, 2022 ESG Impact Report

"We are committed to achieving net-zero carbon emissions by 2030. In 2022, our emissions were 453,520 tons of CO2 equivalent (CO2e), a reduction of 4% from 2021 and 16% from our starting 2019 baseline. We continue to reduce our total footprint through key drivers of travel, commute, real estate, investments and our supply chain. Many of these reductions are made possible by Aon Business Services and our flexible Smart Working strategy, and we've found that these efficiencies not only reduce our carbon footprint but also improve employee wellbeing and client service."

Source: Leslie Follmer Head of ESG and Investor Relations, Aon plc

Aon's Impact Report 2022

1 Activity 2022

Aon continues to build on its public statements, consolidating our ambitions to be a leader for responsible investment. We work with a broad range of stakeholders such as regulators, non- governmental organisations and experts in the field to support trustees' stewardship of assets and meet regulatory requirements. We give some examples of collaborating in Principles 4 and 10 of this report and describe why we undertook them. Below we briefly touch on activities within Aon over the year, under the headings of Engaging, Evaluating, Educating and Exchanging - all of which work to further Aon's story - shaping decisions for the better.

Engagement

Engaging with our stakeholders

Wealth Insights Series

Complexity to Clarity: Making Better Investment Decisions

Aon hosted our in-person 'Wealth Insights Series' during the year in both London and Miami. This event served as a key opportunity to engage with all our stakeholders on our thought leadership and insights. The conferences delivered a high-value and collaborative experience for delegates, enabling Aon to promote support for what we believe to be compelling thought leadership and ideas.

The agenda covered a broad range of investment topics and responsible investment was a key agenda highlight. Aon's investment and business leaders were joined by industry commentators to host a combination of plenary sessions, interactive workshops, and networking opportunities. They explored the new forms of volatility impacting investments – and how, as an investment community, we could respond, bringing clarity and confidence and better shape future strategic asset allocation decisions and how better to mitigate risks and seize new opportunities.

The agendas, shown below, illustrate what many of our day-to-day activities involve and in Principle 4, with respect to promoting well-functioning markets, we offer further examples of how our teams work to navigate volatility and mitigate risk.

Both conferences were a resounding success and Aon will continue to host them in future years to engage our financial community and promote our thought leadership.

Agenda Highlights

London, UK

1-2 November
In-Person

- A World of Change: From Volatility to Opportunity
- Resilience and Opportunity: Building the Portfolio of the Future
- Turning up the Heat on Responsible Investment: Climate and Nature-Related Risk
- Delivering Results in a Cost Conscious World
- Aon Business Insight: CEO perspectives
- Investing in the Future: Risks and Opportunities in ESG

Miami,U.S.

7-8 December
In-Person

- The Business of Better Decisions
- Complexity to Clarity: Global Capital Markets
- The Future of Asset Management - CIO Roundtable
- The Great Convergence - Total Talent, Rewards and Compensation
- Investing for Impact
- The Evolution of Credit
- ESG Risks and Opportunities
- Cryptocurrency - Considerations and Challenges

Engaging with the investment manager community through Aon's Engagement Programme

Aon launched its Engagement Programme three years ago as a cross asset class initiative within Wealth and aligning our firm's overall purpose, culture and strategy to its goals. The key purpose of the Engagement Programme is to engage with our recommended managers and understand how they are progressing towards best practice as regards investment stewardship, aligning with regional stewardship codes, such as the UK Stewardship Code 2020.

Our Engagement Programme has four core themes, important to Aon as a firm as well as to our clients. We illustrate these on the next page.

Investment Stewardship	Promoting the PRI's Principles, alignment with the UK Stewardship Code and industry best practice. See Principle 8 of the report.
Climate Change	Engaging with managers as to their progress towards for decarbonisation, Net-Zero targets and managing climate change risk. See Principle 8 & 11 of the report.
Nature Loss	Working with the Cambridge Institute of Sustainability Leadership (CISL) to develop a due diligence questionnaire for nature-related risks and impacts. See Principle 10 of the report.
Modern Slavery	Working with CCLA 'Find It, Fix It, Prevent It' (FFP) programme to raise awareness of the role investors can play to address modern slavery practices in supply chains. See Principle 9 & 10 of the report.

In 2022, Aon wrote its Investment Stewardship Principles & Expectations (IS P&E), to clarify the stewardship expectations we have of our recommended managers. We showcase how we promote and engage these principles and expectations, in Principle 8 and 11 of the report.

Engaging by joining the Institutional Investors Group on Climate Change (IIGCC) in 2022

The IIGCC is a key European membership body for investor collaboration on climate change. By becoming a member of the IIGCC, Aon is able to help shape policies and industry standards that will govern aspects of our Fiduciary business' Net-Zero commitment. Membership helps Aon to be an active, industry leading voice in the development of tools and methodologies, for analysing and integrating climate risks, and opportunities.

IIGCC
The Institutional Investors Group on Climate Change

Evaluating

Evaluating our Investment Managers

Aon evaluates its recommended investment strategies through its ratings process. Our investment manager research team issue Buy, Qualified or Sell decisions on strategies it believes has superior return potential. Evaluating ESG integration is a component of a manager's overall rating, and a component of ESG integration is investment stewardship. We describe our Manager Research team's rating framework in more detail in Principle 7 of the report and show how our 'Five Factor Framework' sets out key factors for ESG integration. All our Buy rated strategies have ESG ratings and these are communicated via our manager research 'In Brief' and 'In Total' outputs. Further evaluation is undertaken via the Engagement Programme where views feed into a strategy's ESG rating.

Educating

In furthering our purpose, investment beliefs and strategy, Aon provides knowledge and understanding for its field consultants and clients, keeping us all up to date in a rapidly changing world, one where responsible investment is no exception.

We create thought leadership through speaking engagements, white papers, bulletins, podcasts, briefs, content updates. These communications are firmly grounded in Aon's story and aim to educate and inform.

Thought leadership within Aon Investment also draws expertise from wider Aon across the globe. We firmly believe that all clients will receive better outcomes if we work together to share ideas, information, expertise, experience and solutions across all strands of our business. This is also part of our 'Aon United' culture, described above.

Education with the launch of a new Aon Climate Team

Our new Aon Climate Team, described in Principle 2 of the report, is currently leading a program to develop firm-wide education plans involving climate modules, podcasts, and a climate leaders speakers series. Our approach is being tailored to the different activities within the firm, to ensure that the climate tools offered resonate at ground level, are user-friendly and receive rapid and meaningful adoption globally. Further educational efforts will focus on upskilling relevant decision makers across the business. The goal of our layered approach to climate education is to bolster our colleagues' climate awareness and encourage spontaneous discussions and reflections around the topic. We believe that a culture which puts climate at the centre of conversations on risk, will deliver additional value creation as well as strong employee engagement.

Materiality on the double

Investors can expect to hear more about the concept of *double materiality* as awareness and expectations around ESG factors and sustainable investing grows. Here, we consider these questions and consider double materiality to support investors to make better decisions about their investment strategies. Aon writes papers such as Materiality on The Double, as a means to prepare trustees for upcoming issues which need to be understood such that any assessments needed, can be made.

Exchanging

Aon's Climate Team works for the exchange of ideas and opportunity

We describe 'Aon's Story', as one of shaping decisions for the better; to protect and enrich the lives of people around the world. As such, the importance of climate change is well understood by us and Aon's Reinsurance team has been at the forefront of climate risk management for decades. Aon's Reinsurance team regularly produce industry papers, educational pieces and bulletins, an example of which is our Weather, Climate and Catastrophe Report, 2023.

In response to the rapid escalation of climate and biodiversity risks, and the global regulatory shift towards greater accountability for financial institutions on ESG issues, Aon convened an internal taskforce in early 2022. This taskforce assessed how to best support our clients to navigate the challenges and opportunities resulting from the impact of climate risk on their operations, workforce, and stakeholders.

Aon's CEO, Greg Case, and executive leadership views climate change as a risk but also as an opportunity to support growth and innovation by accelerating investment towards a resilient and regenerative economy. One of Aon's corporate goals is to help de-risk investments to foster growth and innovation.

An outcome of the taskforce was to establish, a centralised climate team across the UK, U.S. and Asia to bring increased awareness of climate risk across the group, driving a client-focused strategy to accelerate the development of new, and existing, climate products and services.

The new Aon Climate team, introduced above and described further in Principle 2 of the report, is an exciting development and demonstrates Aon's recognition of the global systemic risk (and opportunities) which climate change represents. The team engages on behalf of all of Aon, with policymakers, NGOs, and industry groups to support and advance conversations on climate change and related issues. We give an illustration of the team's collaboration for supply chain transparency in Principle 10.

Case study

Aon attends COP27 and COP15

Aim: the exchange of views and gathering of ideas
Aon attended the United Nations 27th annual Conference of the Parties (COP27) for climate change and the 15th annual Conference of the Parties (COP15) for biodiversity loss last year. Both conventions are backed by the United Nations and are seen as key events in the bid to galvanise global attention and action with respect to climate change and biodiversity loss.

Aon sees itself as having a critical role to play, matching the capital needed by the global economy to the risks and opportunities arising from the transition to a low-carbon, nature-positive and more resilient world.

Aon is able to leverage its capabilities across its divisions, in particular investment, innovation, data and analytics teams to do this. As such, it is increasingly important for Aon to be part of the conversations and events where policy makers and the financial community converge on these issues.

We have described the commitments made at company level elsewhere in this report and while the issues of climate change and biodiversity loss touch Aon's business lines in many ways, we report here on behalf of Aon Wealth.

Aon Wealth work towards common company goals and leverage guidance provided by Aon's Climate team - members of which attended the COP events. Both COP topics are core to Aon's Engagement Programme and climate change in particular permeates all aspects of Aon Wealth's investment and stewardship activities, as can be seen throughout our reporting of activities across the principles of the Code.

Aon attends COP27

Aon Climate fielded two delegates at COP27 - our Head of Solutions & Innovation and our Head of Alliances, Coalition & Reporting. Aon looked to deepen existing relationships and forge new connections on behalf of the firm, and also aimed to scope plans for a potentially larger representation of Aon at COP28. Throughout the event, Aon distributed daily dispatches from COP27 across the company to ensure all employees were kept abreast of Aon's views as the events unfolded and developments made.

The overriding takeaway from COP27 was a focus on adaptation and climate resilience in a desire to move away from the pre-existing focus on disaster risk finance. Biodiversity has moved to the top of regulatory and many corporate agendas - the question is now 'how' to support biodiversity through the corporate agenda rather than 'whether' companies should act.

Our Key Insights from Aon Climate Leaders at the COP27 Summit and our full report can be read here: At COP27 Climate Discussions Focus on Implementation and Action.

"Our economies are built on natural capital and its degradation poses systemic risks which have spurred regulatory activity. Insurers are in a unique position to support natural capital and biodiversity in order to alleviate physical climate risks, avoid capacity constraints and ensure that insurance remains available and affordable."

Source: Stephanie Betts, Head of Alliances, Coalitions and Reporting, Aon's Climate Team

Aon attends COP15

COP15 marked an important year for progressing policy to halt and reverse biodiversity loss.

Aon's Climate Resiliency Lead attended the event where 196 countries signed a deal to halt and reverse biodiversity loss (the Montreal-Kunming Global Biodiversity Framework agreement), agreeing on 4 goals and 23 targets with an objective of protecting 30% of nature by 2030 (the "30 by 30" commitment).

Aon participated in a number of the panels and worked to share our view and activities with respect to Aon's physical climate risk modelling capabilities; carbon offset insurance solutions and its Revalue Nature collaboration; and the bigger "climate transition" value proposition.

"Innovation in insurance can play a critical role to accelerate finance for nature conservation and restoration efforts, and help bridge the gap between committed capital and what is being deployed toward biodiversity projects on the ground today."

Source: Natalia Moudrak, climate resiliency leader at Aon's Public Sector Partnership

Key takeaways of COP15

- Whether "biodiversity credits" will emerge as an instrument to finance nature positive investments,
- Whether emerging technology providers would be able to build robust enough datasets to track biodiversity gains and/or losses globally,
- Whether public and private sector finance could find opportunities to work together on filling the funding gap to reverse biodiversity loss, and
- Whether private sector's Net-Zero financial plans will soon need to include clear priorities on ending deforestation, protecting nature and restoring biodiversity.

Following the event, businesses are expected to improve disclosures on their dependencies and impacts on nature, for example through TNFD framework implementation. Financial institutions are also expected to align their portfolios with nature positive pathways and to channel more finance for biodiversity conservation and restoration initiatives.

Exchanging

Aon's Responsible Investment Network

As new regulation, guidance and initiatives are developed in response to global sustainability considerations, there still remains differences of view, potential confusion around terminology, materiality and an investors' duty in this area. Aon's Responsible Investment Network is designed to address some of these challenges, by providing an accessible forum through which investors can build their knowledge of responsible investment and collaborate with peers, industry participants and thought leaders on a range of topics. In Principle 6, we detail topics discussed at events held over 2022. informal setting of these events allow, provide for an open and honest exchange of views and concerns, furthering understanding and helping to inform the debate.

Exchanging - Aon shares ideas and thought leadership:

In Principle 4 of the report, we illustrate our exchange of expertise through day-to-day activities as case studies. We also exchange ideas and promote our thought leadership at speaking events arranged by industry stakeholders and the media.

Exchanging ideas externally - our specialist teams speak at industry events

- **Pensions For Purpose** host their annual stakeholder and awards event and Aon joins the ***'Impact Investing Panel'***
- Aon joins a panel led by **Women in Private Markets Summit -** on the topic of **'Strategy Selection, Risk Mitigation and More in a Year of Unpredictability'**
- **Private Debt Investor Europe -** Investor insight panel: **'Manager Selection and Risk Assessment in an Unpredictable World'**
- **SuperReturn Europe – 'Alternative Income Sources: Structured Credit and Speciality Finance'**
- **Camradata Roundtables – Global Equity, Global Small Cap Equity, Sustainable and Green Bonds management, Systematic Investing**
- **Mallowstreet fixed income - 'A better retirement for everyone'**
- **PRI In Person conference -** Aon joins a plenary session and discusses **'ESG Outlook and Trends'**
- The **PRI -** Aon's Global perspectives on Responsible Investment
- **AIMSE - Consultant perspectives**
- **FundFire - 'Impact'**
- **Portfolio Institutional – Greenwashing**
- **LGPS roundtable -** Aon discusses **'Climate Reporting within LGPS'**
- **Diversity in Pensions - 'The importance of DE & I'**
- **British Venture Capital Association - 'ESG in Private Markets'**
- **Professional Pensions Conference -** Impact and Fiduciary Management

1 Outcome 2022

Aon is in the business of shaping better decisions and throughout this report the outcomes we have achieved are described as both activities and outcome. Outcomes are those of Aon working together as one firm, creating business and societal sustainable impact in many ways.

Aon advises and guides through engaging, evaluating, educating and exchanging. This is an outcome of our business.

We share content with a wide audience, using a range of channels - our website, industry events, blogs, podcasts and white papers, alongside working with clients. We strongly believe that good investment stewardship, is key to better investment returns and sustainable value creation and provide more detail of themes above, further on in the report.

Our efforts are well received, and Aon continues to thrive as a business and is competitive across peers.

We pride ourselves on the positive feedback we receive from our clients, third party evaluators and other stakeholders.

We are always keen to find ways to improve our services, aligning more closely to Aon's story, our corporate purpose and client objectives.

2

Principle 2

Governance, resources and incentives

2

Principle 2
Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

In this section we cover the following:

- **Business structure:** an overview of Aon's business structure, identifying where the investment business sits within that structure.
- **Business organisation:** an overview of the various teams within Aon's investment business, and the governance structure.
- **Pricing Guidance and Pricing Committee.**
- **Governance of responsible investment:** looking in more detail at our global responsible investment teams and governance.
- **Delivering responsible investment and stewardship:** combining the specialist teams with our responsible investment team.
- **Supporting resources:** data and analytics.
- **Ongoing development:** ensuring that our consultants remain abreast of responsible investment developments.

Business Structure

Around 30% of Aon's 50,000 associates globally are within Aon's Wealth Solutions business, including around 1,100 staff in the UK. Aon's Investment teams form part of Wealth Solutions.

As outlined in Principle 1, Aon's investment business provides both Advisory and Fiduciary services and solutions for institutional clients.

The structure chart on the next page provides more detail in respect of each business stream.

2 Aon plc

Commercial Risk Solutions

Shifts in technology, economics and geopolitics are creating unprecedented volatility. We help clients identify, measure and manage their risk exposure.

Reinsurance Solutions

Businesses, governments and communities need to become more resilient. Our expertise and insight help (re)insurers navigate unchartered territories and create more relevant solutions.

Health Solutions

Health is declining, costs are rising and workers have vastly different needs. We help companies improve employee health and wellbeing while managing costs.

Wealth Solutions

Global business is becoming increasingly difficult to navigate. We help employers, fiduciaries and investment officers optimise results and provide a more secure future for their stakeholders.

Advisory

Aon provides investment Advisory services in the UK through Aon Investments Limited (AIL).

The immediate parent company of AIL is Aon Solutions UK Limited (ASUKL), both of which are fully owned by the ultimate parent company Aon plc and sit within the Wealth Solutions business.

Fiduciary

An increasing number of our clients delegate to us the implementation of their investment strategy for all, or a portion, of their assets. Importantly these clients still leverage the experience and expertise of our full investment expertise, including the responsible investment team, the client facing team, and all specialist teams.

This Fiduciary service is also delivered by AIL. The stewardship aspects of our Fiduciary service are covered comprehensively in principles 5-12 of this report.

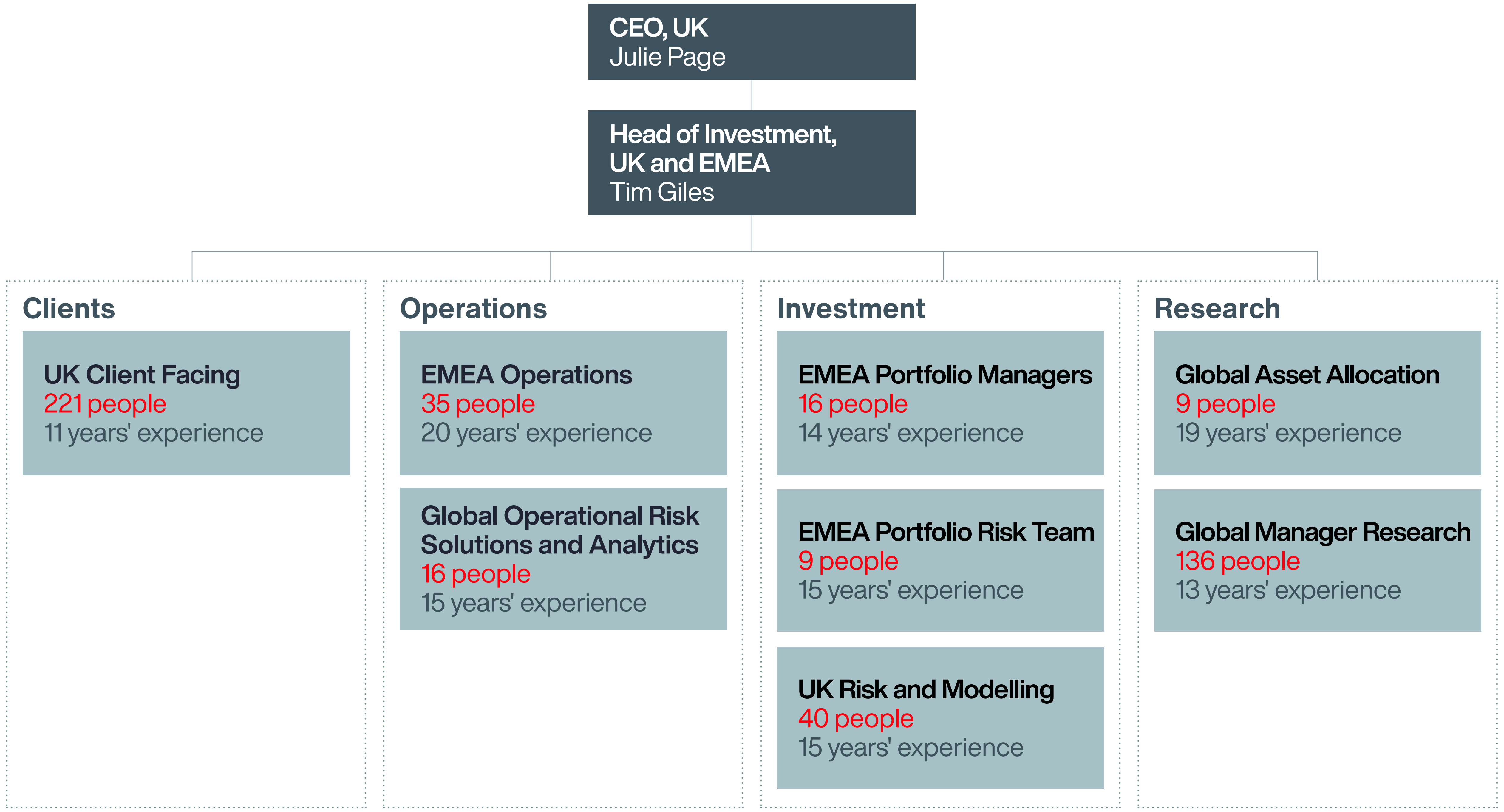
2 Business organisation

Aon Wealth Solutions has local entities that are similar to AIL in other countries across EMEA.

These UK and EMEA investment teams work closely together and are integrated with a number of global or regional specialist and content teams.

One of Aon Wealth Solutions' key success factors is our ability to combine the broad perspective and practical experience of our client consultants with the deep expertise of our specialist teams. The overall structure of our UK and EMEA investment businesses are illustrated in the chart to the right.

Aon Wealth Solutions – Organisation:



Source: Aon, as at 31 December 2022

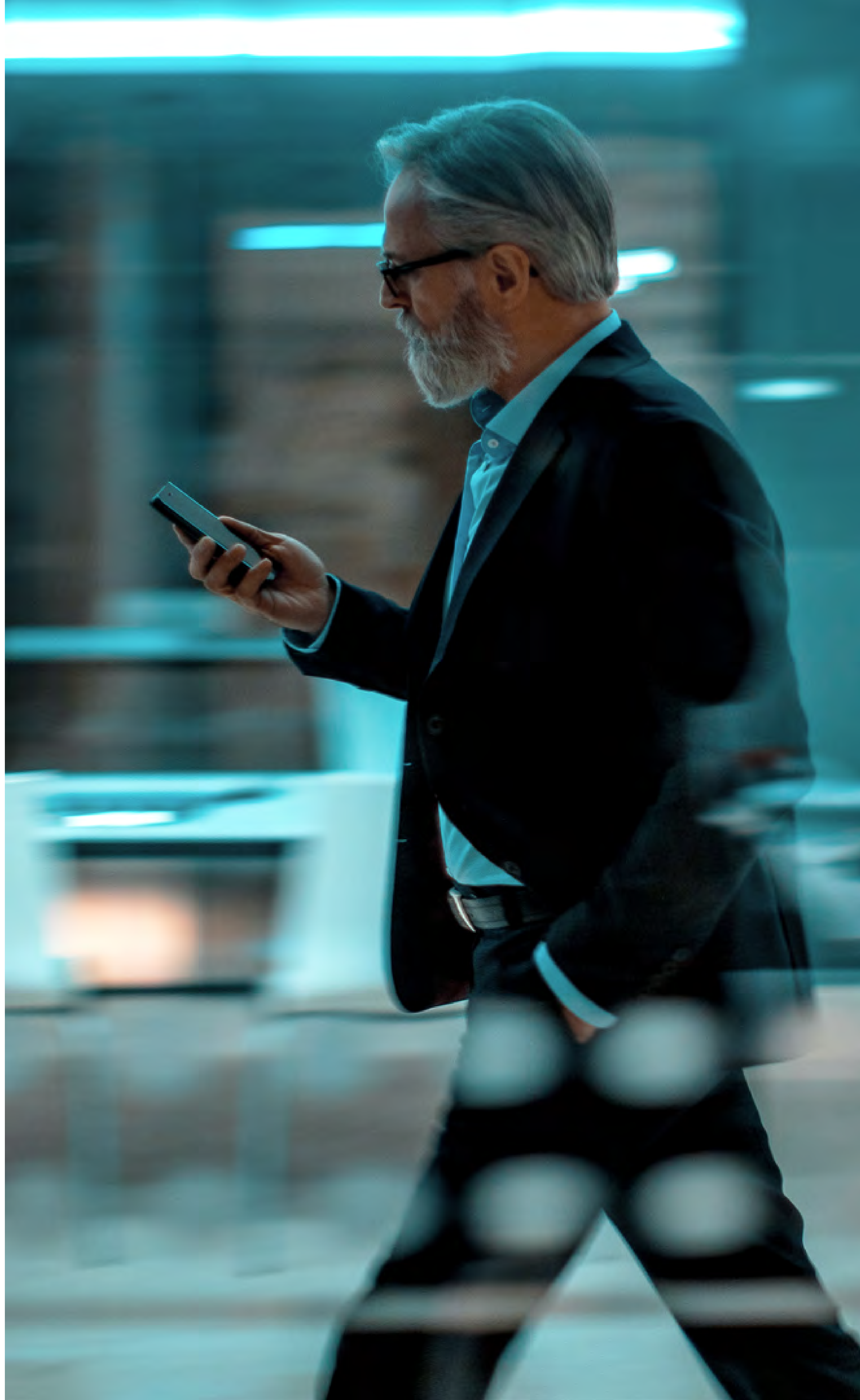
Governance of responsible investment

Senior oversight for Aon's UK responsible investment committee sits with the Head of Investment, UK & EMEA. Aon has increased its number of dedicated roles for responsible investment to support our global and regional leaders for responsible investment, in addition to which we draw appropriate personnel and resource from across our specialist teams, described below.

Our UK Responsible Investment Committee (RIC) which meets as frequently as required but not less than quarterly, with an escalation route to the Head of Investment, UK & EMEA.

Other regions will leverage global responsible investment initiatives, initiate local responsible investment workstreams as appropriate and oversee approval processes for responsible investment activities. Our UK RIC and U.S. ESG working groups, orchestrate our overall global responsible investment approach to ensure a consistent application of Aon's overarching responsible investment beliefs, strategy and culture.

With our responsible investment governance structure, we are able to tailor our client's needs according to these regional differences, leverage global thought leadership and standards, while remaining true to our overriding global objectives.



2 Responsible investment governance structure

Aon's global responsible investment governance structure

Aon has organised the governance of responsible investment along regional lines in order to accommodate differing needs. The UK in particular has forged ahead. helped by incoming regulations, and stronger recognition of the broadening Fiduciary role of an asset owner.

Global Investment Centre

Responsible Investment

EMEA
UK Investment Ctt
UK Responsible Investment Committee
Chair: Tim Manuel,
Head of UK Responsible Investment

North America
U.S. and Canada - Working Groups
U.S. Responsible Investment Committee
Chair: Daniel Ingram
Head of U.S. Responsible Investment

Cross Communication Process

Consulting
EMEA
Tim Manuel,
Head of UK
Responsible Investment

Investment Manager Research
Global
Mette Charles,
ESG Resesarch Lead

Portfolio Management
Global
Adrian Mitchell CIO UK,
Erwan Pirou, CIO Canada

Asset Allocation
Global

Risk and Modelling
Global

Consulting
U.S.
Daniel Ingram
Head of U.S Responsible Investment

Aon's UK's responsible investment team structure

UK Responsible Investment Committee

Head of UK Responsible Investment, Chair
CEO UK nvestment
CIO UK nvestment
Chair of UK Investment Committee

ESG Research Lead
UK Head of Fund Solutions
Senior Partner, Head of DC
Head of DC Investment
Partner, DC Solutions

Consulting EMEA

Head of UK Responsible Investment
Plus 19 FTEs
Qualifications include:

- 6 Investment Management Certificates (IMC) Further 2 in progress
- 3 fully qualified Chartered Financial Analyst (CFA). Further 2 in progress
- 1 Fellow of the Institute of Actuaries (FIA) 1 Institute of Faculties of Actuaries (IFoA)
- 1 Assoc. of International Accountants (AIA) member
- 3 Certificate of ESG Investing
- 1 Certificate of Climate and Investing (CFA)

Consulting North America

Consulting
U.S.
Daniel Ingram
Head of U.S. Responsible Investment

Investment Manager Research
Global

ESG Research Lead from across aasset classes (Listed Equity, Fixed Income, Hedge Funds, Private Equity, Real Estate and Infrastructure

Delivering responsible investment and stewardship

As directed by our responsible investment committees, specialist colleagues focus on projects as assigned. For example, in the UK, Aon has a responsible investment team made up of colleagues who spend their time supporting the Advisory and Fiduciary Services, Asset Allocation and Manager Research teams in adhering to industry best practices. The teams collectively help generate Aon's best ideas and investment thinking, including within the context of responsible investment and stewardship. Effective implementation of responsible investment and stewardship demands a variety of resources and Aon has the advantage of having a broad range of expertise we can deploy, along with a structure that allows us to call on a wide range of specialists to support our clients' needs. Responsible investment is integrated into our services and therefore all members of our various teams consider responsible investment issues in the service that they provide to our clients. Notably, several specialist cross- disciplinary 'content teams', leverage responsible investment expertise across the business. These, together with short descriptions of the role they play, are listed to the right.

Cross-disciplinary 'Content Teams':

Responsible investment team

A team of 19 responsible investment specialists work across our client facing and subject matter teams below. Through them, we ensure that we engage, exchange, educate, and evaluate in a consistent manner and reflect best practice and Aon's own responsible investment culture and strategy.

Client facing

These colleagues provide day-to-day investment advice and support to our clients. In the broadest sense, they support our clients in 'stewarding' their assets, and specifically, in the area of responsible investment, these colleagues help clients to:

- Develop their own responsible investment and stewardship policies.
- Guide and support them through our Discover, Develop and Deliver framework, described in Principle 6 of the report. Tools such as climate scenario modelling, ViewPoints and our Engagement Policy Implementation Statement support are also described in the report under Principles 4 and 6.
- Many of the members of our responsible investment team also work in client facing teams, therefore ensuring close collaboration and exchange of knowledge and experience.

Risk and modelling

The Risk and Modelling team models the interaction of assets and liabilities over periods of up to 30 years to demonstrate how any potential changes to investment strategy, contributions, or funding bases might affect the future funding position of our clients' pension plans (or other asset pools). They also carry out complex risk analysis, identifying what is causing risk and how this might be reduced. For example, this team runs our climate scenario analysis for clients, either as part of a wider asset allocation study, or on a stand-alone basis. Climate scenario analysis is a fundamental part of the disclosures recommended by the UK's Taskforce for Climate-Related Financial Disclosures (TCFD) and is a key tool for risk mitigation, as regards climate risk, at company and firm level.

Global Asset Allocation Team

Our Global asset allocation team undertakes in-depth analysis of markets to create our long-term capital market assumptions along with a suite of scenarios. These include climate scenarios, which were originally produced in collaboration with the University of Cambridge and other bodies. The global asset allocation team uses its analysis to identify both risks and opportunities.

We believe that markets are seldom completely 'fairly' valued and that investors can profit from taking account of the short term and technical factors which may be affecting markets. Therefore, in addition to long-term projections to help with strategic decisions, the team provides both medium-term asset class views and shorter-term 'momentum' views to help with timing of changes to asset allocation and implementation.

Global Manager Research Team

Aon has a global manager research team of 136 employees which is tasked with identifying fund managers who are able to deliver the best possible performance, considering traditional and ESG risks with associated costs. This team has extensive practical experience and includes former fund managers, researchers, chartered surveyors, derivatives traders and economists. The team operates globally with experts based in most of the major markets across the world. The team is responsible for awarding Aon's ESG ratings across all its recommended investment strategies. This process is described in Principle 7 of the report and some of the solutions the team recommends with respect to responsible investment, are described at the end of this Principle, under 'Aligning Our Investment Advice'.

Aon Climate Team

Aon built a new team over 2022 to spearhead its climate goals and leverage expertise through the business. This was a key activity for Aon and more detail is provided under 2022 activities.

ESG Reporting Teams

- **Aon's Engagement Reporting Team**
  Our responsible investment specialists also support our clients' TCFD reporting and EPIS team (Engagement Policy Investment Statement), gathering and interpreting of data, summing up an overall view of the quality of a manager's investment stewardship for a product.
- **Offshore Solution Team**
  Our Singapore analytics team is tasked with applying automation, proprietary models and data & analytics to create value for Aon in the areas of Manager Selection & Insights, Portfolio Construction and Business Intelligence.
- **Offshore Reporting Teams**
  Aon has a Strategic Client Delivery Team (SCD) and an Investment Consulting Solution Support (ICSS) team. These teams develop and generate our overall reporting which includes both performance and ESG reporting.

Pricing Guidance and Pricing Committee

Fair pricing and 'value for money' are critical for us if we are to build the long-term partnerships with our clients that we believe enable us to help our clients make, and implement, better decisions. We have developed pricing guidance for our core Advisory and Fiduciary services which draw from the teams above. In addition, our pricing committee meet to discuss and approve the pricing of any new business opportunity, and also for any new or non-core services that we offer. Together the guidance and the committee ensure consistent and robust oversight in pricing, equitable treatment of clients and clear articulation of value.

Supporting Resources

The responsible investment landscape suffers from a lack of consistency in terms of data definition, collection and standardisation. Comparable ESG data is therefore a challenge and trustees require data transparency in order to assess and compare levels of ESG integration in their portfolios, both investment integration and engagement. To address this, Aon's primary ESG research and data provider is MSCI, a market leading platform with broad and deep coverage across industry investment sectors. We use a leading ESG data provider and provide as common and ESG language as possible, for our clients.

Ongoing Development

Aon continually updates its colleagues within the practice with training events, regulatory updates and training modules. With respect to responsible investment, Aon ensures our colleagues and field consultants, who may not necessarily be directly involved with responsible investment on a day-to-day basis, receive the training needed to correctly advise and bring in the appropriate expertise. The ability of all consultants to speak to important developments, such as aligning to the TCFD recommendations, has been important in supporting clients with addressing these regular and comprehensive disclosures.

As regulation in the UK requires trustees to report robustly in support of their SIP (Statement of Investment Practice), we have built out our EPIS processes and the scale of our reporting for clients with respect to TCFD. We touch on this briefly in Principle 5 of the report and will report more extensively next year on the development.

Developments in responsible investment, and in particular climate change, will continue apace. Likewise, Aon develops alongside – enabling us to evaluate, educate, exchange and engage - as described in Principle 1 of this report. Aon will continue to build on what we do, in order to best support our clients.

Activity 2022

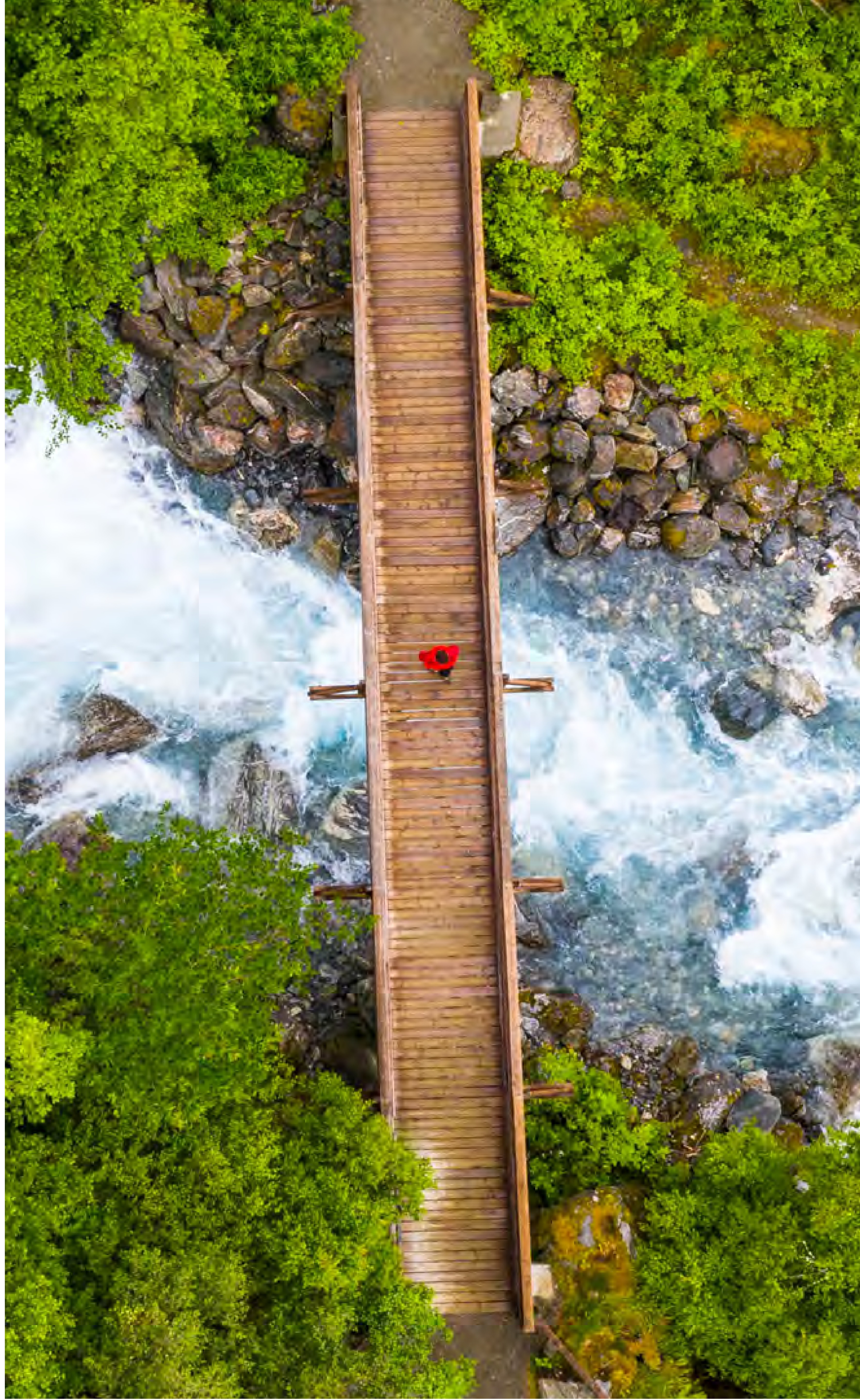
Aon's new climate team is created

In Principle 1 of this report, we described the reasons for a taskforce convened by Aon at the start of the year. The result was the launch of Aon Climate, a new team led by Aon's Global Head of Climate Strategy and Aon's Global Head of Public Affairs & Policy.

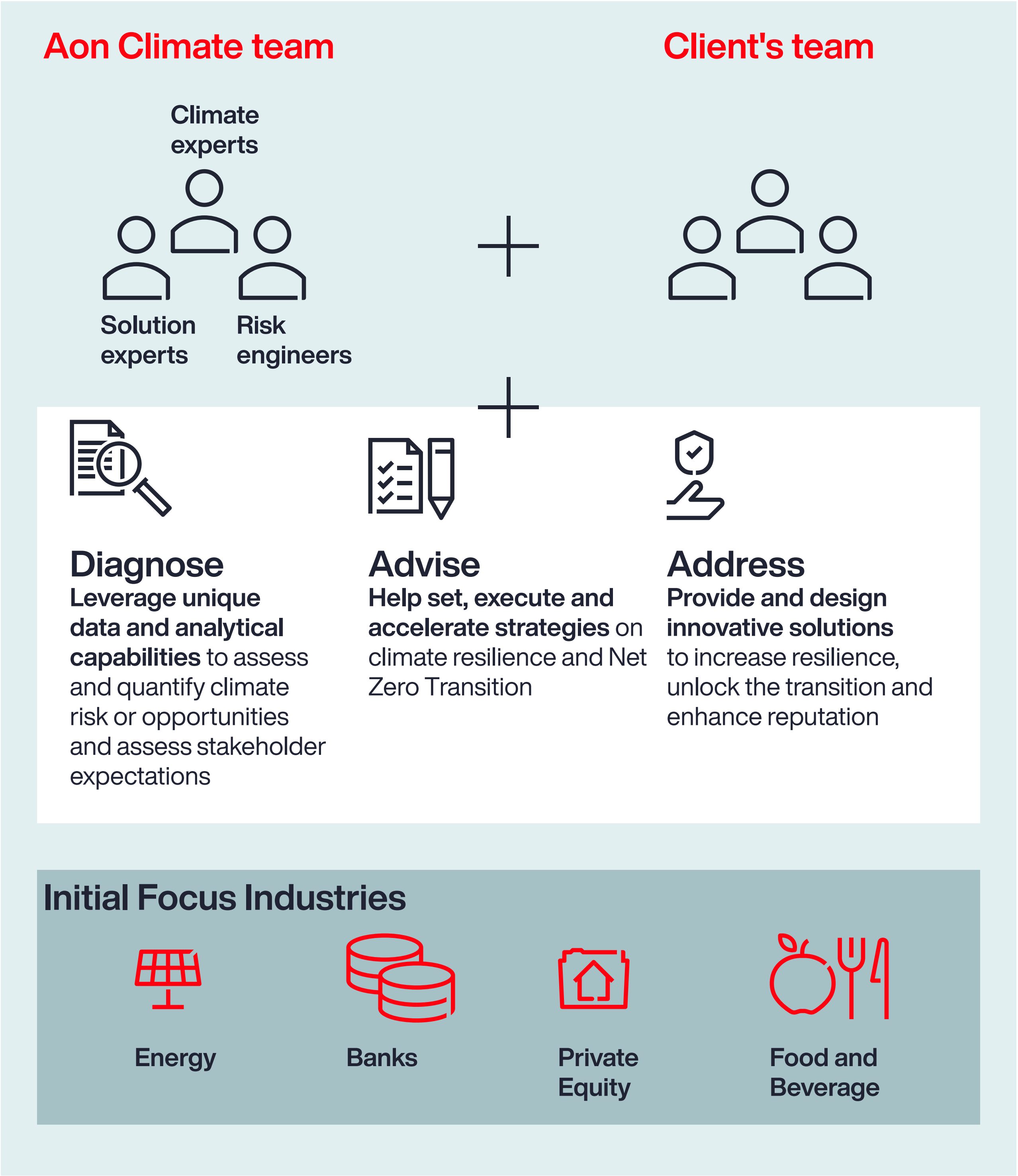
The Aon Climate team acts as a centralised support resource across Aon's solution lines, industry verticals and distribution teams. This provides diverse expertise and accelerates understanding and the growth for our climate-related activities.

The team is comprised of four specialised verticals:

1. **Head of strategy** who leads Aon Climate's internal strategy across the business to ensure coherence with solution lines and optimising ways of working. The Head of Strategy is supported by an associate focused on strategy and innovation.
2. **Head of alliances, coalitions, and reporting** who leads projects to support Aon's work in understanding and implementing key regulatory and industry ESG frameworks, representing Aon in key industry coalitions and forums, and developing Aon's approach to key sustainability themes. The Head of Alliances, Coalitions and Reporting is supported by three associates focused on regulation, events, and research.
3. **Head of partnerships** who focuses on assessing and working with strategic partners and third-party providers to enhance and build-out Aon's ESG capabilities across solution lines to assist clients with climate risks and opportunities.
4. **Head of solutions & innovation** who works across the business to develop and identify new products and design innovative solutions to support Aon's clients on their climate journey and Net-Zero transition. The Head of Solutions is supported by two associates focused on strategy and innovation.



Aon Climate Team's Strategic Partnership Model



Aon will grow this team globally to bolster climate expertise and understanding across business lines and assisting solution lines in accelerating investment towards a resilient and regenerative economy. Aon's Advisory and Fiduciary investment businesses will benefit from the Aon Climate Team and the initiatives which it drives forward.

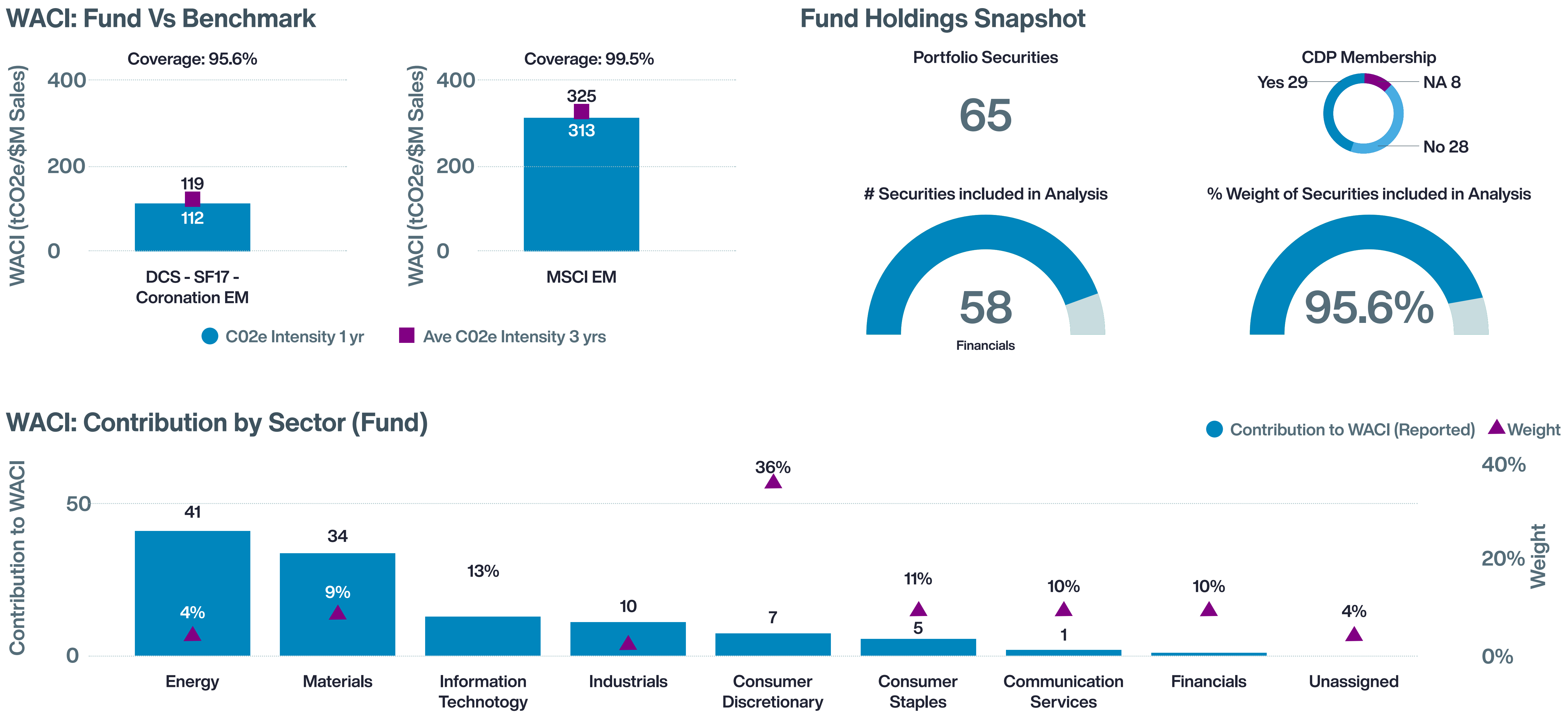
In Principle 1, under the section of Educating, we describe the team's plans to lead a firm-wide program, developing knowledge across the different layers of climate change topics. This will serve to strengthen our knowledge and governance around the critical climate issues we all need to manage.

Developing our ESG reporting tool, 'RI-360i'

Over 2022 Aon continued to develop its reporting for responsible investment. We recognise the critical importance of being able to deliver to clients the transparency needed for ESG integration and investment stewardship within a strategy.

Over the year we have rebranded our key ESG reporting tool, to our Responsible Investment 360 insights tool (RI-360i) to better enable risk management for ESG. The structure and content of RI-360i has greater focus on data insights and incorporates newly available data.

Aon RI-360i ESG Reporting Tool



__Source:__ eVestment, MSCI. __Note:__ WACI (Reported) refers to MSCI reported Scope 1+2 data (which includes dats reported and/or estimated by MSCI). MSCI ESG data is effective as of 30-Sep-2022.

New features include:

- An Executive Summary which focuses on key insights to address the "So what?" questions, supporting clients in being more active stewards of capital.
- An inclusion of ESG InForm outputs (Aon's quantitative ESG ratings reporting) which now extends beyond equities to fixed income and multi-asset asset classes and therefore covers more of a client's managers and strategies.
- Enhanced climate risk analysis – WACI trend analysis and forward-looking illustrative climate scenario modelling.
- Diversity & Inclusion data, in addition to other Responsible Investment data and analysis.

We expect our ESG reporting to keep evolving as new data becomes available and focus points evolve. We report on how we provide oversight on our ESG data providers in Principle 5 of the report.

2 Outcome 2022

Over 2022, we continued to build up our team of responsible investment specialists, expertise and offering. In particular, welcome the launch of our new Aon Climate team and we look forward to the opportunities this team represents in terms of the exchange of ideas and deepening our knowledge of core and sector specific climate concepts. This will enrich our understanding for investment solutions for climate risk.

With respect to our ESG Reporting, the refresh given to our RI-360i ESG report has been well received and we look forward to offering it widely to our clients, supporting their needs. Importantly, transparency and ESG data will increasingly be demanded by our clients and the RI-360i reporting tool will evolve further as ESG data improves and more becomes available. The tool will allow clients to better measure and manage ESG risk, enabling effective active ownership, constructive client and manager engagement and improved reporting disclosures.

The way our teams work together, drawing knowledge from each other, is an effective approach to support investment stewardship outcomes.

In Principle 4, we demonstrate that Aon is able to quickly scale up resources and support our clients with the many demands they face in a volatile investment world with increasing investment stewardship demands. Our teams leverage expertise to achieve our goal of delivering market leading and trusted advice, leading with excellence for the stewardship of assets. Our teams are able to provide this because of our strong governance, our resources and the way we have structured teams allowing them to work fluidly, capturing the best of our people for the benefit of our clients.

The overall outcome ultimately is the longevity of satisfied clients and an engaged working team.

3

Principle 3

Conflicts of Interest

3

Principle 3
Conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our aim is always to be a trusted adviser, and we believe that by having a transparent approach to the management of conflicts we build trust with our clients.

All our colleagues are required to:

- Recognise and address potential conflicts.
- Avoid anything that could create the appearance of failing to act in the best interest of our clients.
- Manage conflicts that arise.
- From the Competitions and Markets Authority's working papers we can see that our approach to the management of potential conflicts in our UK Investment business was stronger or as strong as our competitors. To be transparent in how we manage potential conflicts, we make our policy freely available online.

This robust policy, to meet both the expectations of our clients and the requirements specified by the Financial Conduct Authority (FCA) can be found here, and Aon's approach to the management of potential conflicts is enshrined in our code of business conduct which can be found here.

Activity

Aon is often asked about potential conflicts of interest and how we work to identify and mitigate them. We have developed a number of FAQs covering the topics where conflicts could potentially arise given the nature of our business, and how we will work to mitigate the conflicts. All these examples relate to how we steward assets within our organisation in situations where conflicts of interest could arise. Clearly this list is not exhaustive and any other potential conflicts that arise will be evaluated and managed on a case-by-case basis. Aon will always be careful to ensure our clients' assets are never compromised due to a position Aon inadvertently finds itself in, through the normal course of business.

Potential issues might include:

1. **Conflicts of interest between the sponsoring employer of an occupational pension scheme and scheme trustees.**

   We are often engaged by pension scheme trustees. We may also advise the sponsoring employer itself. There are times where the objectives of these two parties may not be compatible and they may wish to follow fundamentally different investment strategies.

   Mitigation: In these circumstances we would notify both trustees and employer of the potential for conflict and create "ethical barriers" where the parties would be advised by separate teams (and where practicable, separate locations), with no common access to shared data. If either party is not comfortable with this arrangement, then we would resign one of the Advisory appointments.

2. **"Churning" a portfolio**

   We might be perceived to be encouraging clients to make unnecessary changes to their investment strategies and excessive changes to investment products employed, in order to generate greater fee income.

   Mitigation: All our advice must clearly articulate the reasons for the recommendations, and the information on which the advice is based. Therefore, any recommendations to change investment strategy or investment products must include the reasons why this advice is appropriate to a client's specific needs and circumstances. In addition, all client advice is peer reviewed, and samples are scrutinised on a regular basis.

3. **Recommending investment products**

   Payments or inducements from product providers might be seen to influence the investment products we recommend.

   Mitigation: We do not receive any commission from investment product providers in relation to advising on investment products. Our research process is team based, and completely transparent to members of our manager research teams.

   This mitigates the potential conflict of interest that any individual, or a small group of individuals within the team, may have with a fund manager or other third party.

   We have an Event, Entertainment, Meals and Gifts Policy which enables management to monitor both the receiving of or offering of events, entertainment, meals or gifts. This ensures we are not inappropriately influenced by third parties such as clients, prospects, insurers, product providers, investment houses and suppliers of goods and/or services.

4. **Fund managers who are also Aon clients**

   There are some instances where fund management organisations are also clients of ours or of the wider Aon Group. This could potentially give rise to a conflict of interest where we recommend their products.

   Mitigation: This conflict is primarily dealt with by the separation of manager research from Advisory services, which means such conflicts should not arise. Exceptions will be managed on a case-by-case basis.

5. Conflict in giving clients impartial advice and managing funds on behalf of clients

Aon provides delegated fund solutions through Aon's Fiduciary business. We might be perceived to be not acting in the clients' best interests when suggesting Aon in-house funds ("Aon Fund Solutions") to our Advisory clients.

Mitigation: We are client focused with respect to the level of delegation our clients wish to use. The starting point for our consultants is to build up a thorough understanding of our clients. Investment strategy and asset allocation advice is tailored to our clients' objectives and is not related to the Aon solutions currently available. We have a clearly articulated framework and process for building a detailed understanding of a client's situation and preferences, to advise on a suitable approach.

Where Aon has responsibility for discretionary management within an Aon Fund Solution, our solutions represent the best of Aon for a client in a relevant situation, since they will utilise our best ideas and our highly rated fund managers. As such, if after discussing a client's situation, implementation preferences and governance budget with them, we believe that we have an Aon Fund Solution which has been designed to be appropriate for and meet the client's circumstances, then that will be our recommendation and we will not carry out a wider search unless requested to do so by the client.

Client Focus

We are client focused and for clients who do not wish to delegate decisions to Aon, we will work with them on a purely Advisory basis to find an approach that meets their situation on a non-fiduciary basis and without investment in Aon Fund Solutions. However, if the client wishes to conduct a review of delegated products or Fiduciary management services that compete with Aon Fund Solutions or Fiduciary management then we will advise them that Aon cannot conduct such a review and suggest they hire a third-party evaluator to consider Aon solutions or Fiduciary management alongside competitor products.

Our manager research teams are responsible for researching and rating the fund managers underlying Aon Fund Solutions and Fiduciary management services. Our manager research teams do not rate any Aon Fund Solutions and Aon will not carry out Fiduciary manager selections for clients. This avoids any potential or actual conflict relating to any such rating or selection.

We are completely open to our advice, approach and processes being subject to inspection by regulators and third-party evaluators.

6. **Conflict in respect of use of manager research ratings**

   Our Manager Research team may change their rating of a manager which, if disclosed to some clients before others, could place some clients at a disadvantage.

   Mitigation: We treat all clients fairly. Following this principle, any change in ratings made by our manager research teams will be relayed to all our Advisory consultants (to disseminate to their clients where appropriate) and portfolio managers simultaneously and will be held confidentially by our manager research teams until that time. If an incident arose where this approach is not possible, it would be reviewed on a case-by-case basis.

7. **Conflict in respect of client information received**

   During the course of business, we may receive information from third parties which we could use to our advantage. For example, pricing information about a competing bid for services.

   Mitigation: If we receive information directly and without a non-disclosure agreement, then we are free to use that information in any way we see fit. However, if we receive something indirectly (for example if we are copied in an email) or we have received information for the purposes of creating meeting packs, we will not use the information beyond the specific client and situation that it is intended for.

8. **Capacity issues**

   From time to time, we become aware of investment opportunities that are constrained by a manager's capacity for taking on assets.

   Mitigation: In these circumstances, the same opportunity will be notified to all clients for whom it is deemed appropriate at the same time and will be made available on a first come first served basis. Should a Fiduciary Services client and an Advisory client both be interested in an investment opportunity with limited capacity, where necessary the capacity will be shared fairly in accordance with agreed process.

9. **Performance-related fees**

   Due to the nature of performance-related fees, there is a potential for conflict between Aon's and the client's best interests if incentives are or become misaligned.

   Mitigation: There are a variety of ways in which we are remunerated by our clients for the services we provide. Our clients have the choice to select a remuneration option that they deem most suited to them and this may include a performance-based remuneration structure. All performance-related fees are clearly set out in a defined formula and carefully explained to the client in advance, and then agreed in writing.

External stewardship

Conflicts of this nature can occur if, for example, we are asked to advise or support particular voting or engagement actions. However, whilst we will promote and encourage actions which we believe will lead towards change for the good (such as board diversity, or science-based net-zero targets) making clear our rationale and reasons, this would never translate into the expectation that our clients would necessarily follow suit.

Aon does not typically advise our clients how to vote at any particular AGM or EGM. The only exception to this is in the case of investment funds where we do provide guidance to our invested clients about votes due to arise, for example, extending the life of a closed-ended fund.

Where clients do not share our beliefs or disagree with some aspects of them, we manage that by explaining our beliefs and giving our rationale. For example, Aon as a practice will be encouraging investment managers towards a Net-Zero position where appropriate. While we as an organisation plan to promote and encourage this initiative, this is always presented to a client as a choice and something to consider. There would be no further expectation if a client did not share our views.

There are also potential conflicts of interest that might occur because of the breadth of business and expertise across Aon. For example, Aon Reinsurance Solutions, through its Aon Securities Inc. subsidiary (ASI), is one of the three largest brokers in the reinsurance market. ASI also acts as a placement agent or “third party marketer” for alternative capital funds that manage portfolios of Insurance Linked Securities (ILS) and they offer consulting services to a variety of reinsurance market participants. Aon’s investment practice has taken a number of precautions to ensure that the advice we provide our clients regarding investing in the ILS space is not conflicted with any of these activities and that our clients receive unbiased recommendations.

In general, the regulatory agencies that AIL operates under require information barriers between the manager research business of Aon Wealth Solutions and the brokerage business of ASI. It is not uncommon for organisations regulated by these entities to have both manager research and brokerage businesses. These information barrier regulations are well developed and tested. The information barriers that separate Aon’s Manager Research team from its brokerage business consist of physical, legal and operating barriers between the two entities.

Outcome 2022

We regularly review our Conflicts of Interest Policy, most recently in 2022. Our clear approach to handling conflicts of interest has enabled us to ensure that client business across the organisation is carried out effectively.

Case study

Taking Aon fund solutions to clients

Aim: ensuring a client's fund solution is aligned to their best interest

Some trustees believe that there is a potential conflict of interest when an investment consultant suggests a fund solution provided by their organisation as a potential investment. Aon has robust procedures in place to manage any potential conflicts that may arise (as outlined above).

Below are two recent examples of clients that historically did not want to invest in Aon Fund Solutions because they believed it was a conflict of interest. In each case, by following our Conflict of Interest Policy we were able to manage this perceived conflict for the clients so they could consider whether the Aon Fund Solution was right for them.

One example was a client that was looking for a medium-term holding for funds being deployed into their illiquid portfolio which would be a better alternative to holding cash. We looked at a wide range of options in the market and considered our client's objectives. After careful consideration, the client decided that Aon's Diversified Liquid Credit Strategy best met their needs in terms of expected returns, liquidity, a low governance burden and kept the management costs competitive.

Another example was a client looking for ways to cut management costs whilst maintaining the required level of return and good diversification in their growth portfolio. After a wide market review, the client determined that Aon's Diversified Alternatives Strategy was the most appropriate solution to meet their needs. This enabled the client to reduce their annual management fees significantly whilst still maintaining the required level of return and continuing to benefit from good diversification within the portfolio. These benefits were due in turn to Aon's ability to actively manage the underlying manager allocations and leverage scale to negotiate fees in order for the overall solution to remain cost effective.

The principal conflict that we make clear to all our clients from the outset is that Aon does earn fees on the fund solutions that we provide. We understand when some clients have reservations due to this conflict.

If we believe that investing in an Aon Fund Solution is in a client's best interest we engage with the client to discuss our proposals, taking into account the client's circumstances and preferences. Our clients are well informed about our fund solutions prior to investing and, when appropriate, understand why we believe they are the best option for them in their circumstances. Our clients can therefore be confident they are accessing the best solution for them (whether this is an Aon solution or otherwise) without worrying about any conflicts not being managed.

Our role as the investment consultant is to provide our clients with the best solution for their individual circumstances and preferences.

Where there is a suitable Aon Fund Solution that meets a client's needs, to exclude that option could be detrimental to the client.

4

Principle 4

Promoting well-functioning markets

Principle 4
Promoting well-functioning markets

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

As outlined in Principle 1, Aon has a broad range of investment offerings, advising on £3.1tn of global assets and investing £145bn of assets globally. This scale and reach mean that we interface with the market at many levels, including, among others:

- Our Capital Market Assumptions and Asset Allocation views influence the allocation of significant volumes of our clients' assets towards or away from different asset classes, with the potential for associated trading costs and market impact.
- Our clients' liability-driven investment (LDI) programmes, which we help to design, can lead to significant volumes of derivative trades.
- The combined voting and engagement power of our clients could have a meaningful influence on businesses and corporations.
- Our clients' assets constitute a significant amount of assets for most of those managers we recommend investing with.
- Inefficient practices or unsustainable cost structures could cost our combined clients and their beneficiaries many millions of pounds each year.
- We are often invited to contribute to workshops, policy development, articles, etc. As a significant investment advisor our opinion is often sought, and widely respected.

We recognise the important responsibility these touchpoints of market influence give us, and the influence we are able to exert on fund managers. We are continually alert to potential risks, and also opportunities, where we can exert influence for our clients' benefit.

Managing these risks are core to what we do, and by promoting well-functioning markets we enable ourselves to further promote our purpose, investment beliefs and culture as described in Principle 1.

Working with the financial investment community to promote well-functioning markets

Aon regularly liaises with organisations with a view to shape better decisions and long-term sustainable value creation. We list our key interactions with the financial community in Principle 1 of the report, and consider ourselves to be well connected, a natural partner for regulatory authorities, NGOs, market and asset class trade associations and other organisations.

Aon values its market position, where we are well placed to promote best in class standards, maintain the integrity of market behaviours and directly contribute to the well-functioning of financial markets. We do this by working alongside industry participants and other stakeholders and our role requires us to ensure our investment beliefs serve asset owners and asset managers alike.

On the next page, we present some case studies to highlight how Aon has used its influence to promote well-functioning financial markets and mitigate market and systemic risk.

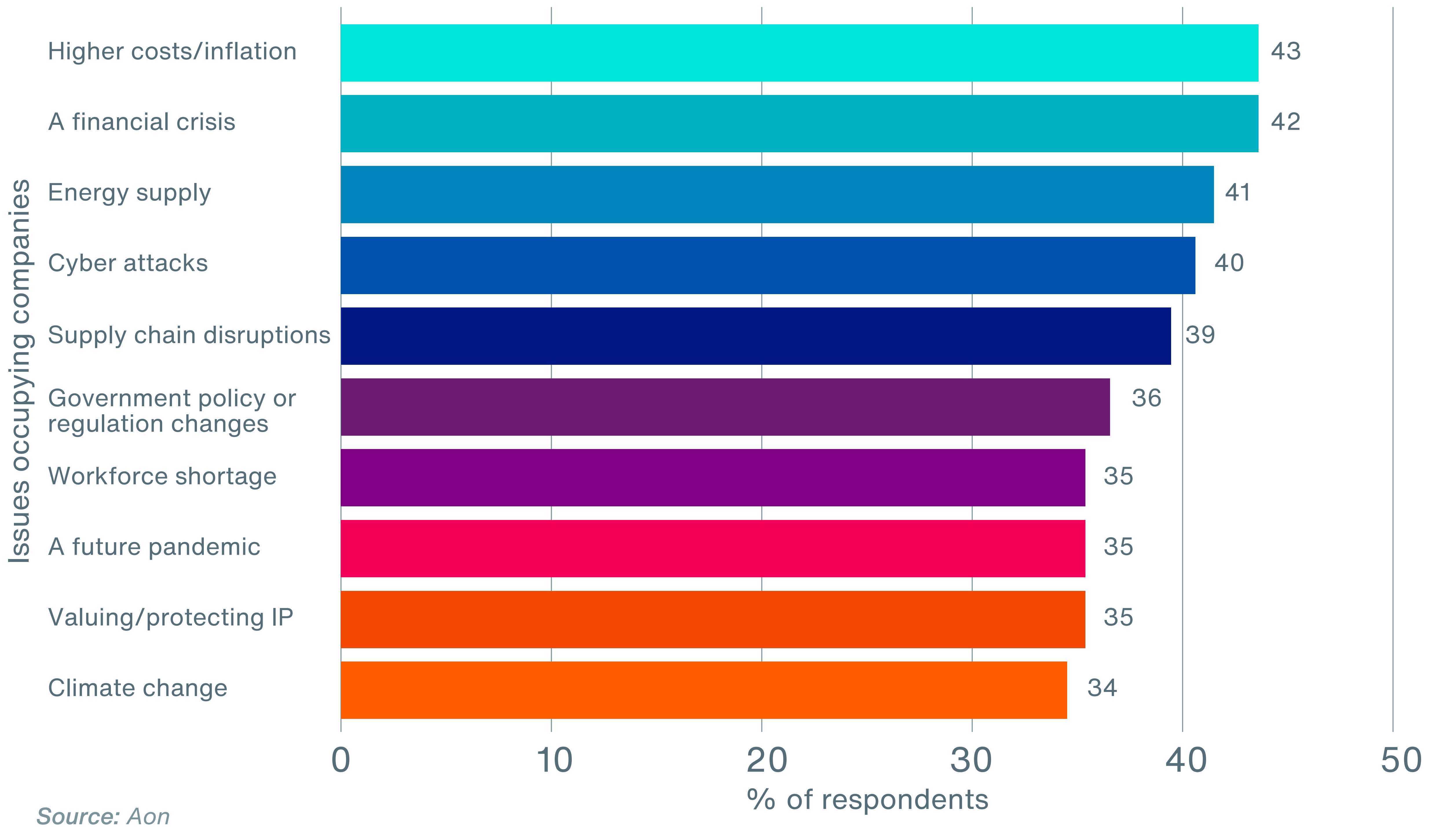
4 Activity 2022

Our modern world is unpredictable. Known threats, like climate change and pandemics, sit alongside emerging challenges – data security, supply chain disruption, the rise of intangible assets, the risk of pandemic and the widening health/wealth gap, to name a few. Aon surveyed 800 C-suite leaders and senior executives in our 2022 Executive Risk Survey, found here: [Making Better Decisions in Uncertain Times.]

The survey was commissioned by our Human Capital team and offers Wealth Solutions parallel challenges and risks which will likely impact investment markets.

Aon's Executive Risk Survey 2022

Issues on which companies are reportedly spending a great deal of time



Source: Aon

Percentages may not total 100 due to rounding

Below, we highlight ways in which we have worked over the year to identify and mitigate market and systemic risk in investment markets. These can be related to corporate risks or brought on by many other macroeconomic or exogenous risk factors, global and local. The illustrations offered, are examples of how our teams work together, and with clients, to secure and promote well-functioning investment markets.

Market risk

Aon's Asset Allocation team keep our field consultants close to the market, as market risk unfolds

A confidence crisis which arose from the UK government's mini-budget announcement, created a gilt market shock Q3 2022. This impacted many pension schemes in the UK with liability-driven investment (LDI) strategies that use variable levels of leverage to hedge liability risk. The speed with which yields rose (approximately a 2% move in longer-dated index-linked gilt yields in three trading days), was a big test for even a conservatively managed LDI portfolio with lower levels of leverage.

The resulting flood of collateral calls from LDI pools were met by forced selling in gilts, swaps, credit, and other liquid assets to de-leverage LDI portfolios. This exacerbated market strains to a point where the Bank of England was forced to intervene to restore normal market functioning.

During this period of extreme and unprecedented market conditions, the Aon's Global Asset Allocation team (GAA) provided the investment practice with day-to-day updates and views on fixed and index-linked gilt market moves, the latest position on Bank of England (BoE) emergency gilt purchases and other actions such as fiscal policy developments. The updates were in the form of frequent wide-ranging meetings, emails to the Aon Wealth practice and "Asset Allocation Views" research papers.

The team also produced a paper exploring gilt yield pathways. Furthermore, the GAA carried out scenario analysis based on fiscal developments in the UK, considering what quantitative impacts were likely under various scenarios e.g.: fixed and index-linked gilt yield changes, currency changes and confidence levels, based on further changes to interest rates.

Importantly, the team also produced ownership analysis of the UK gilt market, demonstrating why the index-linked gilts are particularly vulnerable to changes in pension scheme demand.

The activities ensured that consultants, and by extension clients, were fully informed on these extreme market movements and likely impacts on portfolios. As a result, clients were able to consider taking appropriate actions to their portfolios, including whether to sell liquid assets, ahead of any official calls for collateral from LDI managers. This reduced the need for forced sales of LDI assets, and liability hedges were maintained more efficiently.

GAA also advised that to maintain robust hedging levels, longer-term investment strategies would likely need review, where existing asset allocations were insufficient to maintain adequate safeguards.

The forward-looking analysis meant that clients could make informed decisions in their asset portfolios in anticipation of probability-weighted market developments.

Case study

Navigating volatile investment markets

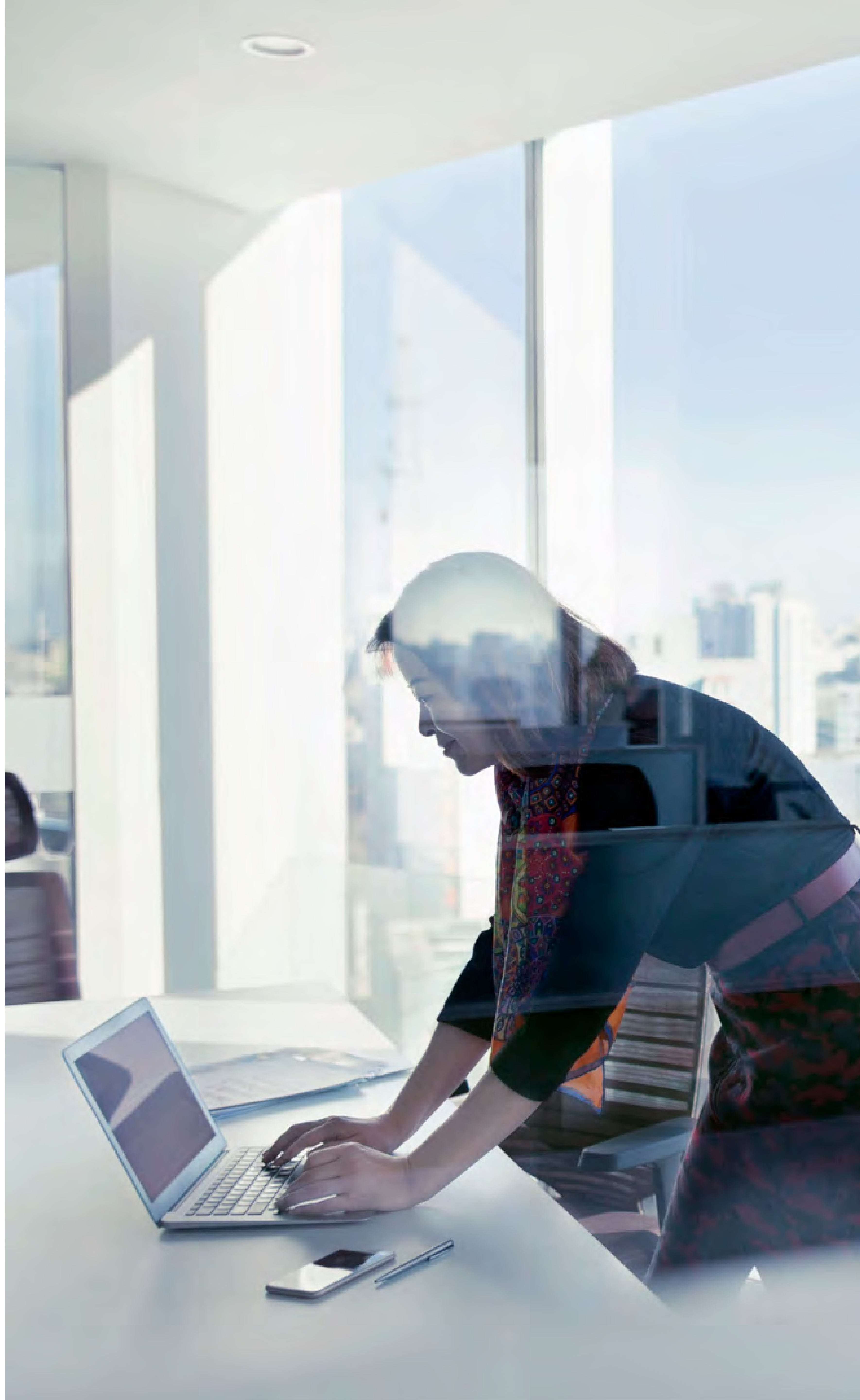
Objective: Helping smaller clients manage interest rate volatility

Our Manager Research team recognised a challenging situation faced by clients during the period of volatility in LDI markets described above. We observed that smaller clients found burdensome the administration and costs involved of releveraging and deleveraging LDI solutions, in an environment of volatile interest rate changes. The actions required could have led to the liquidation of assets on an untimely basis, adding to potential market risk.

The Manager Research team negotiated with one of its key LDI managers, a lighter version of the manager's full LDI solution. This light version was less expensive and easier to manage.

The solution was managed against a cashflow benchmark where the manager took on the day-to-day administration of releveraging and deleveraging, around a broader tolerance level for hedging against interest rate changes.

This resulted in smaller clients benefitting from an easier mandate to manage, freeing up time without needing to navigate what were complex and problematic events. Where there are situations where we find our clients having to overpay for unnecessary and overly customised solutions, we will work to simplify solutions for our clients. In this instance there were mutual benefits due to the pragmatic nature of the solution.



Systemic risk

Systemic risk in financial markets can come in many forms – it is a risk which works to break down the entire system rather than the failure of individual parts. As such, these risks are detrimental to the longer-term smooth functioning of financial markets. Below, we give several examples of work we have done ourselves, or through collaboration, all of which aim to identify or to mitigate systemic risk, typically by adding transparency, advising or informing.

We illustrate our activities in 2022 with:

1. Client teams working with trustees to ensure close management of LDI mandates in the face of extreme interest rate market volatility.
2. Climate scenario analysis to measure the impact of climate as a systemic risk for financial markets.
3. Working with the PRI to discover leading industry practices.
4. Aon pioneering cost benchmarking.

1. Client teams work with trustees to ensure close management of LDI mandates in the face of extreme interest rate market volatility

Here we look at the challenges clients themselves face when leverage is employed during periods of interest rate volatility. The use of leverage instruments such as interest rate swaps or forwards derivatives, if unchecked or poorly managed, can create longer terms systemic risks and cause significant harm to global market participants. As described above, the September “mini” budget triggered extreme volatility in UK government bond markets, which caused significant strain on UK defined benefit pension schemes who used leveraged government bonds as part of their Liability Driven Investment (LDI) strategies to protect against their interest rate and inflation risks. This ultimately led to the Bank of England stepping in, to aid markets. Aon had a duty of care to its clients and ensured they remained protected once the Bank of England withdrew its support. We also had a duty to ensure clients were well protected, should a subsequent related event occur.

Case study

Navigating volatile investment markets

Aim: To ensure clients were prepared for interest rate volatility

Aon’s LDI specialists held daily meetings between senior leadership, manager researchers and derivatives experts to monitor developments and coordinate a central response to manage clients’ risks. This response had a three-pronged approach:

- **Assess:** We carried out a rapid assessment of clients’ positions to identify the level of exposure / resilience had to the volatile market conditions, allowing us to target our response appropriately. Our clients’ liability-driven investment programmes (which we help to design) can lead to significant volumes of derivative trades.
- **Collaborate and communicate:** Our Manager Research team had open lines of communication to all major LDI managers. This enabled us to understand market developments and the actions investment managers were taking, as well as communicate on client-specific issues.
- **Advise:** Our assessment of clients identified broadly four groups of clients who were in similar positions. We developed central guidance for each group of clients and prepared central advice for colleagues to take to their clients.

Transparency – stress testing and a look through to impact on asset value, following changes in interest rates

Post-shock - Funding

88%
Funding level
▼ 3%

£123m
Deficit
▼ £5m

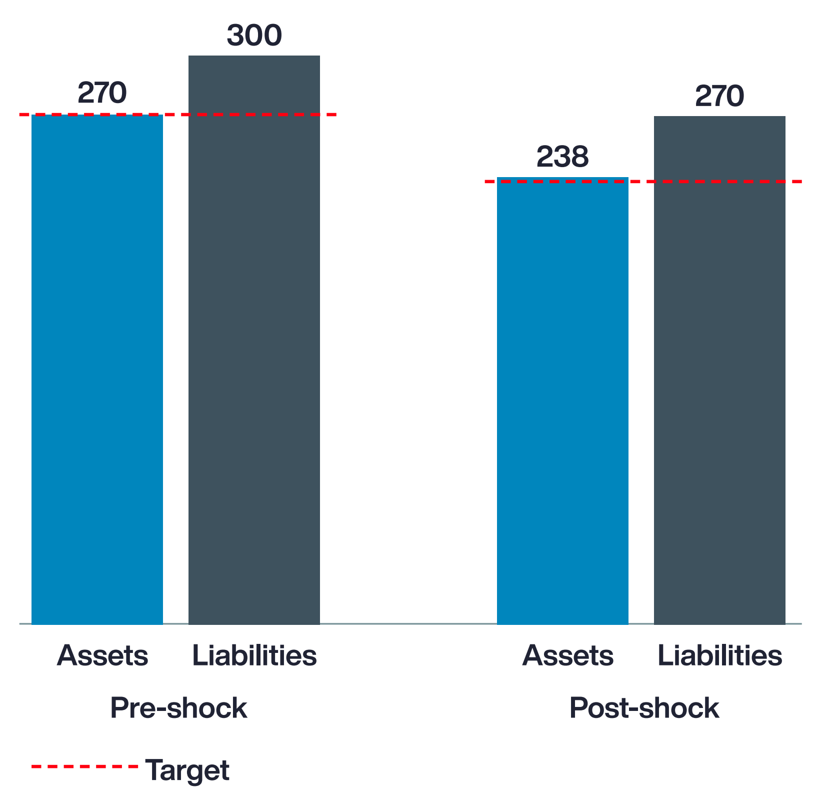
Post-shock - Collateral

250
Collaterall (bps)
▼ 100bps

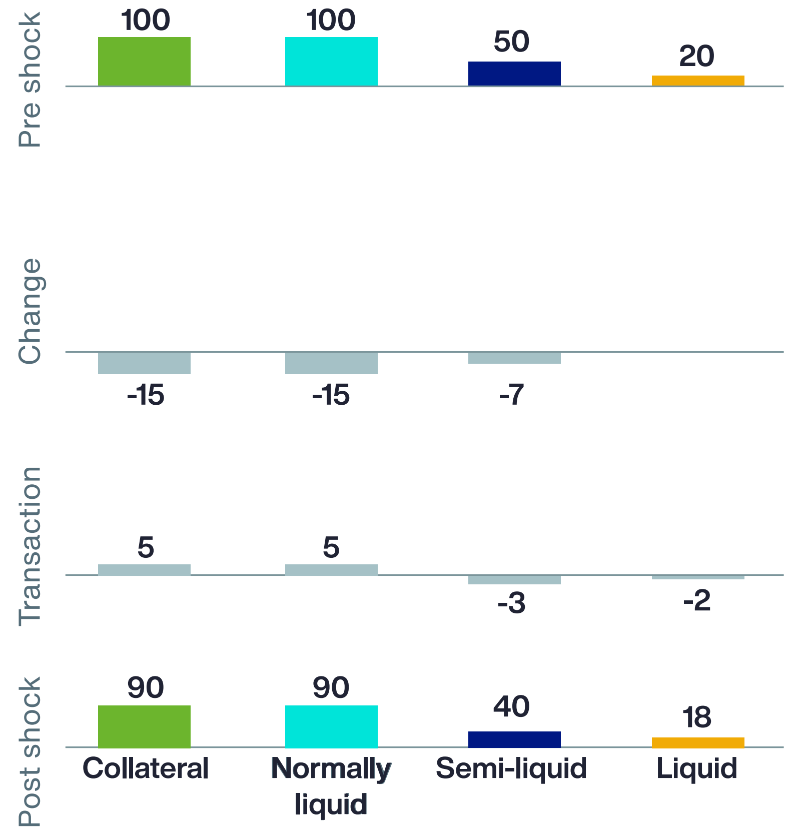
460
Collateral + normally liquid bps
▼ 20bps

Portfolio name	Strategic target
Shock (nominal)	1%
Shock (breakeven)	0%
Shock (equities)	-30%
Shock (credit spreads)	100bps
Hedge target	90%

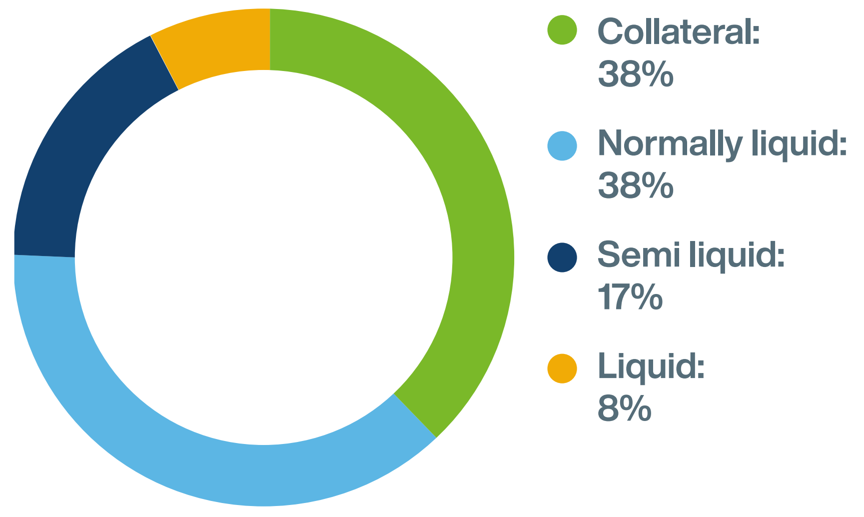
Total change (£m)



Impact on collateral assets (£m)



Post-shock position



We were able to deliver advice to over 150 clients, using leveraged LDI strategies, in a matter of days and well ahead of the Bank of England's withdrawal from markets. Client portfolios were positioned to ensure a higher level of resilience to future interest rate rises, reducing the risk of being forced sellers of assets.

How are we helping clients now?

We have developed monitoring tools for clients under a simple and easy to understand framework. This is being rolled out across all clients with leveraged LDI strategies and will be made available quarterly as a minimum – although clients will have the ability to receive this monitoring up to daily.

We are also encouraging clients to adopt collateral stress testing at least annually. Our modelling allows clients to assess the impact of interest rate scenarios on their current portfolio.

Importantly, the models allow clients to assess any changes to their portfolios through the lens of collateral resilience – supplementing existing risk metrics such as Value at Risk. This enables a more holistic assessment of risks when setting investment strategies, delivering better results for clients and reducing the risks associated with using leverage.

2. Climate scenario analysis to measure the impact of climate as a systemic risk for financial markets - The impact of 4°C global warming on pension scheme investments:

In previous years, Aon has reported on our climate scenario expertise and the importance we attach to our analytic capability of being able to analyse climate scenarios. This analysis has become a crucial part of assessing climate risk at the strategic asset allocation level and for making industry sector investment decisions.

Aon undertakes climate scenario analysis on behalf of its clients and can show the likely impact on investment returns and funding levels for each of our five climate scenarios. In past reports, we have demonstrated how our capability has evolved, for example, last year we introduced impact assessment for the liability side in LDI mandates, in each of our scenarios. This year, we show how we are able to model scenario analysis across asset classes for clients.

In particular, our climate change scenarios incorporate full yield and inflation expectation curves and also longevity impacts to enable holistic projection of pension schemes liabilities under each scenario. The incorporation of mortality means the scenarios do not just consider economic variables, but also reflect the demographic aspect which is important when considering pension scheme liabilities.

The scenarios are designed to analyse the risk to economies and financial markets under different temperature paths, but importantly also consider actions – or lack of actions – of market participants and policy makers under each scenario, by the incorporation of discrete regime shifts beginning within the next ten years. Our models were originally built, in partnership with the University of Cambridge Institute for Sustainability Leadership (CISL) and leveraged Aon's extensive asset allocation, weather modelling and climate capabilities.

In our 'No Transition' scenario, we consider a scenario in which global efforts are insufficient to halt significant global warming. We assume that no new climate policies are implemented beyond 2022, leading to significant global warming and increased exposure to physical climate change risks. Critical temperature thresholds are exceeded, rising above +3°C relative to pre-industrial levels by 2050 and over +4°C by 2100. The physical effects of climate change strengthen over time, having an increasing drag on economic growth, as more effort is expended to adapt to these chronic effects and the damage to natural capital. With the reduced availability of natural capital and increasing effort required to maintain what remains, costs and inflation steadily rises over the next 30 years.

We can model the paths of around 300 economic variables, across asset classes, for up to 30 years for each of our scenarios. This allows both assets and liabilities to be projected to beyond 2050.

Case study

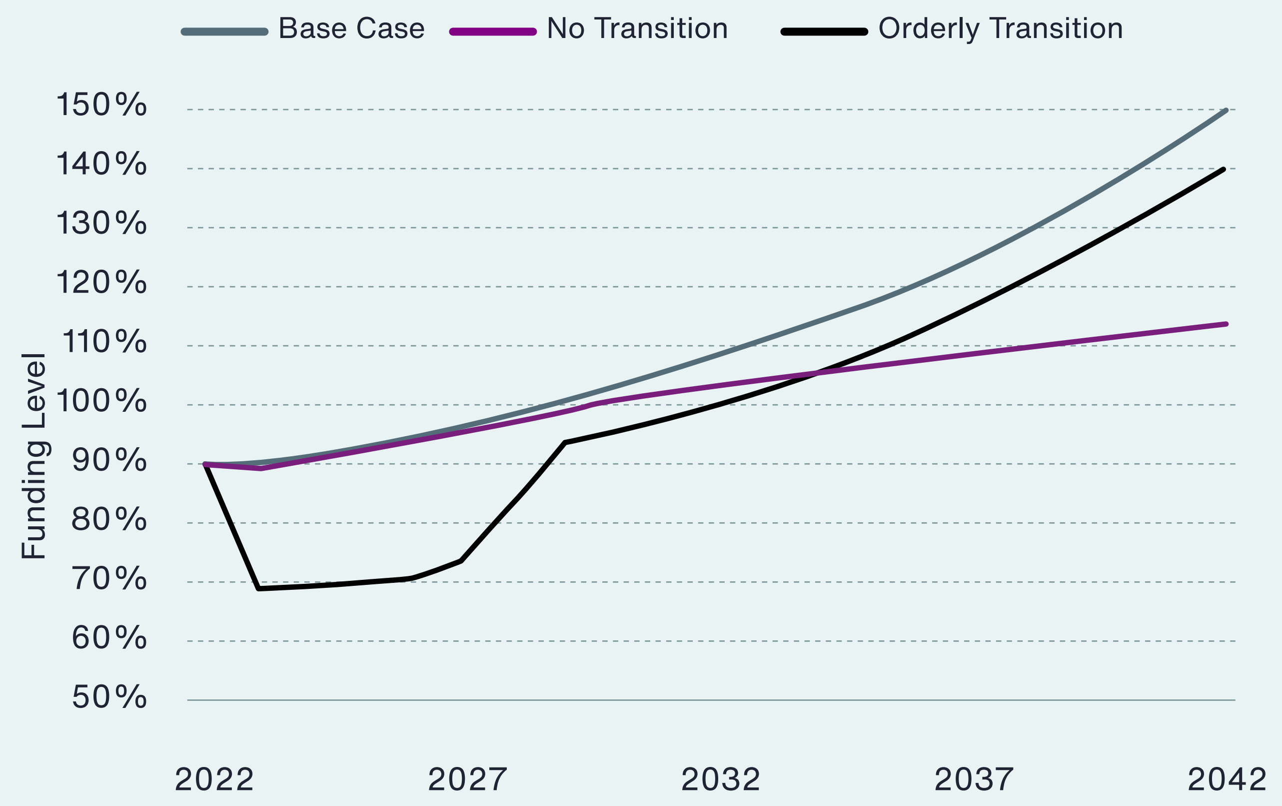
Climate scenario analysis

Aim: To quantify the loss in value across climate scenarios

We typically compare the ‘No Transition’ scenario against our ‘Base Case’ and one of our transition scenarios. In the example below we show our “Orderly Transition” scenario.

- **Base case:** The Base Case scenario is based on Aon’s Capital Market Assumptions (“CMAs”). Our CMAs are based on long-term consensus views of what is priced into the market, and therefore indirectly capture the climate risk that is currently captured in current market conditions. Our view is that what is priced into markets, and therefore our CMAs, is consistent with a climate change scenario where there is a slow but orderly transition, with Net-Zero achieved by 2050, limiting global warming to between +1.5°C and +2.4°C above pre-industrial averages by 2100.
- **Orderly transition:** In this scenario, the introduction of strict carbo n regulation and the rapid shift away from fossil fuels worldwide hurts global growth over the short term. Growth improves over the intermediate to long term, as the global economy successfully restructures toward renewables. Long term trend growth is bolstered by a brighter sustainable outlook, supported by positive spill-over effects from green policy adoption and technology innovation, which serves to protect and regenerate natural capital.
- **No Transition scenario:** Here, climate change headwinds facing the economy and markets steadily grow, acting as an increasing drag on economic growth and risk asset returns. The magnitude of the effects on each regional equity market is determined by the carbon sensitivity of their economic sectors, geographical exposure to climate change risks and action taken to mitigate and adapt to climate change. The UK’s vulnerability to physical risk is broadly similar to the average developed market while IPCC research found that emerging markets are disproportionately impacted by the physical impact of climate change. As a result, a greater drag on return is incorporated in our emerging market equity returns.

Projection of the funding ratio of a sample pension scheme under our climate change scenarios:

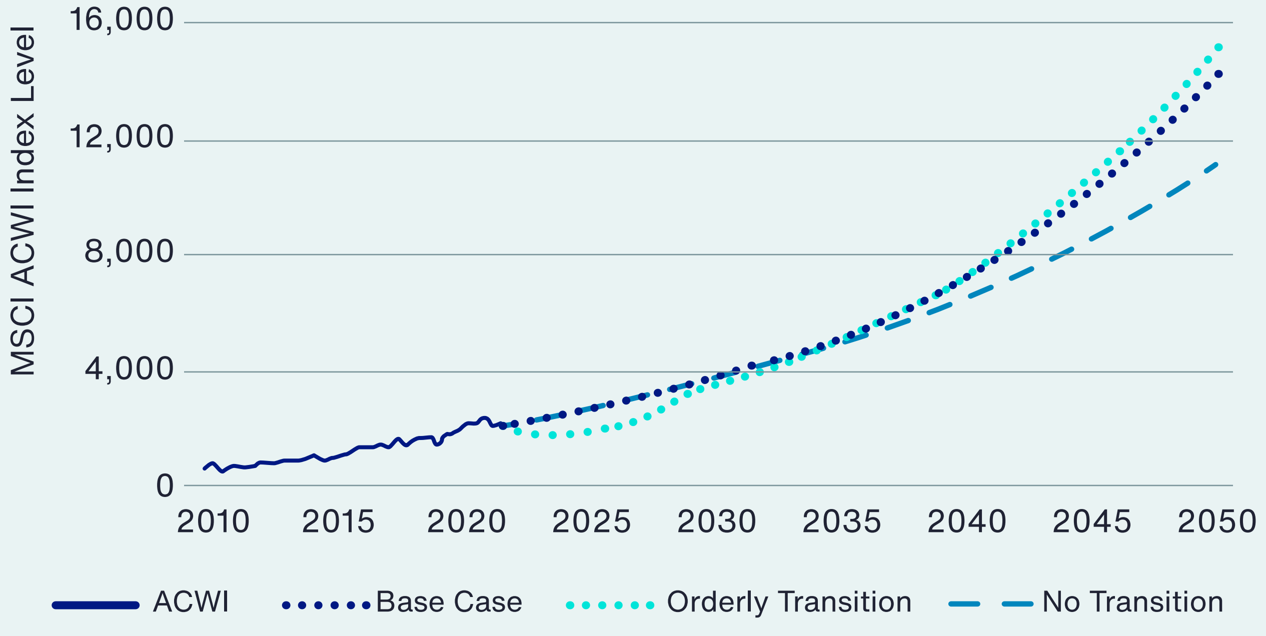


Source: Aon

Asset class impacts under our 'no transition' scenario

Equities

Global equity paths under our climate scenarios:



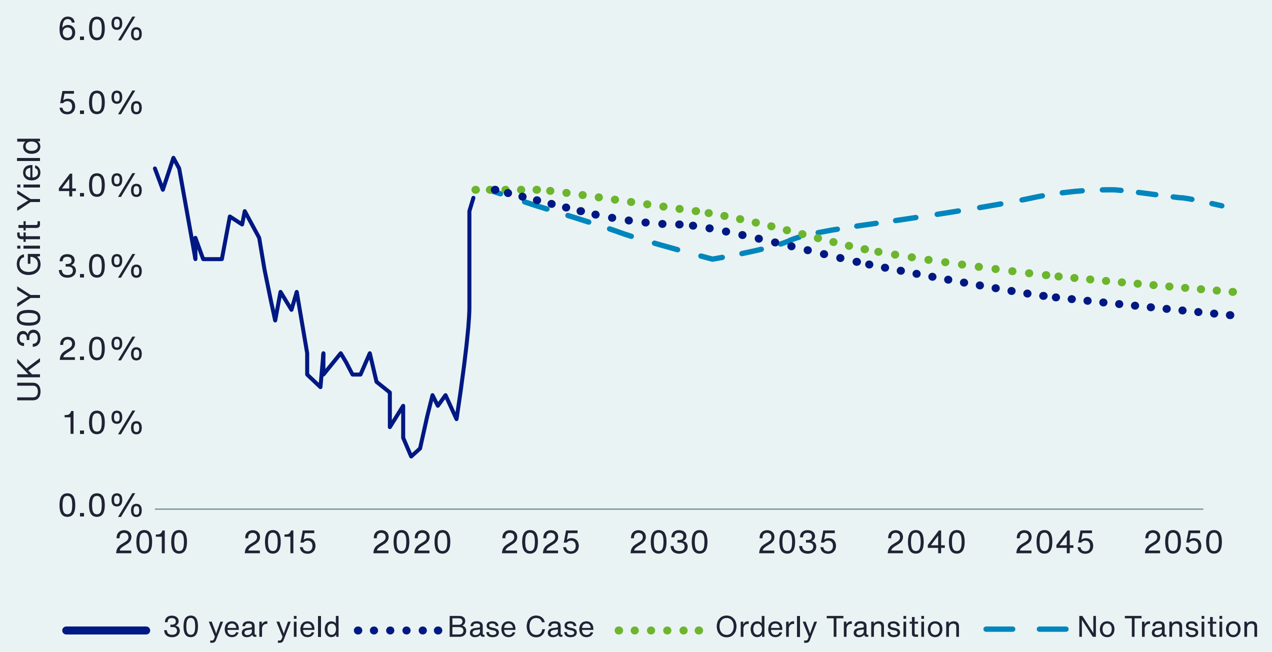
Source: Aon

Bonds

Government bond yields fall initially as the abandonment of climate actions improves fiscal positions in the short term but start to rise above the base case when physical risks become increasingly evident in the 2030s. Yields rise as inflationary pressure increases and risk premia rises, reflecting greater fiscal and monetary uncertainty and higher debt levels.

Corporate spreads gradually begin to rise relative to the base case as inaction on climate change leads to increasing costs from climate change and weaker growth.

30-year gilt yield paths under our climate scenarios:



Source: Aon

Real assets

As with equities, real assets will be impacted by the increasing drag on economic growth and damage to natural capital. The inflation-linkage characteristics demonstrated by commercial property and infrastructure provide some mitigation against the economic shock as a 4°C scenario brings in a new era of higher inflation.

Infrastructure is generally more defensive compared to commercial property. Infrastructure funds are increasingly allocating to renewable energy infrastructure projects, providing another mitigation against downside risks as the depletion of fossil fuel supplies belatedly drive demand for renewable energy even under our 'No Transition' scenario.

However, we should emphasise that the geographical locations of property and infrastructure assets will have a strong influence on realised returns.

Private equity and hedge funds

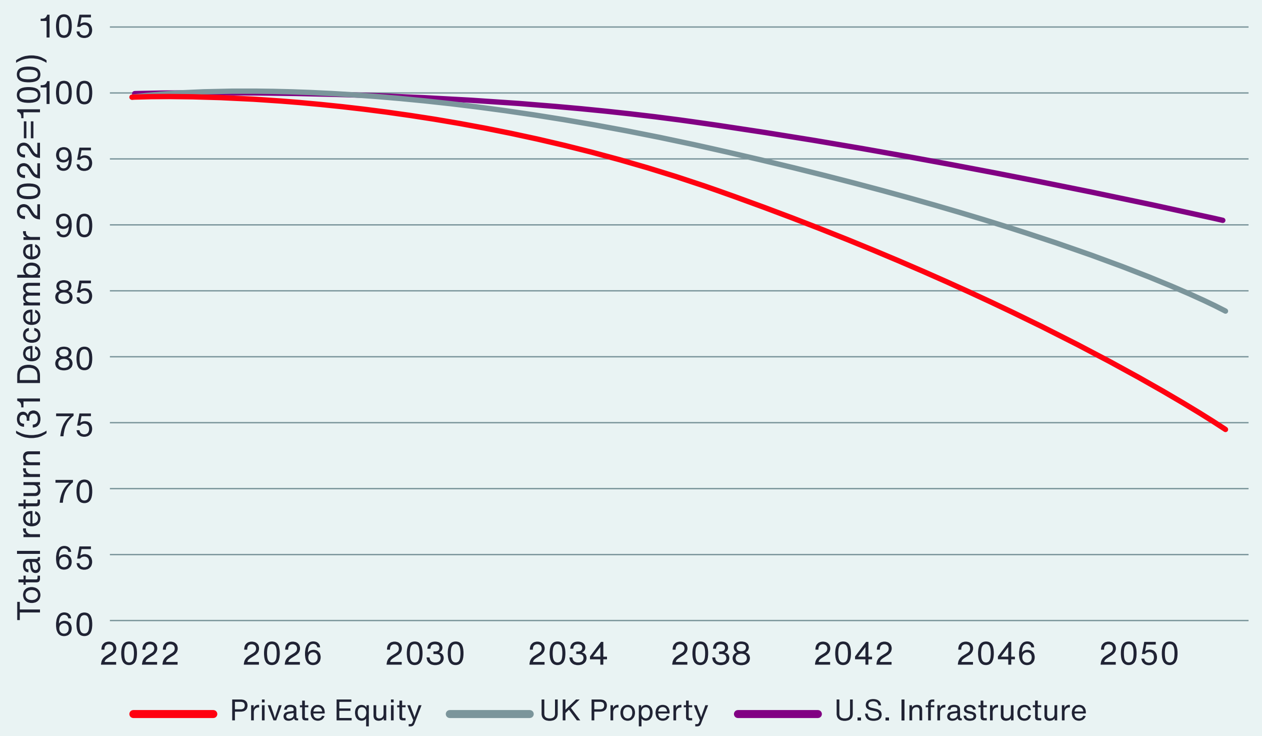
Our modelling of private equity and hedge fund strategies under our climate scenarios follow a similar approach to our CMAs.

Our hedge fund returns expectations include an analysis of the underlying building blocks that drive returns. For example, we consider that equity long/short funds are sensitive to equity market movements given the size of equity exposures typically carried, whilst most hedge funds are "cash plus" type investments to a greater or lesser extent. The exposure to equities, credit, cash returns, and other macroeconomic drivers are linked via a regression model to our hedge fund return assumptions.

Similarly, the global private equity returns assumptions under our scenario represent a diversified private equity portfolio with allocations to leveraged buyouts (LBOs) and venture capital, as well as mezzanine and distressed investments. Return expectations for these different strategies depend on different market factors via a regression model.

No transition returns

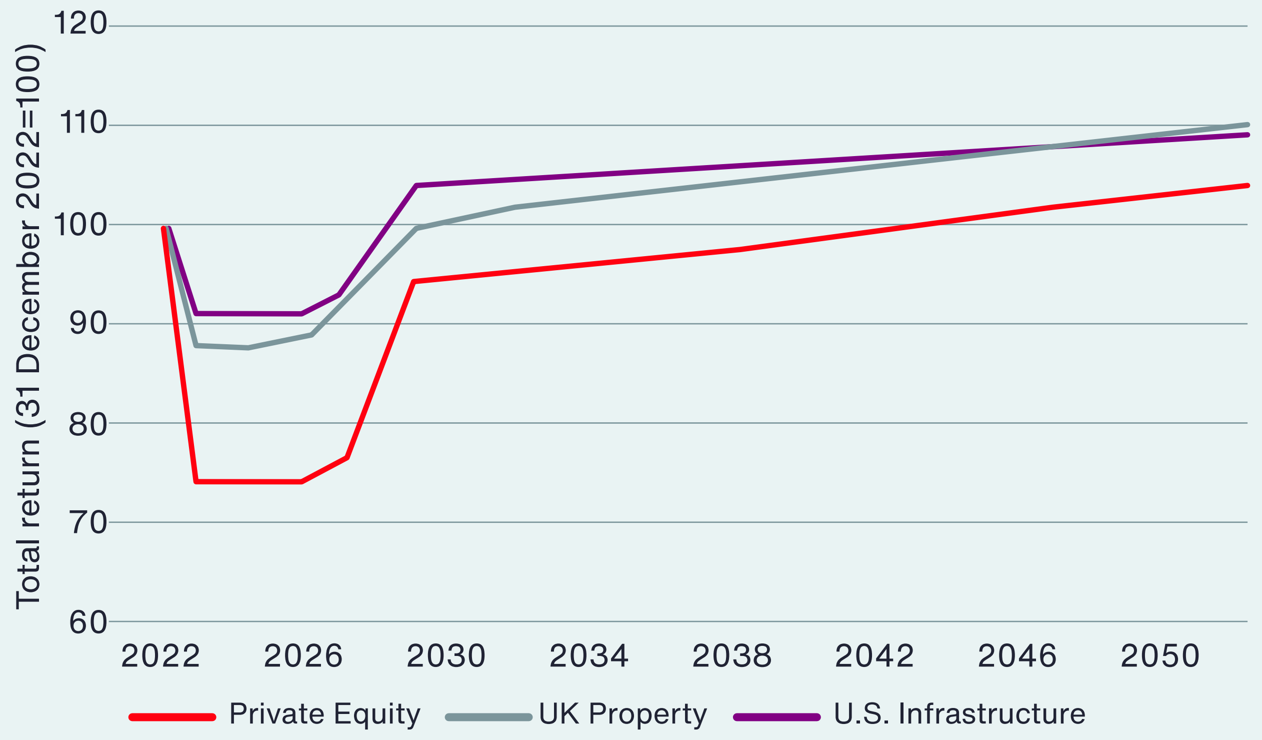
Relative to the base case



Source: Aon

Orderly transition returns

Relative to the base case



Source: Aon

3. The PRI and reporting guidance for asset owners and asset managers

The PRI has a reporting framework for its membership which offers valued guidance in terms of responsible investment for investors and service providers. In 2021, the PRI introduced a revised reporting framework for both asset owners and asset managers and wanted analysis across all the Transparency reports which investors had fed back. This PRI therefore worked with Aon to assist them with the analysis of this feedback, in a series of two projects. Aon, having used the PRI data portal for analysis over a number of years, had a seasoned team, ready to undertake the analysis with a depth of expertise in navigating reported PRI data. Our analysis contributed to the updated 2023 PRI reporting framework, providing guidance for leading industry practices.

4

Case study

Working with the PRI to discover leading industry practices

Aim: To analyse asset manager and asset owner data for emerging trends

Aon fielded a team comprising of Aon's Responsible Investment team and members of the Aon Center of Innovation & Analytics (ACIA) who are based in Singapore.

The team undertook in-depth analysis and research to tease out the overriding trends for both investor types – asset owners and asset managers.

The work included both qualitative and quantitative analysis of the dataset to identify insights among the signatories in the areas of responsible investment policies, climate, and also selection, appointment and monitoring of asset managers for asset owners.

Natural Language Processing (NLP) techniques were applied to identify trends/themes from senior leadership statements and enabled us to analyse, slice and dice, large sets of data in a meaningful way across distinct factors.

Statements from the top

Asset Managers: The most cited motivations for pursuing responsible investment are:

- Long-term value creation, financial returns and performance, as well as processes such as due diligence.
- Climate change is the most common area investment managers say they have made recent progress on, while Diversity, Equity and Inclusion also stand out.
- In looking ahead, investment managers talk about improving their due diligence processes and focusing on climate change-related disclosures and reporting.

Asset Owners: The most cited motivations for pursuing responsible investment are:

- Long-term value/returns, risk management, opportunities and Fiduciary duty.
- Climate change is the most common area asset owners say they have made recent progress on, although few are thinking about a "just" transition.
- In looking ahead, asset owners talk about increasing the breadth and sophistication of their ESG integration, measuring and reducing greenhouse gas emissions and mitigating climate-related risks.

Source: PRI and Aon

Outcome

The PRI has published on its website both reports, and comments on the analysis and the value of the PRI reporting framework here.

The asset owner study can be found here: Inside PRI data: Asset Owner Action and the asset manager study can be found here: Inside PRI data: Investment Manager Practices.

Aon believes that the work done by the PRI in partnership with Aon, offers needed transparency to asset owners to see how approaches are evolving to manage ESG risk factors and strengthen responsible investment governance.

"When doing this analysis, we were delighted to see that leading practice can be found among investment managers across the globe – in Africa, Asia, Europe, North America and Oceania – showing that location is not a barrier to excellence in responsible investment."

Tim Currell, Head of Investment, International Wealth, Aon

"Instead of putting optimised short-term returns first and foremost, most investors are prepared to understand that investing for the longer term does not align with beating benchmarks on a quarterly basis."

Mette Charles, ESG Research Lead, Global Investment Practice, Aon

4. Aon pioneering cost benchmarking

Last year, Aon reported on the importance we place for cost transparency on behalf of our clients. Aon is keenly aware of the need for value and in previous years, had engaged with the PLSA, participating in cost transparency exercises to help bring about greater clarity with respect to value. Costs are an important aspect of investment manager delivery. The fees managers charge reward performance but should not be allowed to erode capital beyond value.

These considerations led to Aon's Cost Transparency team undertaking cost monitoring exercises.
An example of which was a broad cost monitoring survey, surveying over 260 pension scheme trustees two years ago, information shared with the FCA. Market data significantly understates the potential savings available to pension schemes.

However, more reliable data can now be collected via the FCA's cost transparency initiative (CTI). Under the CTI, cost data is available in a clear and comparable manner, thus enabling fee benchmarks to be created. This sheds new light on the charges asset owners are receiving and creates significant potential for fee renegotiations, bringing benefits for pension investors.

Case study

Understanding the value of cost benchmarking

Aim: Reducing client fees

Over 2022, we built up an extensive benchmark data base, enabling us to benchmark our client's costs and using the CTI data, we can now more accurately understand the correct price for fund management charges across asset classes, a task which previously had been challenging.

Questions we ask

- Where can the scheme save money by negotiating lower costs?
- Are any asset managers overcharging the scheme?
- Does benchmarking show that Fiduciary responsibilities are being met for scheme members?
- Does above average cost translate to above average performance?
- Is there a correlation between mandate size, AUM and the fees charged? What are the inflexion points that are most relevant to the scheme?

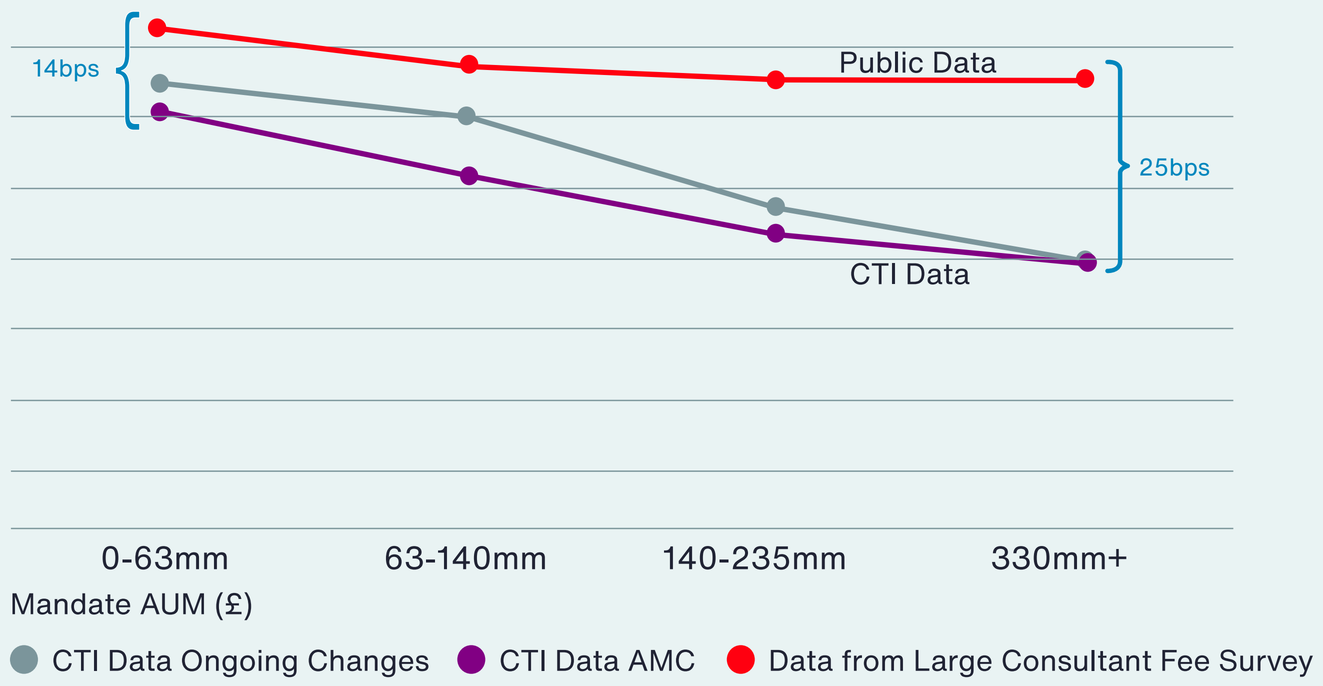
It is clear to us that significant value can be realised through establishing the correct fees. This work will do much to promote a well-functioning investment market where Aon can help our clients benefit from sustainable value.

What did we do in 2022?

Aon has become a pioneer in fee benchmarking for its clients. This year our continued partnership with ClearGlass, a specialist data and analytics firm, worked to create custom benchmarking reports for clients in order to forensically assess value for money, and provide quantifiable evidence to support fee negotiations with asset managers.

As part of the FCA's CTI, ClearGlass collect detailed fee data directly from asset managers, on behalf of asset owners. Benchmarking this, allows us to compare fees across asset classes and understand if they are overpaying or underpaying relative to the market and performance. This detailed value assessment will identify mandates where fee savings can be made.

Paying a fair price:



Source: Clearglass Analytics

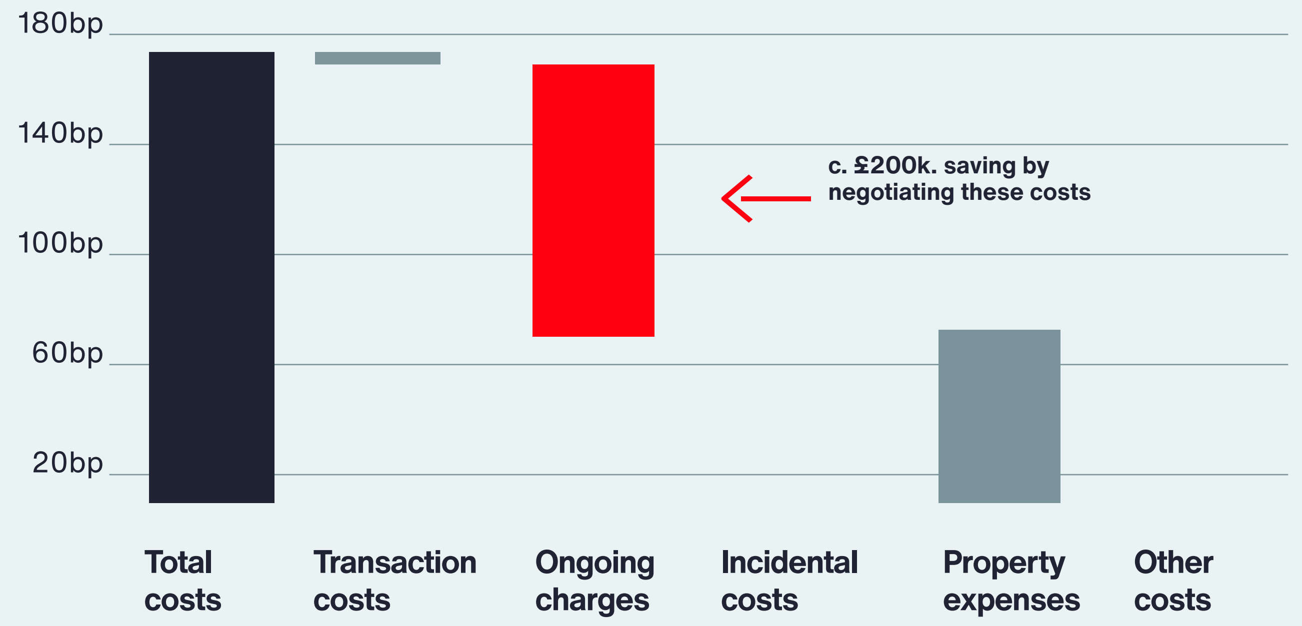
Outcome

As a result of our cost benchmarking, Aon has made significant savings on behalf of our clients and improved overall outcomes. One particular pension scheme achieved significant fee reduction on a property mandate. Below we illustrate where a saving of ca £200k was made on the mandate which had previously paid fees well above the market average for similar mandates in the asset class. Aon took the information to the manager, who then agreed to a significant discount. Over the remaining lifetime of the scheme, the mandate will continue to make significant savings.

How we have achieved investment fee savings on a property mandate:

Expenses breakdown:

As a percentage of AUM



Fees vs net performance

Higher fees, lower performance	Higher fees, higher performance
Lower fees, lower performance	Lower fees, higher performance

Property Review
Which manager(s) to add funds to?

→ **Assessment**
Comfortable with all managers from investment perspective.

→ **Costs**
One manager an outlier on costs, negotiate or disinvest or top-up.

→ **Result**
£200k saving achieved.

Process took less than three months to complete

Aon is continually using our data base and information to identify targets for renegotiation. After eighteen months of benchmarking data being available, Aon has renegotiated asset management fees for a large number of pension schemes, seeing over £1m in savings to date – and this figure continues to grow.

Aligning our investments and advice

We believe that markets do not currently adequately price-in ESG risks and therefore evaluating levels of ESG integration within strategies is needed. Encouraging capital towards managers that explicitly take ESG considerations into account will, over time, improve the pricing of ESG risk in markets more broadly.

Aon aligns its investment and advice through the solutions it brings to clients and we Illustrate some of these approaches below. In Principle 7 of the report, we also describe a new lens we are using for some solutions in order to focus on the responsible investment impacts achieved for better social and environmental outcomes.

Aon is driving positive change through our fund solutions and enabling clients to generate real world impact on the most significant social and environmental challenges we face.

Aon's approaches to responsible investment strategy implementation

Manager assessment, selection and review	Responsible investment solutions	Impact investment team	ESG-integrated delegated solutions
ESG ratings – these reflect our view of manager levels of ESG Integration at strategy level **Engagement programmes:** Monitoring active investment stewardship behaviours, taking account of ESG engagement, voting and collaboration to achieve best practice.	**Equity:** Established product set – market innovation focused on index based and impact equity **Fixed income:** Broad based product development with heightened impact focus **Liquid alts:** Growing set of opportunities across the risk/return spectrum **Real estate:** Housing/Aged care specialty and diversified approaches **Infrastructure/private equity:** Product innovation with current energy transition focus.	Launched early in 2022, Aon's impact investing solutions across asset classes, bring solutions to clients designed to tackle specific environmental and social challenges. This is described in more detail in Principle 7 of the Code. Aon offers a global equity impact fund, a sustainable multi- asset credit fund, a global equity climate transition fund addressing climate we have set a precedent for incorporating ESG into the private debt market.	Access to pooled funds that incorporate ESG factors into their investment processes.

Examples of new funds which Aon's Manager Research team have brought to clients over the year:

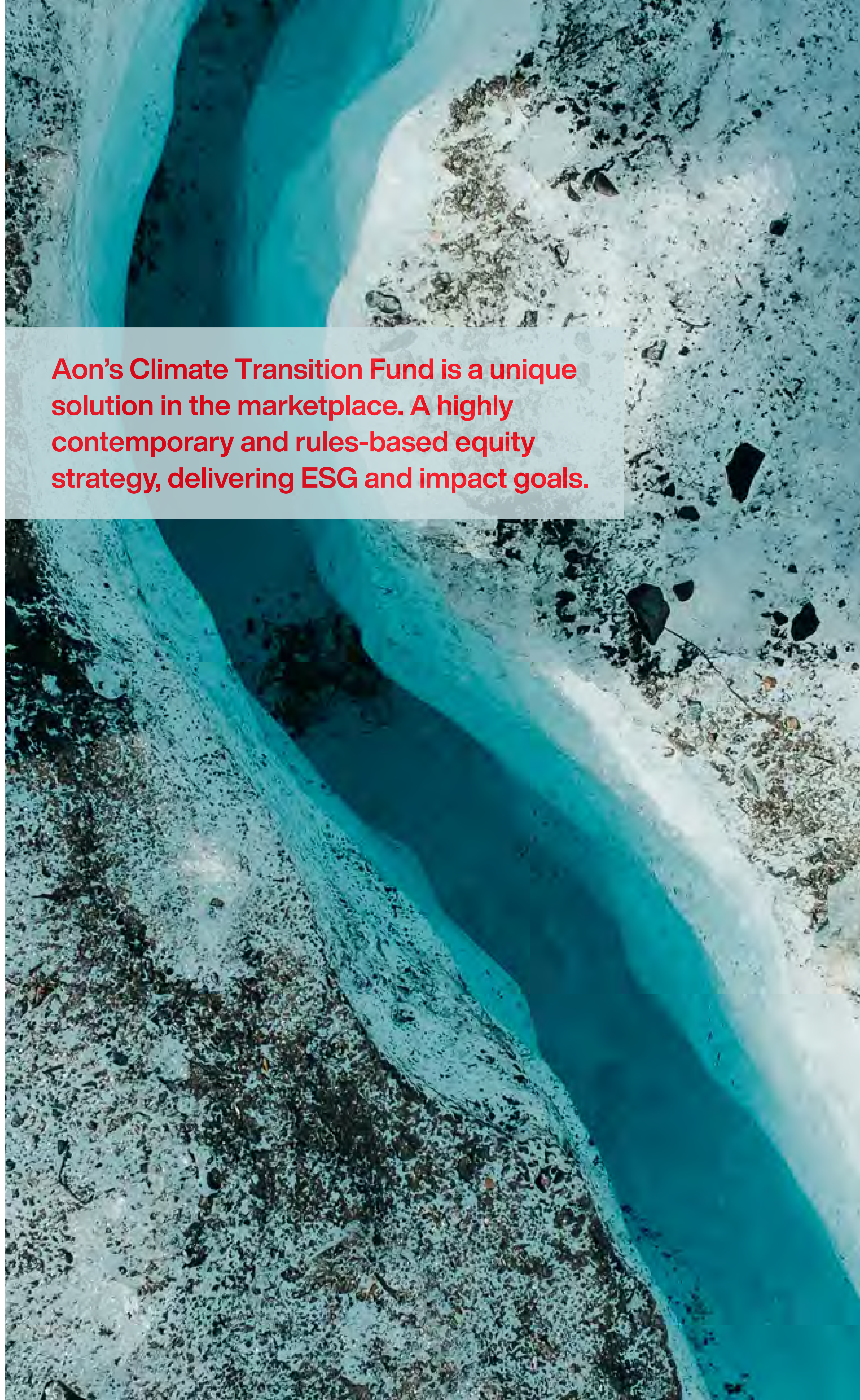
1. Climate transition fund

Early in the year, Aon's MasterTrust and group Personal Pension Plan seeded a new fund which Aon had developed with one of its recommended global equity managers, a climate transition fund. Aon had identified a gap in our overall equity product offering for clients needing to invest in a passive equity solution with strong ESG impacts.

The strategy acts as a replacement for vanilla market cap passive exposure with an expected tracking error of <1% compared with the MSCI World. We believe the solution is attractive for clients seeking low governance and passive-like equity solutions while delivering on Net-Zero commitments.

In summary, the fund will have a similar risk-return to the benchmark, low tracking error and turnover, lower carbon intensity than the benchmark and management fees similar to a passive strategy. Exposures will be made to companies that are likely to decarbonise over time in line with Paris targets and whose revenues are aligned with selected UN Sustainable Development Goals related to health, clean energy, decent work, responsible consumption and production, and climate action. Engagement is one of the key parts of the process, with the manager's undertaking both corporate engagement and aligning voting practices.

> **"Our members want to protect their investments from the effects of climate change and to make a positive social impact, as well as supporting the transition to a low-carbon economy in a sustainable way. This fund will help them to do that"**
>
> Joanna Sharples, CIO, Aon DC Solutions



2. Energy transition funds

Many opportunities for energy transition have presented themselves in financial markets following the Inflation Reduction Act in the U.S. The Act resulted in regulatory clarity and spurred investor sentiment to monetise a variety of opportunities in the world of energy transition. Over the year, Aon has identified managers who we believed have the skill to identify opportunities across energy sectors such as renewables, storage, clean fuel and carbon solutions. The long-term market fundamentals and growth outlook for energy transition remains strong and Aon is keen to help our clients navigate what are complex market dynamics and capitalise on new opportunities. This serves to meet their demand for impact investing and channels capital to help deliver a lower carbon world.

3. Regulatory carbon credits

Aon has been exploring investment opportunities in regulatory carbon credits, also called carbon allowances.

The price of carbon allowances – which are tradable instruments – is expected to benefit from the tailwinds of climate regulation. Investments in the space support the success of Cap-and-Trade programs (e.g., by providing liquidity and facilitating price discovery) and their environmental and social objectives (e.g., proceeds from the sale of carbon allowances in California are partly used to finance green projects in disadvantaged communities).

Over the years, our Manager Research team has met with several managers and assessed different approaches to accessing the space, an activity that resulted in the approval of a fund solution, and additional research work in the pipeline. We expect to see interest from clients looking to add diversifying exposures with strong links to the decarbonisation theme.

Aon's Manager Research team has also initiated research of voluntary carbon credits, a separate market segment we expect to cover more closely in the future.

4. Social housing fund

Unlike owning the shares and bonds of a large company, where direct influence on the issuer or company can be limited, owning physical real estate allows a fund manager to make a meaningful impact on the environment, local communities and the wellbeing of workers and/or residents. This is achieved through the construction of new properties to the highest wellbeing and environmental standards, and by repurposing obsolete buildings through intense asset management to the same high credentials. Over 2022, Aon's Manager Research team for Real Estate, met with a wide range of managers and decided to work closely with a single selected manager to launch a new fund that shared our preferred view for a real estate impact fund. This fund is a diversified rather than a sector specialised fund, a strategy that has minimised its carbon footprint by repurposing buildings rather than rebuilding, which put the needs of local communities at its heart and had best in class independent ESG data collection, monitoring and results verification. Importantly, in our view this ESG approach is the key driver to generating returns. To ensure alignment with its ESG goals, we negotiated that the investment manager's performance fee had a material component linked on the success of its ESG initiatives.

2022 Professional Pensions Awards for Aon!

Impact Manager of the Year, a new category introduced this year.

Factor Investing Manager of the Year, an award Aon has held two years running.

Aon was very proud to have won these awards, in particular the new award of Impact Manager of the Year. This category rewards the best demonstration of how positive social or environmental impacts have been created in a strategy.

Our submission included lots of our activities across Wealth Solutions and the Aon Global Impact Fund was the foundation of our submission. The fund actively contributes to the UN Sustainable Development Goals, giving our clients the opportunity to make a positive impact on people and the planet through their investments, while generating healthy returns.

4 Outcome 2022

Aon has a strong role to play with regard to our day-to-day business is very much concerned with looking to mitigate market and systemic risks as they present themselves. Aon is good at rising to the challenges, coordinating teams, working together as one firm in order to navigate new forms of volatility, rethinking access to capital, and maintaining market integrity.

The activities and case studies above, are our outcomes. We have illustrated the many ways Aon has worked to inform and advise clients, shaping better investment decisions over the year, demonstrating the outcomes Aon has achieved for risk mitigation. All of our activities support the promotion of well-functioning investment markets.

Principles 5-12

Investment approach

Principles 5-12
Investment approach

Aon has reported on Service Provider Principles 1-4 on behalf of our Advisory business in the UK demonstrating how our business, teams, oversight functions and activities are organised. Some aspects of these activities also necessarily draw on shared global activities. Much of this approach will apply also to our Fiduciary business because our responsible investment approach, beliefs and values are shared as a global firm.

Principles 5-6 refer to how Aon in the UK supports client investment and stewardship generally and applies to both UK Advisory and Fiduciary businesses.

Principles 7-12 is reported on behalf of our UK Fiduciary business, and also serves to illustrate our approach for UK Advisory clients.

Reporting in this way eases our reader's burden of duplicating responses to the principles for both sides of our business – Advisory and Fiduciary in the UK.

5

Principle 5

Review and assurance

5

Principle 5
Review and assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

As set out under Principle 2 of the report, our responsible investment governance structures ensure effective senior oversight, locally and globally, over our responsible investment activities.

Additionally, we have regulatory and legislative obligations for review and assurance. Our clients and their advisors for example, lawyers also review, assure and assess our policies, processes and practices from different perspectives. This leads to a continuous process of checking and improvement. In this section, we provide examples of some standard processes which permeate across our business as regards internal governance with respect to responsible investment and investment stewardship.

Overall assurance of compliance with processes

Aon's regulated entities have regulatory and legislative obligations which are established and enforced by relevant regulatory authorities. Consequently, all entities must establish, implement and maintain a systems and controls framework sufficient to meet these obligations. It is the responsibility of the Compliance Assurance team to provide assurance to the senior management of Aon UK on the operation of the systems and controls frameworks all entities have in place to ensure that they consistently meet their obligations and deliver good customer outcomes. To this end, the Compliance Assurance team carries out a risk-based programme of reviews to provide feedback on where the local systems and controls may need strengthening but also to confirm where they are operating sufficiently.

Aon UK has a monitoring programme which focuses solely on its Wealth related business. The programme is executed annually and includes activities that focus on and address key regulatory risks. The programme measures the business against the FCA's regulatory Principles for the conduct of business which aligns to the view that the Principles are the foundations of good conduct and should be used as a way of overseeing and assessing whether a firm's conduct remains appropriate.

The business effectiveness against each Principle is measured on a half yearly basis as a combination of weighted outcomes from a series of monitoring topics and activities. By weighting topics and reporting on the outcomes, the programme produces a dashboard of management information to the leadership team which diagrammatically identifies any areas of weakness and under scrutiny can evidence where issues have arisen to assist decision making on improvements where needed. The programme is reviewed and re-calibrated with the leadership team annually, building on the previous year's experiences, revised risk appetite, and compliance monitoring outcomes. The method also allows flexibility for the leadership team to direct compliance where risk appetite determines an enhanced focus.

Manager due diligence

Aon's Operational Risk Solutions and Analytics (ORSA) team is a stand-alone global function independent of Aon's investment teams. Since 2015, all newly buy-rated strategies in any asset class have been through a segregated operational due diligence (ODD) review conducted by the ORSA team. This approach supports Aon's belief that comprehensive operational due diligence prior to investment is one of the most important processes that can be implemented from a risk recognition and mitigation standpoint; Aon has made a direct commitment to focus resources here. We believe this approach is industry-leading and a commitment that many of our competitors have not made. We institute ORSA's standard pre-investment operational due diligence coverage across our Advisory and Fiduciary platforms and across managers of both traditional and alternative investment strategies.

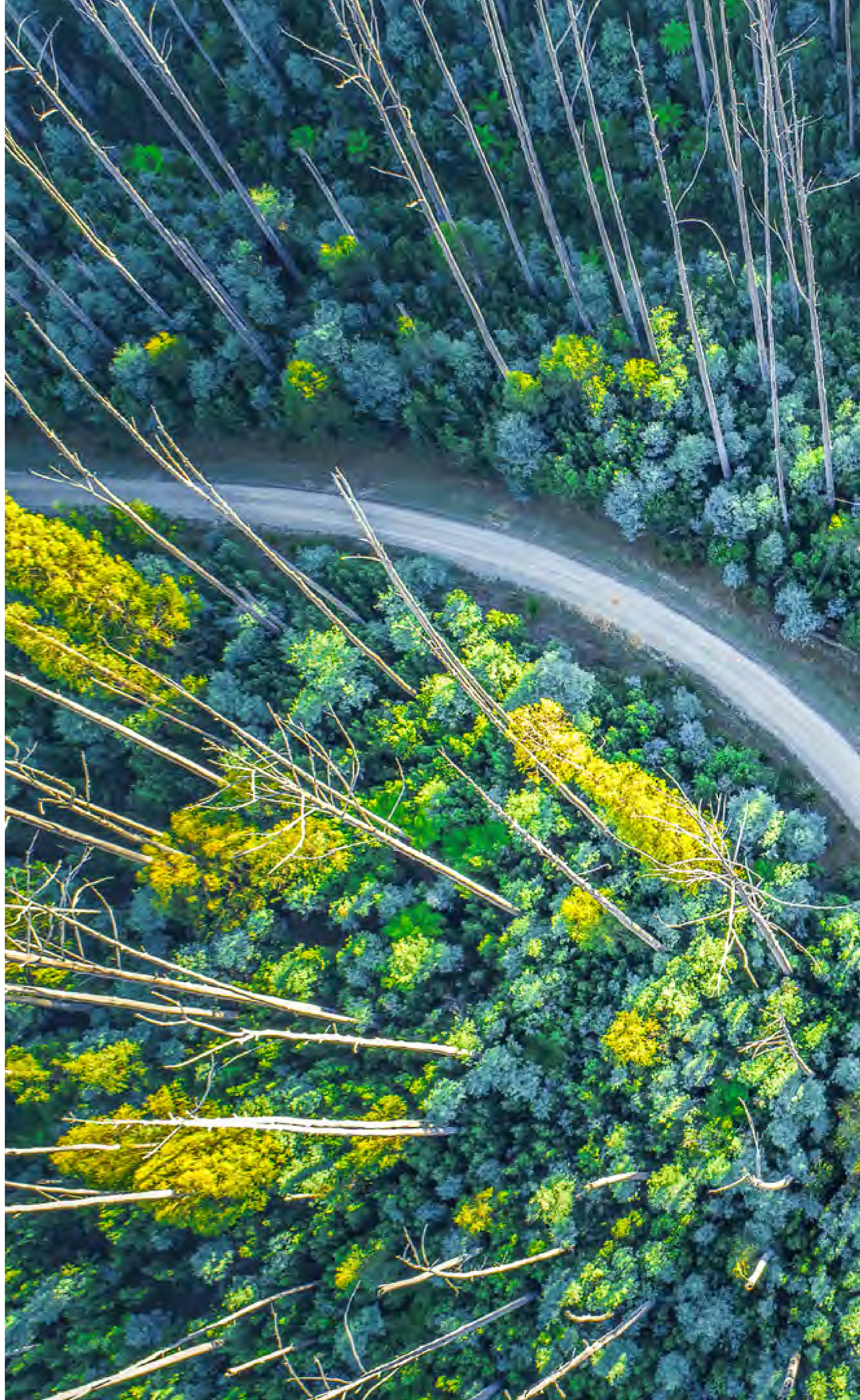
In a shift to what has traditionally been a qualitative approach to include analytical insights, ORSA formed a partnership with eVestment, one of the world's largest providers of financial information, to further scale Aon's Operational Risk IQ platform. The platform brings efficiencies and enables ODD benchmarking and manager comparisons across a variety of operational factors.

During the global pandemic, with nearly all due diligence being conducted remotely, it became apparent that access to quality ODD data was critical. The platform provides Aon and its clients with the ability to profile potential operational risks within an investment manager's business through ODD IQ reporting. Results of these reports help the ORSA team to monitor managers periodically and also prioritise managers for full re-underwriting.

We believe that our ability to create consistent bottom-up risk-specific reporting across our manager platform, is unique among our competitors. In addition to its ODD IQ reporting, the ORSA team routinely receives and reviews news items associated with specific managers in regard to changes or limitations in a manager's operating environment.

Policy review

All policies are 'owned' by a named group within Aon — for example our Conflicts of Interest Policy is owned by a Conflicts Group, and our Responsible Investment Policy is owned by our Responsible Investment Committee. Each group is responsible for maintaining and updating the policy to ensure that it remains 'current'. For example, our Conflicts of Interest Policy and Responsible Investment Policy were updated in 2022 and 2023 respectively.



2022 ESG reporting policy for Aon Investments Limited (AIL)

Our Fiduciary business articulates its responsible investment approach to clients in a document called "Approach to Responsible Investment" and we have a complementary ESG reporting policy.

As reporting and communication of our responsible investment activities has grown, our Fiduciary business has set down the standards it expects of reporting, and by association, the standards expected on documentation or data from providers. The ESG reporting policy formalises for the Fiduciary business the general standards expected of itself and others.

The policy aims to provide a clear ESG reporting governance framework to successfully meet ESG reporting obligations and mitigate business risks stemming from ESG disclosures.

The policy establishes the AIL ESG reporting committee (the Committee) was established with three defined aims and responsibilities:

1. To ensure AIL meets its regulatory obligations, and the regulatory obligations of the Funds it provides investment management services to ("the Funds"), on ESG-related reporting and disclosure.
2. To set a clear division of responsibilities and accountabilities to implement ESG reporting.
3. To act in an Advisory capacity to AIL senior management.

The AIL Board retains ultimate accountability for AIL's ESG reporting, but the day-to-day decision making is delegated to the Committee.

Key teams are represented on the Committee and all representatives are charged with the responsibility of having expertise and accountability for deliverables and for assurance, and the need to review for technical accuracy and regulatory compliance.

Current representative teams are listed below:

- Legal team
- Compliance team
- Risk team
- Defined Benefit and Defined Contribution investment teams
- AIL Operations team
- Responsible Investment team

AIL's reporting principles

AIL aim to provide reporting that is transparent, verifiable and decision-useful in the following ways:

- Support for clients in meeting their own regulatory disclosure requirements within a clear framework.
- As much as possible, to align with guidelines and recommendations published by widely recognised global (and regionally-relevant) bodies and internal working groups, For example: the Task Force on Climate-Related Financial Disclosures (TCFD), Principles for Carbon Accounting Financials (PCAF), Principles for Responsible Investment (PRI), Financial Reporting Council (FRC), International Sustainability Standards Board (ISSB), Financial Conduct Authority (FCA), Pension and Lifetime Savings Association (PLSA), Task Force on Nature Related Financial Disclosures (TNFD), Central Bank of Ireland (CBI) and Aon's Climate Standards Working Group (CSWG).
- Strive to reflect best practice.
- Review and re-evaluate processes and third-party providers to hold ourselves and third parties to high quality reporting standards.

Our approach is reviewed on an ongoing basis ensuring our processes remain in line with industry developments and best practice guidance. Our approach ensures our portfolios and underlying managers take account of financially material ESG risks and opportunities, providing everything necessary for AIL and our clients to comply with regulatory obligations.

Our operational and business environments are always evolving, so review and assurance is a continuous process. Below are some examples of outcomes related to our review processes for responsible investment:

1. **Responsible investment governance structure**

In the world of responsible investment, pressing issues emerge rapidly and their governance must be recognised by our policies. We need to ensure that local groups include senior decision- makers who are responsible for formulating and overseeing our response to issues arising.

Recognition of this results in:

Strong local responsible investment committees

All committees reporting up to the Executive Committee, described below under Fiduciary Controls, to ensure consistency

Inclusion of senior decision-makers to accelerate decision-making powers.

2. **Implementation of policies to supplement our overarching global responsible investment policy**

Having formal policies which outline the general approach and commitment of our team to responsible investment, helps to build trust and offer assurance of quality, standard and accountability.

Our Global Responsible Investment Policy was updated in Q1 2023 and oand details provided in our Approach to Responsible Investment document are provided overleaf.

Fiduciary controls

External and internal audits of our Fiduciary Management business

Our process controls for our Fiduciary fund management are audited annually by Deloitte and their SOC1 reports are available on request. In addition, there are separate oversight committees including an Executive Committee, Risk and Compliance Committee and the Board together with an Operational Risk Committee and Investment Risk Committee (both of which report into the Risk and Compliance Committee). Fiduciary fund management is also overseen by Aon's Internal Audit department and Compliance function. We regularly review the roles of our various committees and our governance structure.

Approach to responsible investment for fiduciary services and delegated portfolios

Our Fiduciary Services portfolio management process aims to integrate ESG risk factors and opportunities into our delegated portfolios using various methods, including strategic asset allocation, portfolio construction and our Net-Zero commitment.

Steps we have taken to incorporate ESG into our processes include:

- AIL has formalised its ESG integration framework to ensure ESG risks and opportunities are monitored effectively.
- Our Delegated Portfolio Committee approved a minimum ESG rating threshold for portfolio inclusion.
- Increase the level of manager engagement with respect to ESG integration and stewardship undertaken within underlying strategies.
- Increase ESG specific engagements within underlying delegated managers for our Fiduciary services.
- Improve our transparency through the production of an AIL annual stewardship report.

Our approach to responsible investment is reviewed on an ongoing basis to ensure our processes remain in line with industry developments and align to the Principles for Responsible Investment (PRI) framework, the UK Stewardship Code and the latest regulations issued by the Department for Work and Pensions.

AIL's review of approach

When a new piece of legislation, or ideas for process improvements, are presented, we identify areas of our approach that may need to change. When any policy changes are made, these are shared as appropriate with our clients and relevant colleagues, who are educated on the new process.

In Principle 1, 2,7 and 8 of the report, we have described a number of developments since our last 'Approach to Responsible Investment' document was published. This includes our Net-Zero commitment, the evolution of our Engagement Programme, our ESG ratings criteria and the launch of both our impact equity and sustainable multi-asset credit strategies. We will be updating the document in the coming year.

Our internal controls for updated regulations are as follows:

- ESG specialists within the Fiduciary Management team, with incentives tied to ESG integration, are responsible for determining any new course of action.
- These team members work with colleagues in the Responsible Investment and Manager Research teams to ensure process changes are aligned with industry best practice and meet all regulatory obligations.
- The team members carry out a formal responsible investment framework review process on an annual basis, where they seek and act upon feedback from the wider business and third-party evaluators.
- Once prospective changes have been agreed by the ESG specialists, key stakeholders from the Fiduciary Management business are consulted. Any decisions that may be required as a result of regulatory requirements are made by the relevant portfolio managers with oversight from Aon's Delegated Portfolio Committee, which is formed of experienced investment professionals from across our Fiduciary business, Manager Research and Asset Allocation teams.
- Underlying fund exposures - in order to be eligible for inclusion in our Fiduciary portfolios, all our underlying funds will have gone through our rigorous manager research selection processes and a formal voting process with ongoing monitoring and review. Our underlying manager funds are also subject to the operational due diligence analysis and checks, described above by our ORSA team.

ESG data collection services

AIL has appointed State Street Global Services for ESG data collection services with a view to producing consistent data and metrics and in support of AIL's TCFD and SFDR regulatory ESG reporting requirements.

The data provided by State Street's truView application will feed into Aon's RI-360i ESG reporting as described in Principle 2 of the report.

Activities 2022

Standards

a) Launching a new working group:

The Climate Standards Working Group (CSWG)

In earlier years and in Principle 1, we have reported our UK Fiduciary's commitment to a Net-Zero target by 2050. While there is a robust body of guidance in the market, and Aon aligns closely to the TCFD recommendations and guidance issued by the Department for Work and Pensions (DWP), we recognised the need for internal assurance that the standards we worked towards reflect best practice and are consistent.

The world of carbon data and emissions is evolving quickly, this merits diligence and transparency where assumptions are necessarily made. In 2022 therefore, to build our proposition for Net-Zero, we established our Climate Standards Working Group (CSWG).

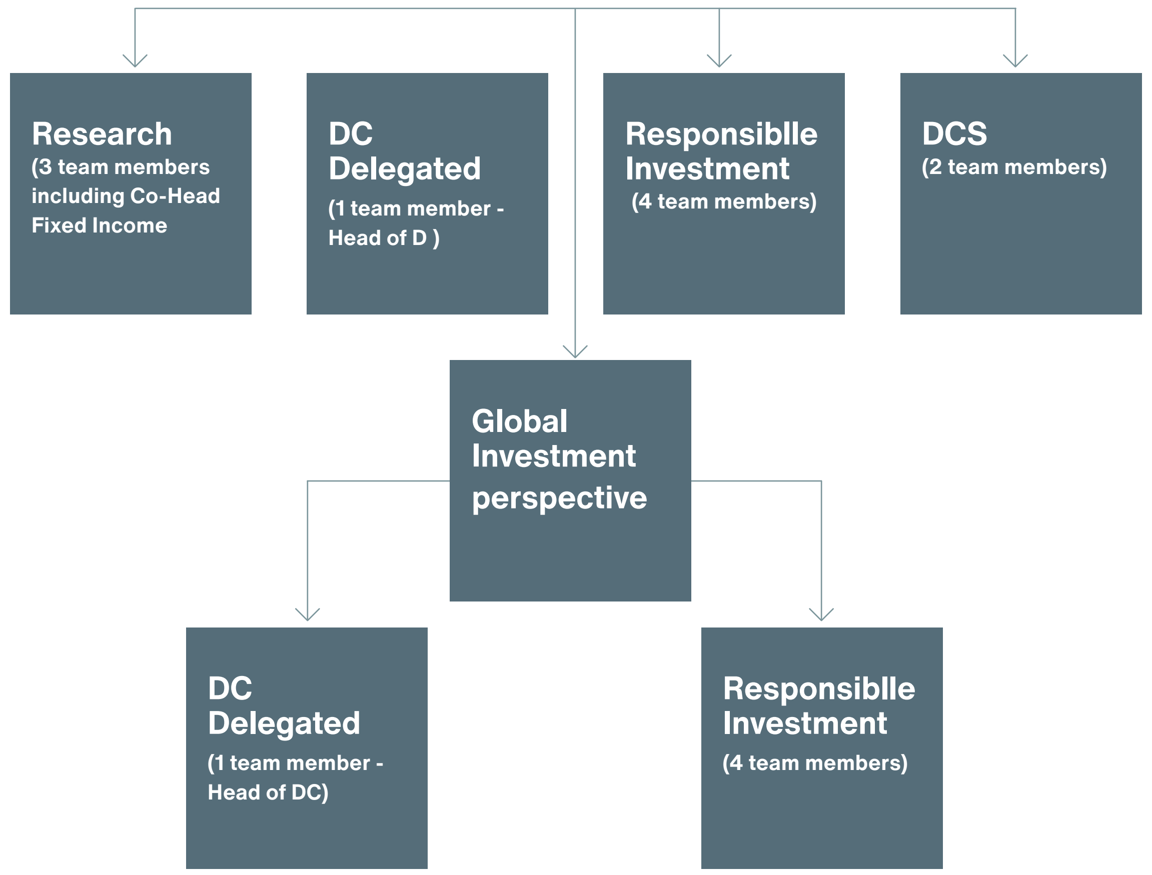
The current priority of the group is to support the Net-Zero commitment made on behalf of our UK Fiduciary assets, in terms of strategy and reporting, and to focus on the consistency within emissions data for the most commonly invested asset classes.

The CSWG's objectives

- **Establish consistency:** Establish how Aon should measure emissions across asset classes and ensure that we do this consistently
- **Understanding client need:** Consult internally with relevant stakeholders to understand client needs
- **Influencing standards:** Engage externally with industry groups and other relevant stakeholders to influence standards and adoption where appropriate

In order to ensure exposure to different market and business viewpoints, the group membership is comprised of team members from across the practice and is accountable to the ESG Reporting Committee.

Aon's Climate Standards Working Group team structure



In terms of development, the group will look to meet any further needs in terms of approach and methodology for carbon data measurement and management, standard setting and collaboration with external parties.

b) Pushing back on greenwashing

Greenwashing became topical over the year as claims made by some industry players had been deemed in public, as misleading or exaggerated with respect to promoted ESG credentials.

In a bid to clamp down on greenwashing, the Financial Conduct Authority (FCA) launched a consultation in late 2022, proposing a package of new measures including investment product sustainability labels and restrictions on how terms like 'ESG', 'green' or 'sustainable' can be used. The measures aim to build trust and integrity in ESG-labelled instruments, products and the supporting ecosystem.

Aon participated in the consultation and stated agreement with the principle of having an 'anti-greenwashing' rule. Aon believes that a clear and mandatory rule should help address some of the current challenges faced by investors in determining the true purpose and risk profile for a fund.

There are many different interpretations of what sustainability is and what an investor can expect from a fund. It is paramount that the 'anti-greenwashing' rules serve to ensure the investor can invest with confidence and not be surprised at a later date by forms of style-drift, missed opportunities or misdirected marketing.

Given a fund's objective, all claims in any related document, should be true to purpose, aligned in scope and intent with both manager and fund, easily verifiable and meaningful to the reader. In laying out a rule, the expectation should be that the assurances themselves, be reviewed and refreshed as necessary.

FCA's proposed consumer-facing descriptions:

Sustainable Focus - Invests mainly in assets that are sustainable for people and/or the planet

Sustainable Improvers – Invests in assets that may not be sustainable now, with an aim to improve their sustainability for people and/or the planet over time

Sustainable Impact – Invests in solutions to problems affecting people or the planet to achieve real-world impact

We illustrate below with examples over the year, where Aon's Manager Research team have pushed back on manager ESG activities where we believe they are misleading. The investment managers we recommend, have ESG risk integrated into their investment selection processes – this is detailed in Principle 7 of the report. We have a standard when dealing in the market with other managers or products, and we have found instances where managers have risked falling short on these standards and on their own ESG-related claims. We give examples of this below and what we did about it.

Case studies

Engaging with investment managers for better investment standards

Aim: To ensure alignment between a fund's description and investment objectives

1. Within Aon's **Liquid Alternatives fund portfolios**, a number of strategies held within the funds had a "Limited" ESG rating (see details of our ESG ratings in the Principle 7 section of this report).

Why is this an issue? Within our Fiduciary business we expect, at a minimum, for asset managers to take appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.

Outcome: This led to a disinvestment of strategies with a "Limited" ESG rating within Aon's Liquid Alternatives fund portfolios.

2. Following further analysis of an ESG index designed by a U.S. index provider, it came to light that single stock risks were underplayed during discussions with the index provider.

Why is this an issue? We viewed that the majority of performance will be driven by single stock exposure rather than the ESG theme, as clients would expect.

Outcome: This led to the decline of further research on the ESG index due to inappropriate single stock risks.

3. Following analysis of the Investment team of an environmental solution provider, it became evident that there were a significant number of stocks with questionable links to the environmental theme - for example, banks and healthcare companies.

Why is this an issue? It is essential that solutions are properly aligned to their policy and objectives.

Outcome: Subsequently, the fund has been rebranded to a broader ESG-anchored strategy rather than an environmental solutions product. The decline of further research on a thematic environmental equity strategy due to inappropriate thematic alignment marketed by a major European asset manager.

4. ESG transition is a theme regularly deployed to defend many laggards beyond an acceptable level. We view such product development as a ploy for asset-raising, given the boom in market-wide asset growth for ESG related products.

Why is this an issue? We had an instance where ESG integration efforts were not robust when subjected to scrutiny by our Manager Research team .

Outcome: The decline of further research on a sustainable equity strategy marketed by a major Australian global manager. Subsequently, asset growth in this strategy has been limited relative to peers.

5. During a call on Net-Zero carbon emissions reporting and missing carbon data with a global asset manager, it became apparent that missing data was being grossed up to 100%.

Why is this an issue? Grossing up data can often skew the overall overall reported numbers on and leads to a lack of consistency in approaches.

Outcome: We encouraged dialogue and asked the manager to use sector proxies to account for the missing data.

6. During an Engagement Programme meeting we were discussing disclosure standards for the EU's Sustainability Risks and Principle Adverse Impacts reporting standards (SFDR).

Why is this an issue? Investors should be able to use the SFDR fund classifications for Articles 6, 8 and 9, to help them make choices for the level of ESG integration and impact, that they want to make.

Outcome: We agreed that one fund had been misclassified as an Article 8 fund and the fund, having no specific ESG objectives, was reclassified as Article 6.

Aon looks to provide comfort that we engage on behalf of our clients to ensure their financial assets are invested with integrity and as prescribed.

c) ESG data providers and oversight

Aon subscribes to the MSCI ESG Manager and Climate Labs platform and uses MSCI ESG scores and datasets to monitor and provide a look through of the ESG profile of investment products that our clients have exposure to.

MSCI also offers transparency with the provision of calculation methodology guides which Aon uses for reference. In this way, Aon's data teams are able to verify methodology and check consistency across the outputs which we report on.

Another data provider which Aon uses is eVestment (eV). eV provides Aon with reported data at both firm and product level in the form of questionnaire responses on topics ranging from investment/operational due diligence, ESG and Diversity, Equity and Inclusion.

Case study

Oversight of our ESG data providers

Aim: The improvement of ESG data outputs

Aon regularly performs independent reviews of MSCI's calculation methodologies, data quality as well as data completion and provides feedback from a practitioner's perspective. For example, Aon recently participated in a consultation session with MSCI to highlight issues of the adjustments made in the current ESG scoring methodology which resulted in products scoring the maximum possible score, for their overall ESG evaluation. This anomaly had occurred due to unforeseen strength is MSCI's underlying momentum factor. MSCI's scoring approach after consultation with its subscribers, has now been changed to accommodate the shifting relevance and impact of factors.

Outcome: Aon was able to not only deepen our relationship with MSCI and eVestment as industry partners in the area of thought leadership, we were also able to create an impact for the industry by pushing for higher standards in ESG data & reporting. With eVestment, our feedback was taken into consideration and the result was a revamped ESG questionnaire which comprises over 100+ new questions and was launched in January 2023.

d) Developing our client responsible investment reporting

The Aon Responsible Investment team manages and oversees our work helping clients gather the information required for their annual Implementation Statements (including Engagement Policy Implementation Statements).

If Aon considers the stewardship information provided by a manager to be lacking, the issues are either raised by the client teams through our Engagement Programme Reporting Tool (EPRT) process or raised directly with our Engagement Programme team.

The managers will be contacted either directly or via our Engagement Programme as appropriate and monitored at regular meetings with the manager to encourage improvements in their stewardship reporting. See Principle 11 for a case study where insufficient TCFD reporting data was delivered by a client's fund manager. The issue was escalated and we describe our action to remedy.

As part of our commitment to improving the quality of reporting we provide to our clients, we have enhanced our Implementation Statements to include an 'Engagement Action Plan'. This action plan sets out areas of stewardship reporting provided by managers where areas of improvement are identified, particularly where these areas are deemed to be behind any given manager's peers.

5 Outcome 2022

This allows our clients to engage directly where they have the desire to do so and keeps them fully informed of the support that Aon offers them in engaging with managers on their behalf.

The data Aon collects to complete Implementation Statements is aligned with the best practice in the industry, ensuring as far as is possible that voting information is provided in line with the Pensions and Lifetime Savings Association's due diligence questionnaire, and that engagement reporting in completed in line with the guide issued by the Investment Consulting Sustainability Working Group.

General outcome

Over the year, in terms of our activities, we have focused on standards and strengthening governance and oversight. We believe our processes are robust and we take care to ensure the reporting we produce is accurate and aligned to best practice.

We provide oversight of our data providers and are quick to respond where we see improvements can be made.

This coming year will see continued change as our processes evolve to enhance aspects of our client services for responsible investment and ensure the high standards we expect of ourselves. We look forward to reporting this next year.

Annually we participate in the Greenwich Associates Trust Survey, a survey undertaken across investors, seeking to promote trust within the industry and well- functioning markets. In the most recent Greenwich U.K. Institutional Investor Survey feedback provided to us, the survey found Aon to be strong in terms of client satisfaction, brand trustworthiness and a leader in terms of Fiduciary management.

6

Principle 6

Client and beneficiary needs

6

Principle 6
Client and beneficiary needs

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Our client base is predominantly long-term institutional investors, more specifically pension funds.

As we outlined in Principle 1, our business model is that we offer both Advisory and Fiduciary services. With respect to Advisory.

Aon is one of the world's largest investment Advisory firms with over £3.1tn of global assets under advice. Our UK Stewardship report focuses on assets managed or advised on in the UK where our UK DB Investment Advisory Assets total £245.9bn.

For Fiduciary, we provide Fiduciary management services in 15 countries globally for 674 clients with around £145bn in assets under management; of which UK DB Delegated Clients, Assets Under Management for both full and partial mandates comprises £14,172bn.

Understanding client needs

Seeking our clients' views is an essential part of our consulting process where we look to discover and develop our client's views as we guide them in the advice we give.

Both our Advisory and Fiduciary consulting processes seek client views in order to provide those frameworks and solutions best suited to client objectives. We do this in a variety of ways and the work is primarily led by our senior client consultants.

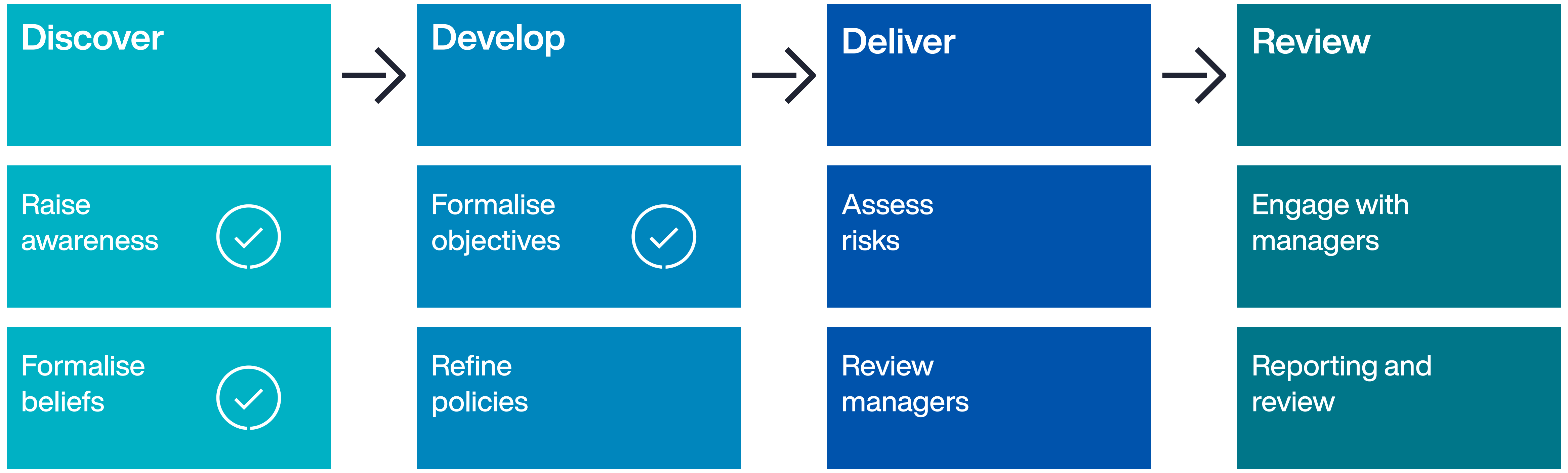
Examples of ways in which we seek client views, and optimise the value we provide, include:

Aon's ViewPoints survey

A key element to helping clients clarify their approach to responsible investment, is to take them through a 'Questions & Answers' survey, with a multitude of different questions – all seeking to understand the client's responsible investment beliefs and values. This is the starting point for many clients in terms of formalising their responsible investment approach.

To do this, Aon uses its proprietary online survey tool 'ViewPoints' followed by an interactive beliefs session to explore the views and preferences of trustees and other key stakeholders. Aon has a version of the tool specifically for responsible investment and using the tool, clients can develop their preferred investment strategy, whereby groups of participating trustees are asked individually to explore their own beliefs and values. This process is a component of our 'Discover, Develop, Deliver and Review' consulting framework.

Aon's responsible investment framework



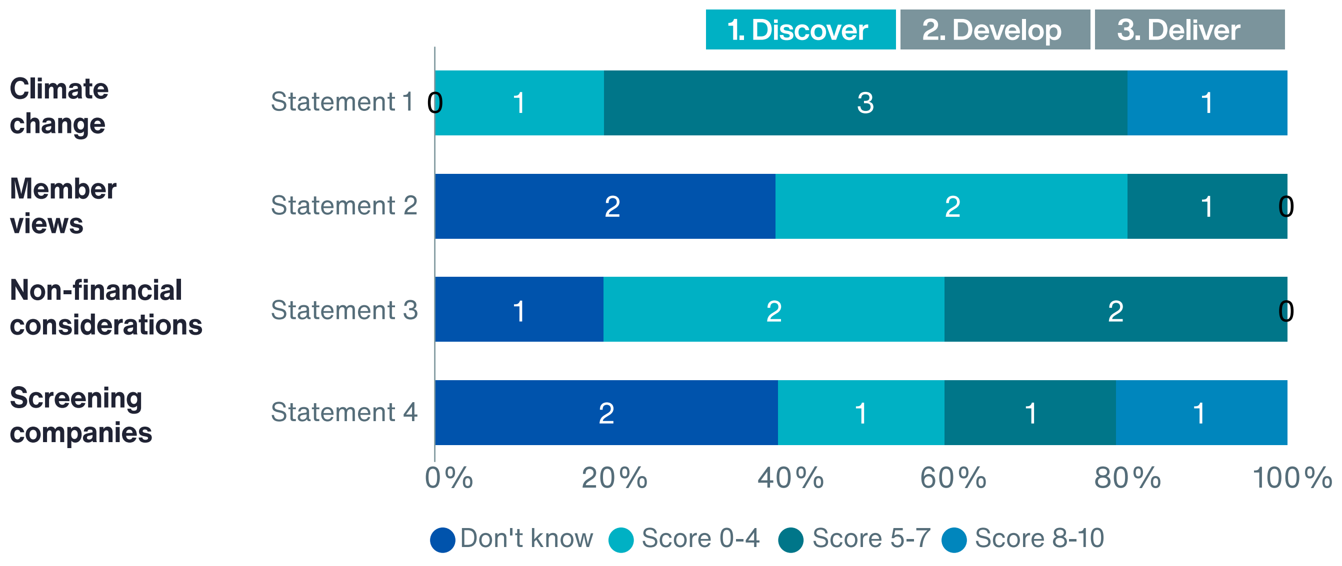
Exploring beliefs around responsible investing

ViewPoints question: Thinking about your perceptions around responsible Investment, please state your views with regards to the following statements:

Discover

The ‘Discover’ phase directly seeks to improve our Understanding of client’s needs. Examples of when we would use our ViewPoints tool include:

- As a tool forgetting to know a new client.
- Following changes / turnover within a trustee board.
- If there is a lack of direction and agreement on objectives amongst a trustee board.
- If there has been changes to scheme circumstances e.g., closure to accrual.
- To facilitate engagement with the sponsor.
- As part of a client promise exercise.



Develop

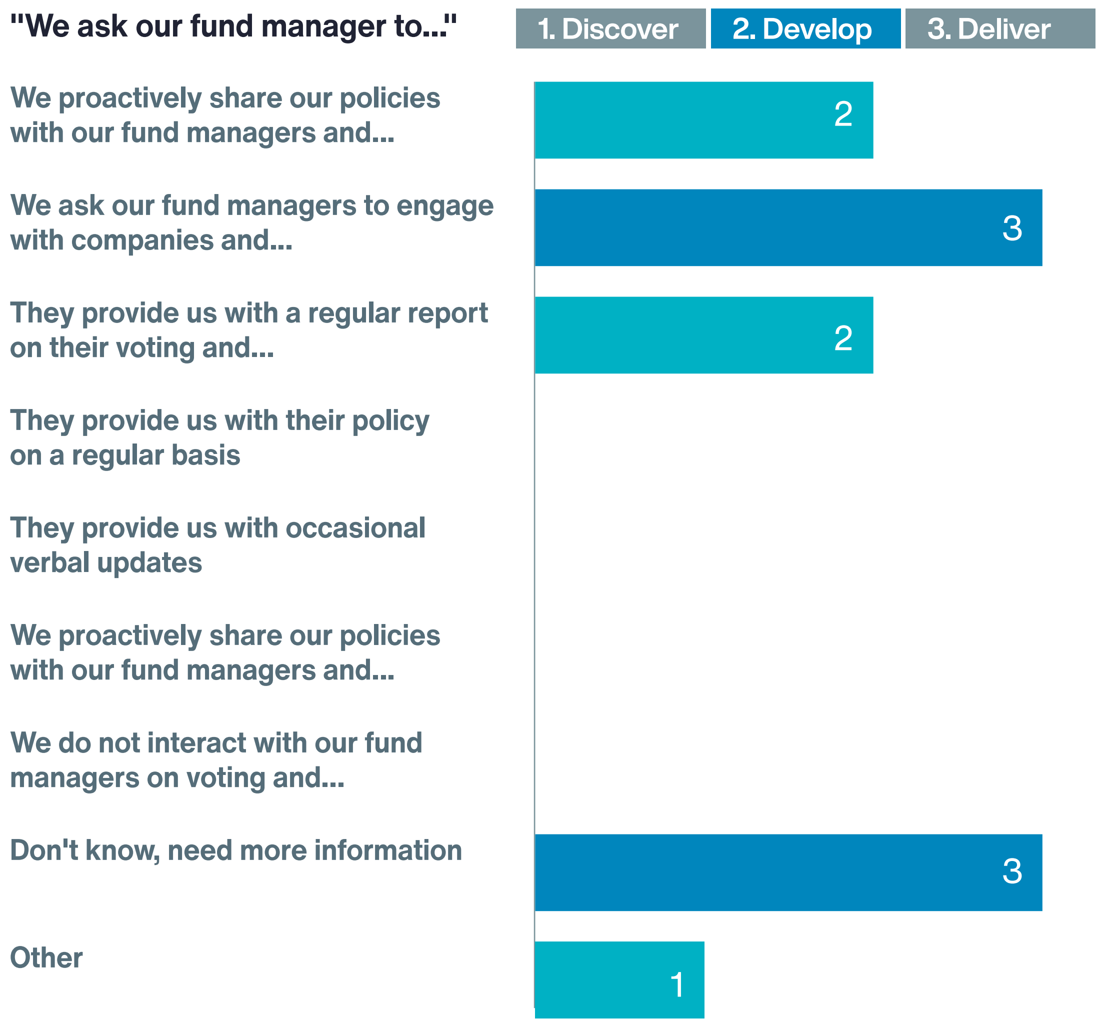
The ‘Develop’ phase would use the ViewPoints tool for four broad areas of the phase:

1. Clients need for further information and understanding of their current approach.
2. Clients responsible investment beliefs, values and motivations.
3. The extent to which Clients believe markets already price in ESG risk.
4. The potential implementation of different solutions aligning to their chosen approach.

Following the ViewPoints survey, we share significant results and any notable divergence of views within the client group. We outline for discussion areas of specific disagreement and any need for additional training or clarification. We look to reach a broad consensus so that the scheme can incorporate collective responsible investment beliefs within their responsible investment policies and progress their approach.

How a client can engage with their investment manager

Thinking about how typically you interact with your fund managers an their engagement and voting practices, which of the following statements best applies.



Deliver and review

Through ViewPoints, we can clarify with our clients their ongoing requirements for the delivery of their responsible investment approach.

ViewPoints will present with a range of statements and test responses. In this way, what is important to the client can be identified and discussions on the method for delivery can be had. We communicate our views to clients at each stage.

The Review phase follows and allows for robust feedback on the performance and efficacy of the finalised approach.

The results

Outcomes across pension schemes vary widely and ViewPoints provides Aon with valuable insight as we consider how to develop and customise solutions which best serve client needs.

Over 2022 we expanded the survey questions to allow stakeholders to explore more specific climate-related beliefs.

We also used a new interactive Q&A polling platform which we found worked well for bespoke, smaller targeted surveys that have boosted engagement from decision makers, helping to guide them towards making more informed decisions.

Activities 2022

1. Aon's responsible investment network

As new regulation, guidance and initiatives are developed in response to global sustainability considerations, there still remains differences of opinion and potential confusion around terminology, materiality and an asset owners' duty in this area. Aon's Responsible Investment Network is designed to address some of these challenges, by providing an accessible forum through which investors can build their knowledge of responsible investment and collaborate with peers, industry participants and thought leaders on a range of topics.

Understanding and practical implementation are key features of these sessions. 2022 brought more interactive and energetic meetings where Aon discussed the challenges with asset owners and key focal points. We illustrate these below.

Case study

Aon's responsible investment network topics over the year

Aim: To exchange views with our clients and further understanding of current challenges

a) Climate change - nobody said it was easy

This event was held prior to COP27 and agreed that COP26 had delivered only modest progress towards addressing the climate crisis. This underscored the complexity and difficulty of finding approaches and solutions.

Aon invited its clients to the first in-person event following the Covid-19 pandemic, to reflect and consider the ever-mounting challenges, governance burden and increasing expectations of pension scheme investors on climate change and risk issues.

In this session, we asked some difficult but necessary questions:

1. Why do pension scheme trustees face an increasing burden of governance on climate risk? And, is it fair and reasonable?
2. What role does the TCFD framework play in helping to deliver progress – and, how achievable are Net-Zero commitments really?
3. What is the best route forward for pension funds? Should trustees be investing differently, or engaging to change the actions of others?
4. Will all this make a difference anyway?

Key takeaways

- It is imperative for the financial community to engage with the issue of climate change.
- ESG data is a challenge, but need not be a barrier to action.
- There are many valid approaches to decarbonisation pathways and trustees can choose the one which suits them best.

b) Nature related risks – why they matter to investors

In this event, our guest speaker from BNP Paribas, our clients and Aon's investment experts, reflected and considered the challenge of achieving Net-Zero when it relies heavily on natural sources to drive carbon removal, a further threat to the loss of biodiversity.

This represents a risk to investors, not least as the companies and assets we invest in, depend on nature to operate and succeed.

To address and mitigate these risks, another reporting framework is expected through the introduction of the Task Force for Nature-Related Financial Disclosures (TNFD).

Key questions discussed:

1. What is nature-loss, or biodiversity, and why does it matter?
2. What are the risks and opportunities for investors?
3. How could you monitor biodiversity in your portfolio?

Key takeaways

- Nature loss is already a critical issue.
- In an ideal world we would be carbon negative and nature positive.
- Bold and ambitious action is needed by the financial community.

c) Combatting Modern Slavery

Modern Slavery is a problem not only faced by developing nations but the whole globe. Approximately 50 million people live in state or compulsory labour.

Aon, alongside a panel of speakers, including Dame Sara Thornton, the UK Independent Anti-Slavery Commissioner, led a discussion to raise awareness of awareness on Modern Slavery and the steps investors and pension funds can take to actively combat this.

In Principle 9 and 10 of the report, we describe further some of Aon's engagement and collaboration activities for Modern Slavery, a key theme for our Manager Research team and Aon's Engagement Programme.

At the panel, we asked:

1. What is modern slavery and its relevance for investors and pension funds?
2. What practical steps can investors take to monitor and mitigate Modern Slavery practices?
3. What actions can investment managers take to address the issue of Modern Slavery?

Key takeaways

- Modern Slavery needs to be put higher up on the agenda for investors.
- Engagement is the most powerful tool to address the issue.
- Collaboration and sharing information are key.

2. We share lessons learned after one year of TCFD reporting

Aon's investment consultants and responsible investment specialists liaise continually with clients and more formally at quarterly meetings. As the TCFD reporting is underway, we have now had the chance to review client TCFD reporting and analyse strengths and weaknesses of reporting.

Most of the 'first wave' of pension scheme TCFD reports have now been published and Aon has analysed a number of these and engaged with the regulator. We have looked to identify the key lessons from this first wave.

Case study

TCFD Reporting

Aim: To improve our client's TCFD Reporting

Over 2022, Aon analysed 29 different published TCFD reports across a range of investor sectors to understand how the industry had dealt with the requirements and the lessons learnt from the first wave (this includes both Aon and non-Aon clients). The analysis covered the following key areas:

- Governance and the use of separate TCFD sub-committees.
- Selection of relevant time horizons.
- Climate change scenario analysis.
- Metrics disclosures.
- Target setting.

Our analysis provides clients with insights, looking at which considerations should be made when carrying out their own year two TCFD analysis and reporting. For example, our analysis showed that 17% of schemes we analysed had a dedicated TCFD sub-committee in place. Although having a TCFD sub-committee is not a requirement, it is a potential client consideration given the time consuming and interrelated nature of TCFD disclosures.

Based on analysis and cross-referencing of those TCFD reports analysed, we reported:

- The patterns observed including key areas of similarities and differences.
- The feedback from The Pensions Regulator's (TPR) own review of a subset of published TCFD reports.

Summary of Aon findings after one year of TCFD reporting

TCFD Pillar

1 Governance

Currently c. 17%of schemes disclose that theyhave delegated this to a sub-committee, but it is reasonable to expect that this proportion may increase over time (as the use of sub-committees may improver the efficiency of trustee time spent on TCFD reporting)

There is significant variation in time horizons adopted across schemes. Trustees should ensure there is a clear rationale for the horizons they have selected.

2 Strategy: Scenario analysis

A key area of variation and one where we strongly expect further guidance to be issued in order to improve consistency.

Trustees should ensure their chosen approach to scenario modelling facilitates effective decision making e.g. scenarios are comparable, cover all relevant asset classes and are founded upon crediblke climate-related research and expectyed outcomes.

4.1 Metrics: Selection and disclosure

Data quality is the most common additional metric to report on but there is expectation for schemes to go further than this.

Trustees should keepm their metrics under review.

Wide variation in carbon metrics reported.

Data coverage is generally higher for DC compared to DB.

Consistency and transparency (particularly for alternative investments) is an industry wide issue. Engagement is crucial.

4.2 Targets

Net-zero targets are the most popular although improving data quality is also popular.

TPR have noted a number of targets set appear to be 'easy'.

Recognising significance of climate change, targets should be set as stretch targets.

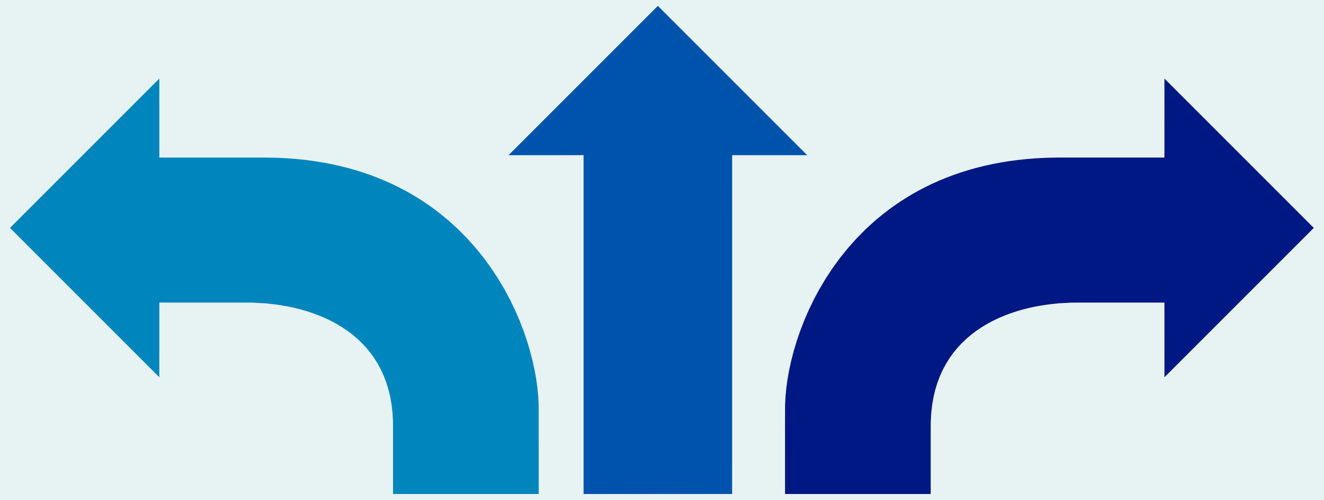
Targets should remain under review particularly

If they are expected to be met in the near term.

These lessons are important for us to share with clients as reporting during early stages, to some extent will improve iteratively. Clients want to improve reporting as the industry evolves, their understanding develops and more data becomes available.

Things for the trustee to consider after a year of TCFD reporting

We have shared with our clients these lessons learned following our analysis and continue to support trustees on an ongoing basis for future TCFD disclosures.



Repeat

Repeat this exercise after the TCFD report is published and when more schemes have started publishing their TCFD reports e.g. versus key competitors who are also yet to publish

Report

Keep in mind that the TCFD report should be decision useful, not just a compliance document

Monitor

Monitor future tPR guidance for updates on TCFD

3. Articulating value

We aim to build long-term partnerships with clients since these foster deeper mutual understanding and better decisions. This means we have a strong focus on client satisfaction.

From a value perspective, ensuring the services we provide in each case are appropriate for that client's circumstances and focused on the areas that deliver value to them is integral to our approach. To support this, we have a robust structure in place to help client leaders with these discussions. This structure includes:

- Engaging with clients each year to understand how their circumstances have changed, how we can support them over the coming year and what is important to them from the existing services we provide.
- We ask both our individual client teams and a senior individual, independent from the client team, to gain views on our service delivery and how their requirements may be changing over the next year or beyond.
- Operating a Pricing Committee that provides structure and consistency in pricing across our clients.
- Central pricing guidance and support with clear articulation of the value which we provide to clients.
- Ensuring we treat clients equitably, regardless of the way in which we work with them and the investment solution they employ.

Outcome 2022

Aon works hard to understand its clients and has market-leading expertise and solutions, tailored to their needs and values.

Our strong belief is that a better understanding of a client's position leads to better outcomes and client satisfaction.

In the Principle 1 section of this report, we describe the many ways we communicate with clients generally, educating and exchanging, through thought leadership papers, webinars, blogs, news items, speaker events, as well as open access to our network events.

Our UK Stewardship Code submission and an annual stewardship report on behalf of our Fiduciary business, will also be shared as part of that communication process.

Aon is keen to invite dialogue and an exchange of views with our clients; it is essential that we have a clear understanding of our client's needs in order that we bring them value. For example, from the investment surveys we run, see Global Perspectives on Responsible Investing 2022, it is clear to us that managing climate change risks is a key concern for clients.

In Principle 1 of the report, we detail the Net-Zero commitments we have made, while above are short case studies where climate risk features in our network events, and a case study with respect to lessons learned from TCFD reporting, one year on. There are many other examples in this report where the focus is climate change risk management.

Aon's thought leadership is brought to clients by our Advisory and Fiduciary team, and we ensure clients are kept abreast of our latest thinking and news. Our Fiduciary business articulates its approach to clients in a document called its "Approach to Responsible Investment", described further in in Principle 5 of the report. The Fiduciary team also provides training sessions delivered by ESG specialists and use our ESG Reporting tool, RI-360i described in Principle 2 of the report, alongside ViewPoints (see above) as key tool for understanding client needs.

7

Principle 7

Stewardship, investment and ESG integration

7

Principle 7
Stewardship, investment and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Aon Investment Limited (AIL) incorporates ESG considerations into Fiduciary portfolios through a combination of bottom-up and top-down processes. ESG integration is fundamental to sustainable value creation in the longer term and we describe our processes to integrate ESG risk into our portfolios below.

ESG integration is practiced at each stage of our Fiduciary approach, including strategic asset allocation, portfolio construction. In the following pages we describe elements of the process:

1. Evaluating ESG integration in the underlying strategies.
2. Stewardship of the underlying managers at firm and strategy level.
3. Integrating ESG into the construction of Fiduciary portfolios.
4. Creating innovative strategies with a strong ESG focus.
5. 'Top Down' ESG considerations.

1. Evaluating ESG integration in the underlying strategies

ESG ratings, which assess levels of ESG integration, are assigned to strategies by Aon's Manager Research team. The ESG ratings process, assesses both the integration of financially material ESG risk factors into the investment decision-making process, and a strategy's active ownership practices. These processes are described below and in Principle 5.

All our Buy rated strategies have an ESG rating assessment and our Manager Research team has a thorough process for reaching its overall rating recommendation (Buy/Sell/Qualified). This process relies on in-depth assessments, data collection, on-site visits, a debrief process and strong peer review. We give more detail on the ESG component of this process below.

Our expectation is that ESG factors factors are highly likely to impact the return and risk profile of an investment, therefore, to ensure all ESG risks and opportunities are considered in investment processes as robustly as other more traditional financial factors, we have set a lower limit for ESG ratings, of 'Integrated', for invested AIL strategies. Where we have strategies with a low ESG rating of 'Limited', we engage with these managers over a 12-month period. If, after this period improvement has not led to a rating of 'Integrated', we will disinvest from the strategy. Careful consideration of a strategy's level of ESG integration, is integral to our overall investment recommendations and monitoring and our Fiduciary business has made considerable progress in developing its ESG integration approach the screening out of funds with a low ESG rating.

Our Advisory clients also use Aon's ESG ratings of their invested funds to understand levels of ESG integration and differentiate across managers accordingly.

Aon's ESG product rating: High-level definitions

Rating	Description
Advanced	The Fund Management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The Fund Management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio
Integrated	The Fund Management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited	The Fund Management team has taken limited steps to address ESG considerations in the portfolio.
Not Applicable	ESG risks and considerations are not applicable to this strategy, for example, on the grounds of materiality or asset class relevance.

Source: Aon

Aon's Manager Research team's ESG ratings approach is depicted below with five key considerations which are evaluated by the team. This framework aligns with the PRI principles and reflects best practice.

Aon's ESG ratings - 'Five factor' assessment

Policies	• Scope • Granularity • Disclosure
Staff	• Resources • Accountability • Incentives
Outcomes	• Analysis vs Decision making • Does ESG and stewardship make a difference?
Process	• Breath of integration • Depth of integration • Data resources
Stewardship	• Voting record • Engagement process and outcomes • Industry initiative involvement

The expectations we have for achieving an ESG rating is set out in our core ESG Ratings Aid.

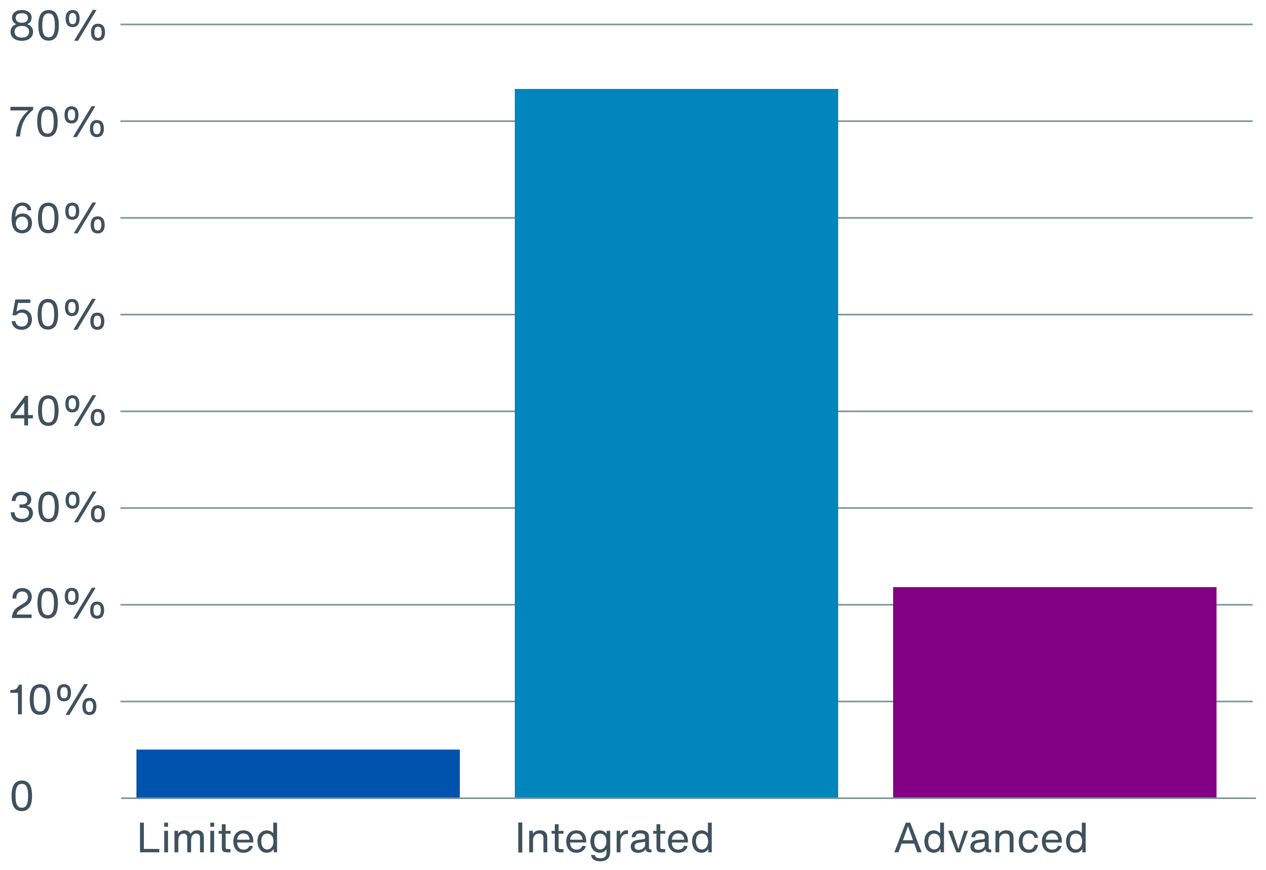
Within the Manager Research team, each asset class specialist has a customised version of this core ratings aid in order to include important characteristics of the asset class.

ESG Integration: Aon's core ratings aid

ESG Rating Aid	Limited	Integrated	Advanced
Policies	Lack of detailed policies PRI scores median or lower	Range of reasonably detailed policies PRI scores median or higher	Range of detailed and market leading policies PRI scores above median
Staff	Limited senior oversight	Appropriate ESG resources, oversight and incentivisation	Appropriate level of high-quality resource Strong oversight and incentivisation
Process	Low evidence of ESG integration into process	Good evidence to support ESG integration into process Demonstrable risk mitigation Climate risk measured and reported	Advanced integration of ESG into all stages of investment process ESG considerations viewed as both risk and alpha opportunity Detailed awareness and reporting of climate risks Proprietary tools and systems
Stewardship	Limited evidence of stewardship Limited evidence of substantive engagement	Detailed stewardship evidence Broad evidence of meaningful engagement activity	Advanced stewardship practices Detailed engagement and reporting across issues Wider industry collaboration
Outcomes	Little evidence of ESG considerations influencing investment decisions	Credible evidence linking ESG factors to portfolio decisions	Strong link from ESG analysis/ stewardship to investment decisions and portfolio construction
Overall	Limited	Integrated	Advanced

It is important to emphasise that the resulting ESG ratings, shown below, represents the full range of products which Fiduciary Services has to select from. These are the strategies that we feel exhibit strong investment research and processes, therefore it is unsurprising that most of the strategies also exhibit appropriate ESG integration. We show in the chart below the distribution of our ESG ratings across the three categories.

Aon's ESG ratings distribution across asset classes



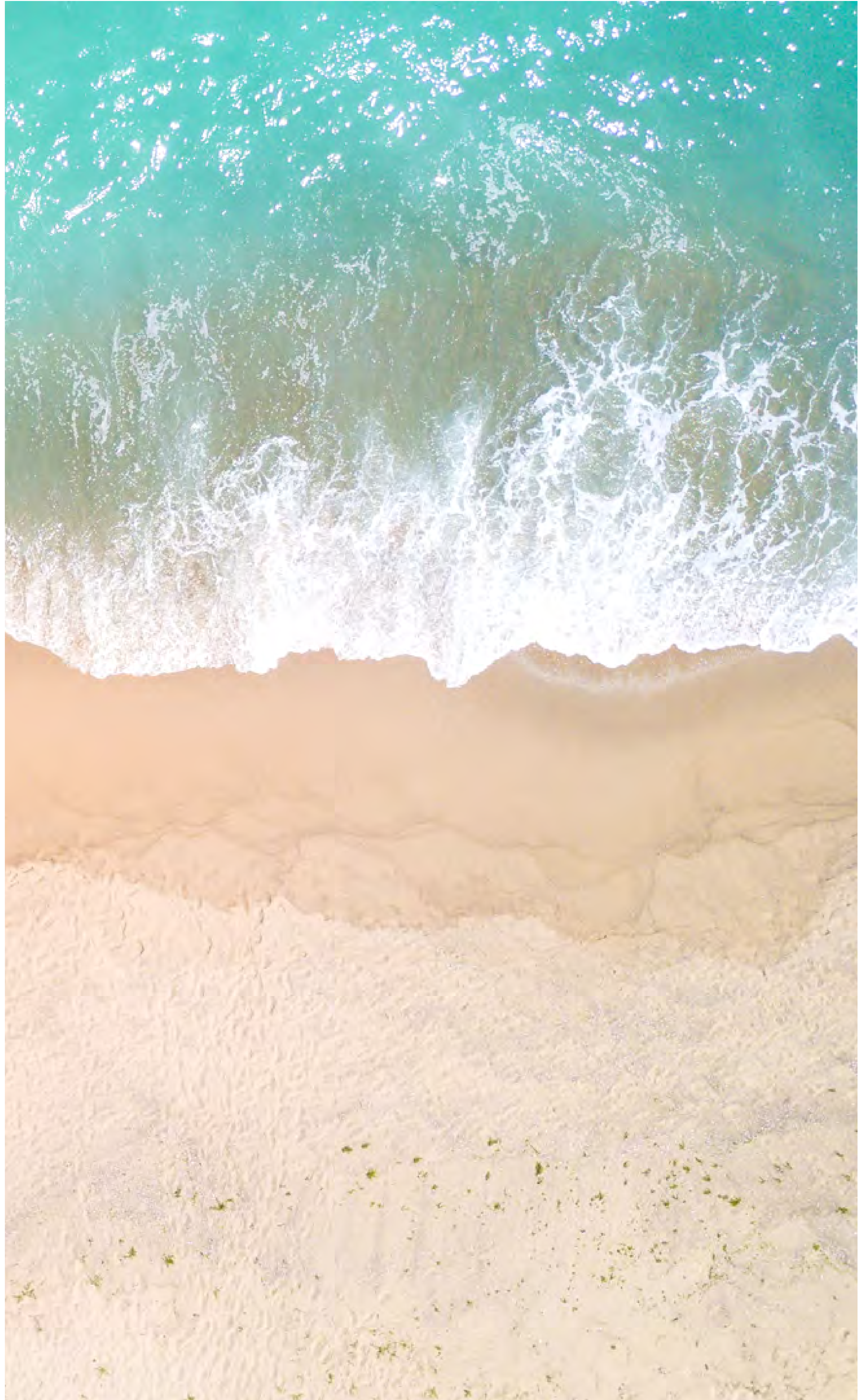
Source: *Aon, December 31, 2022*

Over time, our expectations of ESG integration will become more stringent and lead to some strategies that are currently rated 'Integrated', to fall into the 'Limited' category – and at that point we will engage with those managers to explain the reasons for our changed view and encourage them to improve their ESG approach accordingly. Should no improvements be made, the same 12-month grace period applies.

Ongoing monitoring of ESG integration

Monitoring of continued ESG integration in our strategies is the role of our Manager Research team. Key tools used to track levels of ESG integration are:

- Periodic ESG ratings review.
- Periodic ESG deep dive meetings.
- ESG as part of ongoing dialogue and the Manager Research team's quarterly review process.
- Periodic ESG due diligence questionnaires.
- Collection and review of the managers' voting and engagement data.
- Carbon footprint assessment.



2. Stewardship of the underlying managers at firm and strategy level

We consider active ownership – engagement and voting – to be a key part of the overall integration of ESG considerations into portfolio management.

Engagement

Our role as a fund-of-funds investment manager means we are one step removed from the companies our clients have exposure to. As such, the key purpose of our engagements is to:

- Improve the standard of ESG integration and investment stewardship across our managers
- Engage on key themes set out in our Investment Stewardship Principles & Expectation document

Manager engagement primarily happens in two ways: through the business-as-usual Manager Research team processes; and through Aon's Engagement Programme (described in Principle 1 and 8).

As part of the business-as-usual manager research process, ESG matters are frequently discussed. They are part of the ongoing dialogue between Aon's manager researchers and investment managers for strategies that are Buy rated or have potential to be Buy rated, and where ESG risks are viewed as material. As such, opportunities for improvement on ESG integration are identified and when this occurs, manager researchers will conduct engagement activity as needed for improvement.

The activities of our Engagement Programmes are described in detail in Principle 8 of the report. The Engagement Programme takes a top-down approach, assessing firm governance and activities around themes set out in our Investment Stewardship and Expectations document.

In addition, where AIL's portfolio managers identify an issue that is not best addressed through the manager research process or the Engagement Programme, they may engage directly with the investment manager. This tends to be on issues specific to the Fiduciary Services or delegated investors.

As described in Principle 11, we may escalate engagements where we feel that the manager is not responding openly or adequately with our concerns. Ultimately, AIL reserve the right to remove a manager from our Fiduciary solutions if we feel that their approach is exposing our clients to unrecognised and unmanaged ESG risks.

Voting

We will always vote on issues that are raised at the Fund level (for example, whether to extend the life of a closed-ended Fund). These voting decisions are made by the relevant responsible researchers in the Manager Research team and communicated to the portfolio managers for implementation. As an indirect investor, the way in which we ensure the rights and responsibilities of asset owners are exercised, as described in Principle 12 of the report, and carried out through the Engagement Programme.

3. Integrating ESG into the construction of Fiduciary portfolios

Fiduciary portfolios are constructed in line with AIL's ESG integration framework. For each asset class, specific sub factors pertinent to the asset class are considered. The lead portfolio manager (PM) for each of our delegated portfolios has overall responsibility for integrating ESG considerations into the investment decisions for their funds, in line with AIL's ESG integration framework. This includes the exclusion of underlying asset managers that are not integrating ESG into portfolios and being key stakeholders in engagement activity with underlying managers. The Delegated Portfolio Committee has oversight of the underlying manager rating and any changes to this.

The portfolio specialists (PS) support the monitoring of, and engagement, with managers and have overall responsibility for reporting this to clients. In addition, five members across the PM and PS teams have responsibility for setting, evolving and overseeing the approach to responsible investment within Fiduciary services. This is incorporated into their performance review objectives. This ensures that we conduct the appropriate monitoring and engagement activities for all relevant funds.

4. Creating innovative strategies with a strong ESG focus
In addition to this, we develop innovative strategies that have an explicit sustainability or impact focus. We proactively look to use these strategies within our portfolios where we can do so without compromising on risk and return outcomes. Please see Principle 4 - Aligning our Investment Advice, where we show the type of recent ESG focused funds, brought to our clients over 2022.

5. 'Top-down' ESG considerations
Most the previous activities can be described as 'bottom-up' – a way of integrating ESG considerations into each sub-fund that we create and manage for our clients. In addition, many of our clients have delegated to AIL the responsibility for managing their overall asset allocation in line with specified targets and controls. For these clients, ESG considerations (specifically in the area of climate) are incorporated from the top-down aspect, through strategic asset allocation, climate scenario analysis, and AIL's Net-Zero commitment.

- **Governance and stewardship**

  Strong investment stewardship governance and a strong sense of corporate purpose and culture, with respect to global systemic risks – such as climate, is an important aspect to engage on, from a top-down perspective. Aon's Engagement Programme centres its manager engagement on its core topics of investment stewardship, climate change, biodiversity loss and modern slavery from a top-down perspective. There follows the expectation of application at product level.

- **Strategic asset allocation (SAA)**

  Our starting point for setting SAA is the three-year capital market assumptions (CMA's) produced by Aon's Global Asset Allocation team. These assumptions include return, risk, and correlation figures for multiple asset classes and strategies – including a range of low-carbon and ESG strategies – which are used to model the most optimal combination of assets for each client in accordance with the investment objective and any constraints clients may have set us. The inclusion here of ESG-related strategies can be incorporated as appropriate.

- **Climate scenario analysis**

  Aon has developed a scenario analysis tool for assessing the impact of different climate scenarios on both assets and liabilities. This tool is used to stress test our asset allocation over the relevant investment time horizon and developments to the tool are described as a case study in Principle 4.

- **Net-Zero**

  In Principle 1 we describe the Fiduciary team's commitment to Net-Zero carbon emissions and last year we reported on manager engagement around the theme of decarbonisation. This year, ae show in Principle 11, we have escalated engagement with those managers where decarbonisation has less momentum.

  Often this engagement starts from top-down manager objectives and commitments, followed by application at product level.

Activities 2022

1. Activities to ensure our Investment Managers integrate ESG risk
Aon's Manager Research team actively engages with its managers for improved ESG integration. The team has regular quarterly calls with its recommended managers and engage as necessary on ESG. Where ESG requires more focus, more scrutiny will be applied and the Manager Research team always encourages its managers to align with best practice and strive to achieve the highest ESG rating of 'Advanced' in terms of their level of ESG rating.

Engaging with a manager of U.S. Core equity strategies

Aim: Work with a Manager to Improve its ESG Rating

We have a fund manager, which we recommend for U.S. small- and mid-cap core equity strategies. The manager, however, had needed to improve its ESG profile since our initial recommendation of its investment strategies. The strategy was initially awarded a 'Limited' ESG rating. Over the past two years, during which the manager joined the PRI, we have been actively engaging to improve their approach and resulting outcomes.

We met with the manager regularly, where the focus was on the manager's ESG rating and how the manager was developing their approach for improvement.
We had already touched on the need for Responsible Investment policies, producing a sustainability report and strengthening governance for responsible investment in previous years. We engaged over 2022, and by the end of the year the manager had taken great strides since our first meetings. The manager had progressed from a defensive ESG position to embracing ESG and implementing the following actions, listed below.

- Established a materiality framework having formalised a sustainability statement for the firm.
- Explored third party analytics and contracted with one of them during the year, having thought through the service providers' approach and methodology.
- Engaged in ESG-led portfolio analysis, based on a newly created red flag framework. Their goal is to have ESG focused write ups for all their companies, using the red flag framework as a basis.

We are pleased that we have encouraged the manager to make good progress in terms of its responsible investment culture and investment approach. It is still too early to see tangible achievements at the process level as the approach went into effective operation in mid Q3 2022. We shall continue to engage with the manager and expect improvements over time.
In particular, the manager's sustainability committee needs to articulate its ambitions more clearly and improve its modelling of materiality in their financial analysis. We believe the manager is on track to do so and we will continue to monitor progress and determine if adjusting their ESG rating is appropriate.

2. Evolving Aon's Lens for Impact!
In 2022, Aon's Manager Research team launched an Impact Research platform, bringing greater definition and measurement to Aon's impact solutions, and giving a higher focus on the integration of ESG risk factors.

Over recent years, Aon has brought to clients various impact solutions outlined in Principle 4 of the Code – 'Aligning our Investments', where we show how our investment advice aligns with our firm's culture, strategy and purpose.

Given our experience and feedback from the industry and seeing how it is evolving, we are bringing a subtle change to our view of 'impact'.

Traditionally, Socially Responsible Investing, Impact or Mission Investing have ethics or values as the primary driver of investment decisions. On the other hand, ESG integration has been our typical approach for ensuring that financially material risks are factored into the investment stock selection decisions for recommended managers. For ESG integration to be robust, the sustainable fundamentals of an investment are the first priority. We intend to introduce a new framework for internal and client use in 2023.

3. Finding impact in private assets

In 2022 we identified a private asset-based lending strategy where a number of its underlying investments had strong, but underappreciated, ESG attributes. Given the nature of the assets, the strategy had sustainable development aspects, and provided finance for integral parts of the economy which would otherwise have had limited access to finance.

Initially, the strategy was offered to investors alongside a number of other investments, as a multi asset offering. Although likely to provide good risk-adjusted returns which incorporated ESG risk, the private lending assets had unrecognised positive ESG characteristics.

Aon's Manager Research team worked with the manager in question, to provide an opportunity for our clients to invest in a fund, holding only those investments which we believed exhibited these positive ESG characteristics. Aon's Manager Research team supported the manager in creating a framework centred around utilising the Sustainable Development Investments Asset Owner Platform ("SDI AOP") to ensure positive alignment with the UN Sustainable Development Goals (UN SDGs). This also entailed support for the effective reporting of the assets in respect of their alignment to the UN SDGs.

We have offered this strategy to clients who have an appropriate allocation to private credit in order to increase levels of diversification over and above the level offered by more traditional private credit mandates. We believe that this strategy, is relatively unique in the private debt market aside from renewables. Coupled with this, we believe the strategy will provide strong risk-adjusted returns for client portfolios.

4. Developing internal capabilities to undertake ESG integration

Aon subscribes to data sets from multiple data vendors which typically provide access through different platforms. Aon also has internal proprietary databases which hold product ratings and client holdings information. There is a strong need to integrate both internal and external data sets so that cross analysis can be done efficiently to monitor and assess the level of ESG integration across thousands of investment products.

This year, in collaboration with our Manager Research team and Aon's Responsible Investment team, the Singapore team from the Aon Center of Innovation & Analytics (ACIA) developed the 'Quantamental' dashboard as an internal research tool that aggregates data from different source systems to create in-depth ESG analytics with drilldown functionalities, allowing colleagues to more easily understand the drivers of the ESG scores of a certain product or security and also peer benchmarking capabilities. See below for an example where users can drill into different components of an MSCI ESG score and see the constituent holdings driving the overall ESG score.

Many other metrics in the roll up of MSCI's security ESG ratings are available, including carbon metrics such as carbon emissions, carbon footprint and Weighted Average Carbon Intensity (WACI).

By leveraging on data & analytics, proprietary models and technology, we are able to scale our manager research capabilities by incorporating ESG insights for over 8,000 liquid strategies.

Next year, we plan to expand our analysis to include more advanced metrics for implied temperature rise, SFDR's Principal Adverse Indicators (PAIs) and Diversity Equity and Inclusion (DE&I) factors.

Drill-down functionality to constituent level for ESG scores

Source: Aon, Quantamental Dashboard

Outcome 2022

Aon first formalised its ESG ratings in 2017 and since that time, our Manager Research team has broadened its coverage of ESG ratings to all its Buy rated products and refined the definition and approach of the ESG ratings, to focus on risk and ESG integration itself.

Over this year, we have developed our ability to analyse and report our ESG ratings. The ratings are an important component of our ESG report, the RI-360i report described earlier in Principle 2.

Above we describe this year's activity which created our Quantamental dashboard, an IT interface which brings product based ESG data easily to our manager research teams and other internal users, alongside other key investment factors.

We also introduce the launch of our Impact Research Platform, where we are starting to evolve the lens for ESG integration within selected ESG products.
We expect our platform to develop in the coming years as the responsible investment solutions we bring to clients will have strong positive foundations across ESG risk and opportunity factors. We give a flavour of our current product offerings in Principle 4 of the report.

8

Principle 8

Monitoring managers and service providers

8

Principle 8
Monitoring managers and service providers

Signatories monitor and hold to account managers and / or service providers.

Aon holds investment managers to account in many ways, and at many levels. Under Principle 7 of the Code, we described how our Manager Research team assess managers in terms of their ability to integrate ESG risk at strategy level – this is a bottom-up approach. For top-down perspectives, we introduced the work of our Engagement Programme in Principle 1 of the report, and here in Principle 8, we expand on our Engagement Programme work. With both top down and bottom-up approaches, we seek assurance as to the robustness of the overall incorporation of ESG considerations at strategy level. I.

Aon's Engagement Programme

The Engagement Programme is a vehicle which was launched some years ago, as a cross-asset class initiative, tasked to focus on stewardship behaviours at firm level. Engagement Programme meetings draw in members of the Manager Research team as well as portfolio managers and specialists from our Fiduciary business. In Principle 1 of the report, we described the core topics which the Engagement Programme has, namely corporate governance with respect to investment stewardship, decarbonisation, biodiversity loss and modern slavery.

Over 2022, our Engagement Programme focused on promoting better stewardship behaviours aligned with these topics. The standard agenda for the Engagement Programme is given below and shows how we engage with a manager on our core topics. We expect a manager to be able to clearly communicate its commitment to these responsible investment themes, offering transparency across its engagement and reporting activities.

Engagement Programme standard agenda:

1. Clarity, commitment and communication of a manager's purpose, strategy and culture, with respect to responsible investment
2. Empowering engagement — transparency of engagement activities.
3. Empowering engagement — transparency of voting activities.
4. Reporting of 'decision useful' engagement and voting material.

Aon thought it important to be clear around its principles and expectations of good investment stewardship across the asset classes, the backdrop for our Engagement Programme work and that of Manager Research teams. We have widely shared our 'Investment Stewardship Principles & Expectations' document with managers. We expect the document to evolve over the years as standards of best practice advances and the regulatory landscape changes.

Sharing Aon's Investment Stewardship Principles & Expectations widely, has made our view of best practice for investment stewardship clear. Our managers continue to progress stewardship activities towards these goals.

With the information provided by the Engagement Programme, trustees are able to assess to what degree their investment manager aligns to their own responsible investment beliefs and expectations.

8 Activities and outcomes, 2022

Aon engaged extensively over the year with the managers of our Fiduciary strategies, promoting best practice and alignment with our investment stewardship principles and expectations outlined above, the UK Stewardship Code and the PRI principles.

We provide two key case studies below, one regarding our Engagement Programme and one on the work of our Manager Research team with respect to Diversity, Equity & Inclusion.

Case study

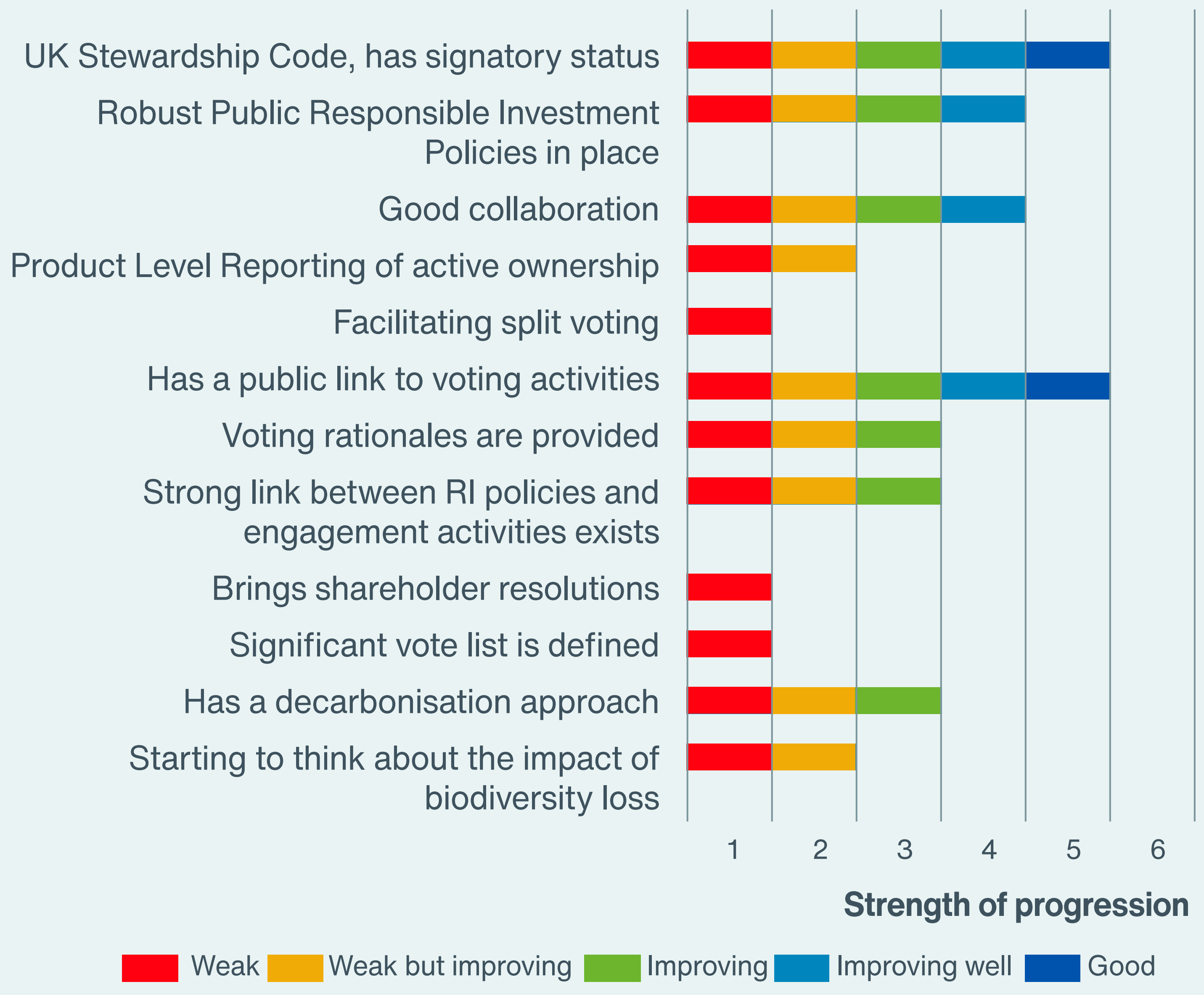
Aon's Engagement Programme over 2022

Aim: Engaging with managers to improve responsible investment and stewardship

Over the year, Aon's Engagement Programme engaged with its Fiduciary managers using the Engagement Programme lens, described above. We found differences in approach and rates of development. However, with all our investment managers, we found a strong resolve to meet client requirements, align with best practices and provide transparency around its investment stewardship goals and ambitions.

On the right, we provide a qualitative summary of our view, a broad representation of where managers currently lie in terms of topic and investment stewardship progress. Each manager has its own story with differing circumstances and consistency cannot necessarily be expected. We engaged on broad range of topics and activities, all of which are necessary foundations for strong investment stewardship. An understanding of these foundations enables trustees to assess their manager in this regard.

Aon's engagement 2022 - Findings



There is dispersion underlying the overall strength or weakness, of each investment stewardship activity listed in the chart. A group of nineteen managers were assessed, and we comment briefly on some activity highlights below.

UK Stewardship Code, signatory status – nearly all the managers were signatories to the UK Stewardship Code with good reporting against the Code's principles. Where the manager was not a signatory, this was due to operating in a different legal jurisdiction and the resulting extent of Fiduciary duty which the manager was able, or willing, to reflect.

Robust public responsible investment policies – There is a strong increase in the recognition by managers to provide publicly available responsible investment policies, to which the manager can be held to account. While some managers had strong policies in place, others have yet to improve the quality of those policies and link them to the types of engagements that should result. Having a policy on climate risk, remains a stretch and we encourage these, alongside the ability to undertake climate scenario analysis.

Good collaboration – The need to collaborate at industry level in order to bring about change is recognised and many of the managers have signed up to the Net-Zero Asset Managers initiative and Climate Action 100+ among other collaborative groups. We note also that managers also engage directly, believing more is achievable for custom engagements where control can be retained over the outcome of the engagement.

Product level reporting – This remains a challenge for most managers who tend to report aggregated information at firm level. Managers have welcomed the introduction of industry reporting guides, easing the reporting burden and the quality of responses is improving. Aon continues to encourage the use of industry reporting guides and systematically request these of managers through our EPIS programme. We describe the way we gather data for ESG reporting in Principle 5.

Facilitate split voting – On the whole, managers remain hesitant to facilitate split voting, where trustees are able to have their voting choices reflected directly. There is a good deal of debate around the issue and progress is slow. In Principle 12 we describe our work with a large global manager and the launch of its voting choice platform to enable split voting.

Public link to voting activities – over the year many managers now provide a link using a service provider voting engine, to provide a public link to their votes on a timely basis. In Aon's Investment Stewardship Principles & Expectations, we set the expectation that voting decisions are provided on a public and timely basis. For pre-declaration of votes, we find where managers do so, it is highly selective.

Voting rationales provided – Aon has encouraged the provision of voting rationales for all a manager's 'significant votes'. There has been improvement here, however, where rationales are provided they tend to be either generic or fewer in number.

In general, the marketplace still needs to work towards defining significant votes and the provision of more comprehensive voting rationales.

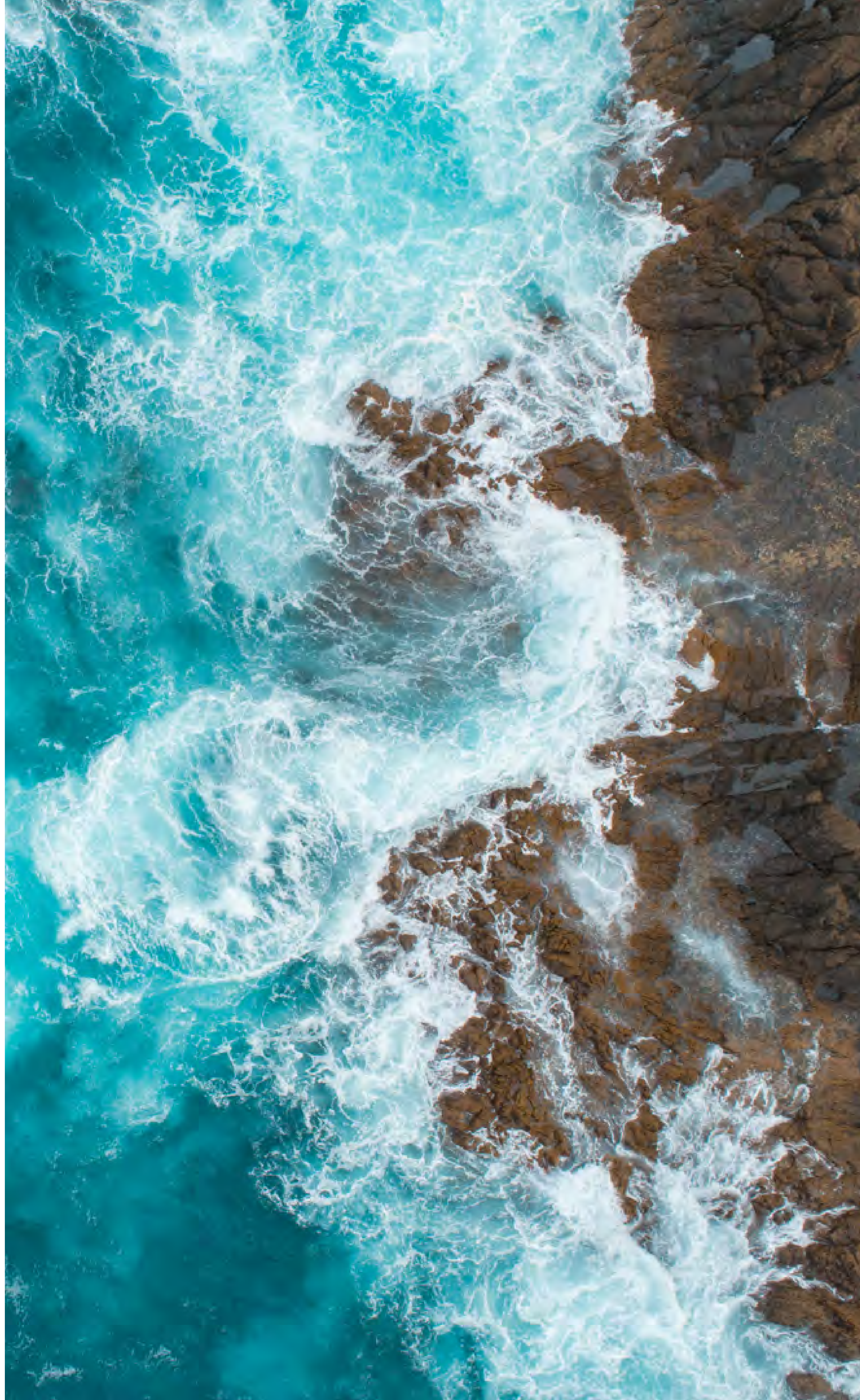
8

Strong link between responsible investment policies and engagement activities – Managers are working towards a stronger link between the two. While policies are getting stronger in terms of a managers' responsible investment beliefs and values, a stronger relation of underlying engagement could be worked towards. Some leading managers do this very well, while others have yet to make the link in terms of activities and communication.

Brings shareholder resolutions – We see only that managers leading in the field of responsible investment are bringing shareholder resolutions. It remains a tool used by few and more can be done here. As managers strengthen the link between their responsible investment policies and engagement activities, they may be more willing to commit the resource to bringing appropriate shareholder resolutions. Some of these resolutions are brought through collaborative efforts.

Decarbonisation approach – There are differences here depending on the managers approach to responsible investment and a manager's decarbonisation approach will depend on its interpretation of Fiduciary duty. In Principle 11 we describe how Aon's Manager Research team has escalated and worked with some managers to strengthen decarbonisation pathways. Others have taken a proactive approach with goals to have most of their AUM aligned with targeted pathways by a target date. Aon continues to encourage decarbonisation activities.

Starting to think about the impact of biodiversity loss – We have found that most managers are at very early stages in their thinking around biodiversity loss. This topic is a core theme for Aon's Engagement programme and one we plan to develop over the coming year. In Principle 10 of the Code, we describe our collaborative work with the Cambridge Institute of Sustainability Leadership (CISL) to bring an industry due diligence questionnaire for Nature Loss to managers. This will result in greater awareness and activities to the topic.



Here we feature two of our engagements with managers in the early stages of its responsible investment journey. Aon's Engagement Programme engaged with many managers over the year, impressing the importance and need for our investment stewardship principles and expectations outlined above.

Many managers made progress over the year, and without exception, all are aware of the need to progress on the critical topics of ESG governance and the need to mitigate climate risks in particular. Most are also exploring investment opportunities as industry attention turns to providing capital to mitigate environmental risk.

Case study

Engaging with managers to improve top-down investment stewardship

Aim: Work to more closely align a manager to Aon's Investment Stewardship & Principles document

Global Equity Manager A

Topic:

Encouraging a manager, in the very early stages of its responsible investment journey, to develop a more active stewardship approach.

Aon has engaged with this manager over two years and welcomed its hire of a Head of Responsible Investment, specifically to formalise and strengthen its governance processes around Responsible Investment.

Over 2022, Aon engaged with the manager regarding the progress made since its appointment of a Head of Responsible Investment. As the manager develops its stewardship approach, Aon has encouraged transparency through its website as a form of communication as it progresses through the many plans it has laid for the near future. More easily accessible information would enhance the manager's credibility and showcase its alignment with best practice as regards the active ownership of assets. We shared with the manager the many goals and touchpoints we identified, and list some below.

This type of profile is typical for the managers who are developing their approach. The stronger managers, where responsible investment approaches are more embedded, have these activities well underway.

Goals:

- Voting actions to be published on their website.
- More guidance needed on voting actions in the form of public voting bulletins as appropriate.
- Greater evidence of engagement processes and activity aligned to their responsible investment approach.
- Systematic carbon reporting and the production of a TCFD report.

Touchpoints:

- More evidence of Net-Zero alignment in the absence of targets.
- Responsible investment policies to be updated as the manager progresses through its responsible investment milestones.
- Product level reporting of active ownership activities.

Outcome:

One of the manager's goals had been met over the year with the publication of its climate policy on its website. Aon has reviewed this climate policy and is satisfied that the manager is clear as regards its view of the investment implications of climate risk and the importance of assessing and taking account of identified climate risk in its investment decisions. Aon will meet the manager again in 2023 and continue to impress on the need for progress with respect to the goals and touchpoints above.

Case study

Global asset-backed securities manager b topic:

Encouraging progress for carbon accounting in Asset Backed Security (ABS) structures and general responsible investment stewardship topics.

The manager demonstrated a willingness to develop its active ownership with respect to ABS. Data availability for measuring carbon emissions and efficiency measures within ABS structures, remains a key challenge for the industry and the manager was actively engaging the financial community, to improve traction and data reporting.

Aon impressed the need for focus on the topic and further thought. With no industry consensus on methodology for measuring carbon emissions in securitised credit, Aon emphasised the importance of formulating an approach for calculating carbon emissions. We believe the initial calculation of emissions is a crucial step in setting a baseline to drive decarbonisation in all strategies over time.

Aon was impressed to see the manager then develop an ESG scoring process based on a structured DDQ which included the appropriate type of carbon emissions questions. This enabled the manager to measure carbon emissions within the pool and for the fund. The manager will not invest in ABS with an overall low score and demonstrated its ability to influence an issuer to improve an asset backed pool of securities in terms of ESG factors.

In addition, Aon's Engagement Programme promoted the risks associated with the loss of biodiversity as an important engagement theme going forward. The manager agreed with the need for focus on the topic and also sees the theme of increasing importance. Aon further encouraged greater transparency in terms of reporting on shareholder voting actions and rationales, both key data points and narratives needed to support our client's Engagement Policy Implementation Statements (EPIS), a regulatory requirement in the UK.

We shared with the manager the goals and touchpoints we identified:

Goals:

- Provide a public voting link
- Provide more detail in its voting rationales for significant votes
- Develop a climate risk policy
- To include the engagement theme of biodiversity in its active ownership policy

Touchpoints:

- Ongoing engagement as to the success of ABS engagement to improve data availability in carbon reporting
- The development of biodiversity loss as an engagement theme with investees

Outcome:

The manager has improved its approach to measuring carbon emissions within ABS structures and met a milestone during the year by producing bespoke carbon emissions estimates for Scope 1 and Scope 2 emissions. Our Fiduciary team has reviewed the methodology and level of emissions and is satisfied with the approach.

Aon will meet the manager again in 2023 and continue to impress on the need for progress with respect to the goals and touchpoints.

Diversity, Equity & Inclusion (DE&I)

Aon has long been a strong advocate for DE&I, and we believe that diverse teams lead to superior investment decision making, better performance, as well as create more stable firms by reducing staff turnover and mitigating reputational risk.

Over the year, Aon collaborated with the Diversity Project, a cross-company initiative championing a truly diverse, equitable and inclusive UK investment and savings industry. The collaboration produced the Diversity Project Questionnaire, setting best practice for the industry, and we illustrate below how we have taken the questionnaire to our managers. This was a focused project to assess and categorise DE&I efforts in selected asset managers recommended by us.

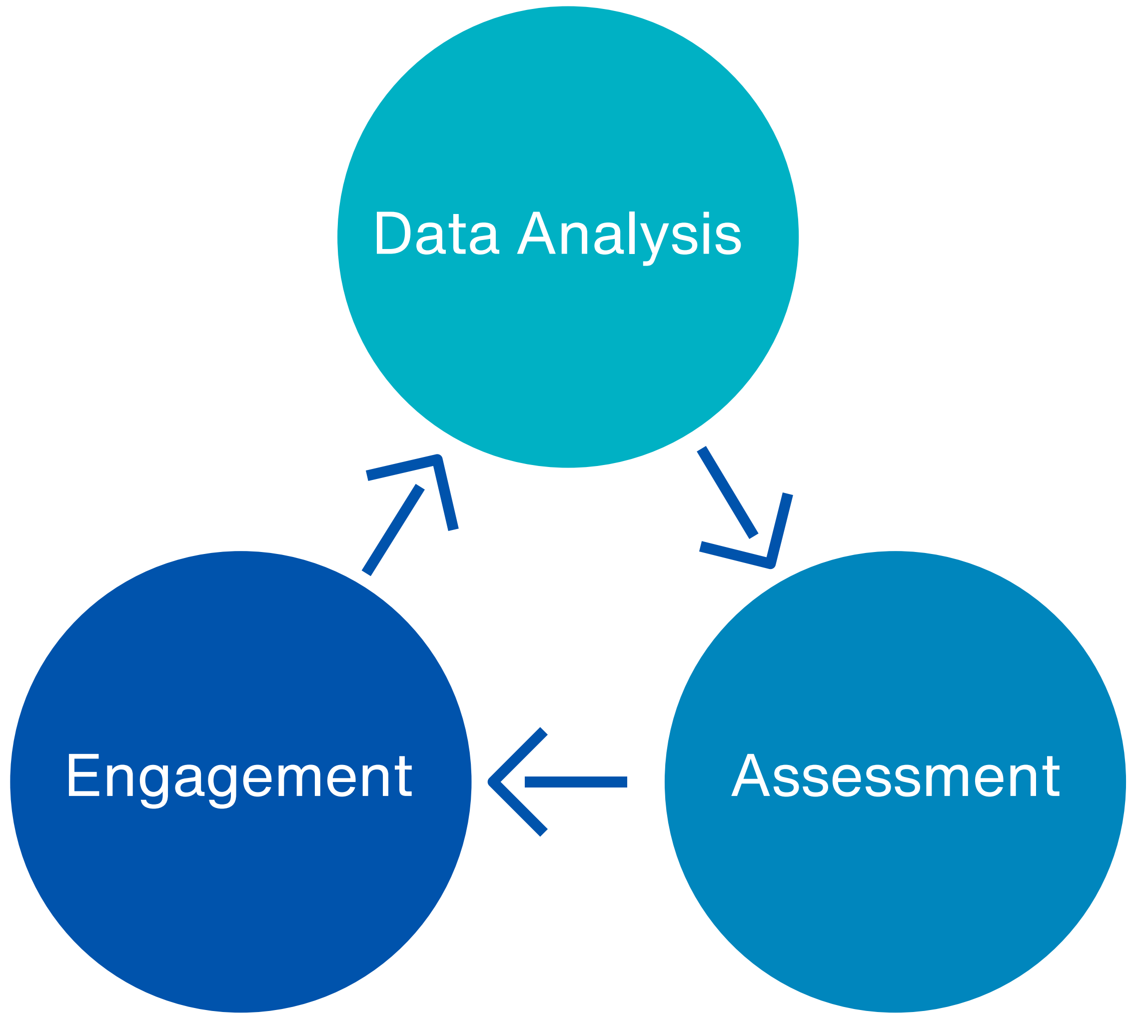
Aon's approach is a three-stage process, encompassing data analysis, assessment and engagement. Recognising that DE&I is an evolution not a revolution, Aon's focus is on forward looking momentum and engagement with managers to improve their DE&I characteristics, rather than setting explicit targets.

Aon assesses DE&I as an integral part of our Business and Staff ratings, both of which are components which contribute to our overall investment recommendation. We use the Diversity Project Questionnaire to equitably assess managers across five core areas, in a fair and consistent manner. These five core areas are:

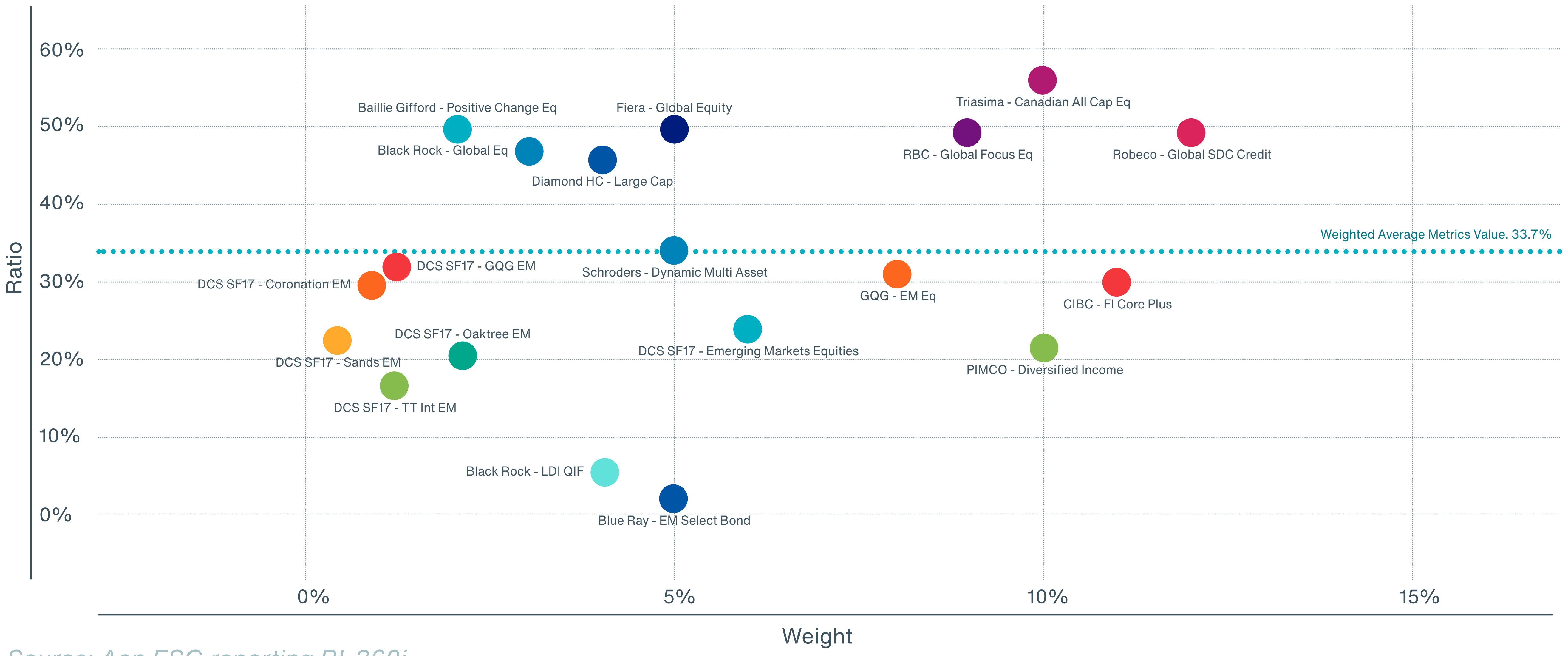
Goals:

- Board/ Leadership
- Culture
- Promotion
- Recruitment
- Industry

Aon's approach to DE&I analysis:



What is the ratio of female to male board members in my portfolio



Source: Aon ESG reporting RI-360i

Taking these into account, Aon then uses a RAG indicator (Red, Amber Green) for each of the five areas, to reach an overall view for DE&I.

The framework distinguished across region and manager size, in order to reduce bias to one or the other. This is in recognition that some managers have greater resources to allocate to DE&I efforts and we sought to engage early in the process on these points, especially with some smaller managers in order to understand where better resource was deployed. The resulting RAG classification for each of the DE&I sub-categories provided an overview of manager strengths and weaknesses, allowing Aon to identify engagement points.

The RAG indicators are used to guide engagement with asset managers, targeting specific areas of the DE&I framework and developing best practices over time.

Case study

DE&I is important to Aon

Aim: Work with investment managers for closer alignment to DE&I best practice

Aon engaged with a large, global asset manager on their DE&I efforts. Given questionnaire responses, both Board/Leadership and Culture had been assessed as 'Amber' (neutral) and Aon was keen to understand what measures were being taken to address this and to consider how we could engage further with the manager.

Specific areas discussed were:

- The tracking of uptake of mentorship schemes.
- Case studies the manager had used to illustrate enhanced inclusivity.
- The creation of networks for disabled and neurodiverse employees.
- The creation of targets to address pay gaps across gender and ethnicity.

Aon had a constructive discussion with the manager and was able to understand in greater detail some of the measures behind its policies. For example, understanding how the manager phrased job adverts to encourage diverse applicants, how talent progressed through the firm and how the manager could enhance more leading practices for its DE&I. The manager was introduced to our approach and to the Diversity Project with better awareness of the importance of DE&I as a result.

Our expectations of managers are that they have considered DE&I according to clear, coherent policies; and are able to evidence that these policies are being consistently applied and measured. Further, that there is an internal feedback loop, identifying any gaps where activity falls short from policies with clear timelines to remedy the deficit.

Challenges to date have centred on three primary areas: data, detail and demographics. For example:

1. **Data:** Aon found that the quantitative information that firms are legally able to share has been varied, and in some jurisdictions, very limited making comparisons difficult. Instead, our assessments focus on qualitative aspects where Aon can seek deeper understanding to questionnaire responses.
2. **Detail:** Aon found that some firms put cursory information as responses whilst others included only corporate level policies. Aon challenged some of these responses to understand whether further DE&I efforts had been undertaken and not reported, or whether DE&I efforts were in fact limited. Our efforts in seeking further information were broadly positive.
3. **Demographics:** Although our framework actively seeks to reduce bias in less demographically diverse regions and smaller managers, these limitations are very apparent. For example, there is a noticeable difference when comparing smaller hedge funds with fewer resources and global managers.
   Aon therefore engages on forward looking policies, i.e.: recruitment policies seeking to broaden diversity of additional hires.

We acknowledge that a key challenge going forward for improving DE&I outcomes will be to ensure that less well-resourced managers are still incentivised to strive for better DE&I.

Aon has made considerable progress in aligning its research process with DE&I measurement and forward-looking engagement practices on behalf of our clients. We continue to participate at an industry level via our engagement to improve DE&I aspects. Our next steps focus on rolling out our DE&I approach to all Buy rated managers as well as continued engagement with selected managers to enhance understanding and set realistic goals. Engagement points discussed with managers will be tracked for evidence of improvements.

This is an ongoing process and Aon will seek to integrate any new challenges into our assessment process as we continuously seek to hone our research.

9

Principle 9

Engagement

Principle 9
Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

As explained above, Aon's role is either as an advisor, or as a Fiduciary fund-of-funds investment manager, or a combination of the two. This means that we are always at least one step removed from the underlying companies that our clients have exposure to.

Aon therefore does not engage directly with investee companies, instead we make clear to our fund managers the expectations we have of them, as regards their direct company engagements.

We expect our managers firstly to integrate ESG risks into their stock selection processes (described in Principle 7) and furthermore to engage with investee companies on these risks. Furthermore, we expect managers to be clear in their expectations of issuer standards with respect to the managers own significant engagement topics.

We share with managers, the expectations we have for investee engagement on topics of concern to us.

Some of the Investment Stewardship Expectations and Principles we set out in Principle 8 also relate to the expectations managers themselves should have of the activities their investee companies undertake. We expect managers to set engagement priorities and to hold their investee companies to account by actively working towards engagement priorities.

How we expect our managers to engage with investees for change:

All managers can engage for change and allocate resource to the monitoring and measuring of engagement success. Our global Manager Research team track such engagements through their quarterly monitoring process and ongoing dialogue, as appropriate.

Aon also recognises the value which engagement can produce for our responsible investment beliefs. Aon has recommended a strategy where crystallisation of full market value via engagement is the investment thesis.

Encourage environmental stewardship	Promote stakeholder relations	Encourage disclosure to foster transparency	Connect value creation with impact	Align corporate strategy with SDGs

No company is perfect but they can be positively influenced

Source: Aon Manager Research. Based on: Impact Management Project

Activities and outcomes 2022

Engaging with managers to bring about greater corporate awareness of Modern Slavery

Aon continues to engage with investment managers on the topic of Modern Slavery and to be an advocate for the proactive nature of engagements required to effectively eradicate modern day slavery practices from company supply chains. Through the engagement with investment managers detailed in Principle 8 of the report, Aon has been emphasising the importance of an effective governance framework, robust risk identification and a targeted action plan to reduce the risk.

Under Principle 8 of the Code, we show that Modern Slavery is one of our Engagement Programme's core themes and we have listed the topic in our Investment Stewardship Principles & Expectations. We share these with our recommended investment managers and in Principle 10 of the report, we describe how we collaborate with 'Find It Fix It Prevent It' (FFP), a Modern Slavery investment initiative. Since launch the FFP has succeeded in many of its early aims and now has the support of investors with a total AUM of ca c£7trn.

Aon, as a service provider, does not engage directly with companies, instead we set expectations for our managers to align to best practices and raise awareness of the FFP initiative with our managers. We expect our recommended managers to adopt similar standards as set out by the initiative - finding modern slavery, fixing it, and so preventing it. The FFP engagement expectations are shared with managers where we believe their typical sector exposures open them to risk. One such manager, where we raised the issue of two companies - identified using FFP information, were engaged with further by the manager, who also introduced themselves to FFP as an interested party.

FFP and members engage with companies on an engagement tracker. This tracker has been shared with Aon, and we too can use the tracker to see which companies are being engaged with because there is the potential for modern slavery to be present. Where we see these exposures in the portfolios managed on behalf of our clients, we can pick the issues up with that manager and monitor progress. In this way, we have indirect engagement with companies, via selected managers where modern slavery has been identified has potential to be present. With respect to Modern Slavery, companies in turn are expected to be 'finding it, fixing it'.. and seeking to prevent it.

Activities and outcomes

Over the course of 2022, one of our Responsible Investment Network events engaged on the topic of Modern Slavery with our clients and hosted the UK Independent Anti-Slavery Commissioner as a key speaker – we report on this in Principle 6 of the report. Our Manager Research team also engaged with a number of global equity managers on the topic, promoting best practice with a view to bring about change in investee approaches. The managers we engaged with, had relatively concentrated portfolios with significant exposure to the sectors which are naturally more predisposed to the risks of human rights violation in the supply chain – the consumer discretionary industry sector, for example. Aon's Manager Research team issued a questionnaire to these managers to assess their approach to monitoring modern slavery practices. The questionnaire focused on human rights policies, and human rights as part of the wider firm engagement. If Modern Slavery was detected we asked whether there was an escalation policy in place, whether there was a history of engagements with companies involved with modern slavery and human trafficking; and the number of companies overall which the manager had engaged with on the topic. Two case studies are presented below where we describe some of our activity. The company names have been anonymised to protect commercial sensitivities.

Case study

Raising awareness of Modern Slavery within the investment community

Aim: To encourage managers to look for instances of Modern Slavery in its supply chain

Company A – A luxury fashion brand

One of our recommended investment managers was aware of the risk for human rights violations in the fashion industry and had the expectation that modern slavery practices could be present. Indeed, perhaps in the luxury segment, there was less scrutiny of the issue. As a result, the manager engaged with Company A in the luxury fashion industry to assess its supply chains.

Company A acknowledged that Modern Slavery had been found in its supply chain but expected this would likely be the case for many companies following in depth scrutiny.

From a control and oversight perspective, there are certain regions in which Company A will not manufacture due to the elevated risk of modern slavery. The company is also willing to terminate supplier relationships in the event of repeated critical gradings, for example working hours, incorrect documentation, keeping dual records.

These are the kind of issues that are easier to identify for Company A, a company which visits facilities in person (managed by its 38-person Sustainability team, spread globally, with local leadership to audit facilities at close hand).

Company A outcome:

Our investment manager asked Company A to disclose specifics of what they did in response to incidents found, but the company was understandably discreet about the details of detection and remediation because preserving trust is paramount. The privacy and dignity of the victims must be protected and preserving trust throughout the supply chain is critical for Company A to stay apprised of incidents and implement collaborative solutions.

Company A reassured us that its policies and initiatives are robust and always supported by NGO input. It is incumbent on Company A to report that slavery was found and describe how it was fixed.

We agree that Company A has a considered approach, offering a necessary degree of discretion and sense of responsibility, while still dealing effectively with the issue."

Company B – A British pub chain company:

Our investment manager engaged with a British pub chain company, Company B. To date, Company B has not found modern slavery in its supply chain and revealed that the majority of its food and drinks come from 12 suppliers, all of which have established and rigorous modern slavery policies.

The areas of greatest risk are the use of agencies to supply workers (although these comprise less than 5% of all Company B staff), and employees working without the correct documentation. The former issue will hopefully be phased out as Company B turns away from contracted staff. The issue however is still being addressed with a well-established checking process which includes a weekly check and a full annual human resources audit.

Company B outcome:

Company B has found its own solution to the issue when recruiting staff and set up its own internal agency. This solution offers working flexibility, but also is a comprehensive way to ensure all employees are validated for eligibility to work in the UK.

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Company B stated that the regulatory environment is tightening with respect to modern slavery and the Modern Slavery Act's recommendations are becoming mandatory. In response, the company is enhancing its due diligence. As a small company, not all suppliers can be audited, so the decision has been taken to make it a requirement for its suppliers to register on an external platform which offered supply chain transparency and efficient supplier auditing.

Our engagement with investment managers has raised awareness of the subject of Modern Slavery. A key takeaway from our networking event was that engagement was the most important tool and that the sharing of information was key. Aon seeks to do this and using the FFP initiative, promote the expectations we have of our asset managers to set changes in motion.

We plan to expand the number of managers to engage with on this topic and work closely with FFP initiative to encourage sector alignment with the FFP standards.

10

Principle 10

Collaboration

Principle 10
Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

As an investment consultancy firm, we, like other consultants, act as a critical link between asset managers and asset owners, providing us with an exceptional opportunity to facilitate change within the investment industry. Aon is open to, and supportive of, collaborative engagements. We aim to improve outcomes for our clients by working with other parties where we believe we can influence outcomes and share our expertise and experience to bring needed change.

In Principle 1 of the Code, we introduced one of Aon's key collaborative partners, the Cambridge Institute for Sustainability Leadership (CISL). Aon has been a supporting member of CISL's steering and working groups for a number of years and works jointly on key projects; all of which align to Aon's responsible investment beliefs.

Nature loss

One such collaboration with CISL, relates to nature loss, one of Aon's core Engagement Programme topics. Aon is a supporting member of the Taskforce for Nature Related Financial Disclosures (TNFD) and will increasingly engage with investment managers raising awareness of the topic and the need to mitigate associated risks of nature loss and environmental impacts. Over 2022, Aon built on its earlier work with CISL and in the following pages we describe how this will evolve into the production of an industry due diligence questionnaire, due to be published by the end of the year.

Case study

Collaborating with Cambridge Institute of Sustainability Leadership (CISL)

Aim: To produce an industry due diligence questionnaire for nature loss

Last year Aon reported on our collaboration with the Cambridge Institute for Sustainability Leadership (CISL) on the topic of nature loss and the need to preserve biodiversity. Aon worked on one of CISL's user cases, which identified the highest materiality across ecosystem services, found within MSCI index constituents.

We mapped ENCORE's assessment of ecosystem materiality for each constituent in the MSCI World index and aggregated the materiality scores at sector and ecosystem service levels. We found that Water Security was the ecosystem service with the highest materiality common to index constituents. Aon's user case was published and is available here.

Over 2022, we continued to collaborate with CISL and describe our activities below and how we plan to build on our findings of ecosystem service materiality.

Activity:

Aon promoted the importance of having a due diligence questionnaire which could be taken to investment managers to progress understanding and approaches for the needs of, and opportunities for, nature loss. CISL devised an interview guide which Aon took to selected managers as an initial step to developing the final due diligence questionnaire for nature loss. Aon selected managers on the basis of expertise for the topic and asked these managers which engagement approach would best result in an effective due diligence questionnaire for nature loss. It is important that the due diligence questionnaire resonates with manager approaches in order to be as useful and meaningful as possible.

Nature loss is a complex and wide-ranging topic and a due diligence questionnaire is a challenge.

Importantly, the due diligence questionnaire will address double materiality which looks to explore both the risks of nature loss to a company, and the impact a company's operations has on nature loss. We will see how climate change and nature loss are being treated as interrelated risks and whether synergies here, offer opportunities.

In the early stages of the project, we found that the Task Force for Nature Related Financial Disclosures (TNFD), the Science Based Targets for Nature initiative (SBTNi) and the International Sustainability Standards Board (ISSB), were being used as key pillars to manager approaches.

Outcome:

Aon collated responses and is now working with CISL for the development of the final due diligence questionnaire. Aon will send the due diligence questionnaire to its managers, bringing greater awareness to the issues and assess how our managers are working with their investees to mitigate risk and impact from nature loss and uncover opportunities within markets. We expect market focus to shift to the issues that nature loss brings, as economies rise to the challenge that this presents.

Modern Slavery

With respect to another of Aon's Engagement Programme core themes, Modern Slavery, as described in Principle 9 of this report, Aon has been a member of the 'Find It Fix It Prevent It' (FFP) project for a number of years and are pleased to support their ongoing work. This year, the FFP project had three work streams:

- Corporate Engagement, initially with UK-listed hospitality companies.
- Public Policy engagement, pushing for a regulatory environment that incentivises company action.
- Increasing the quality of Modern Slavery data that investors can use.

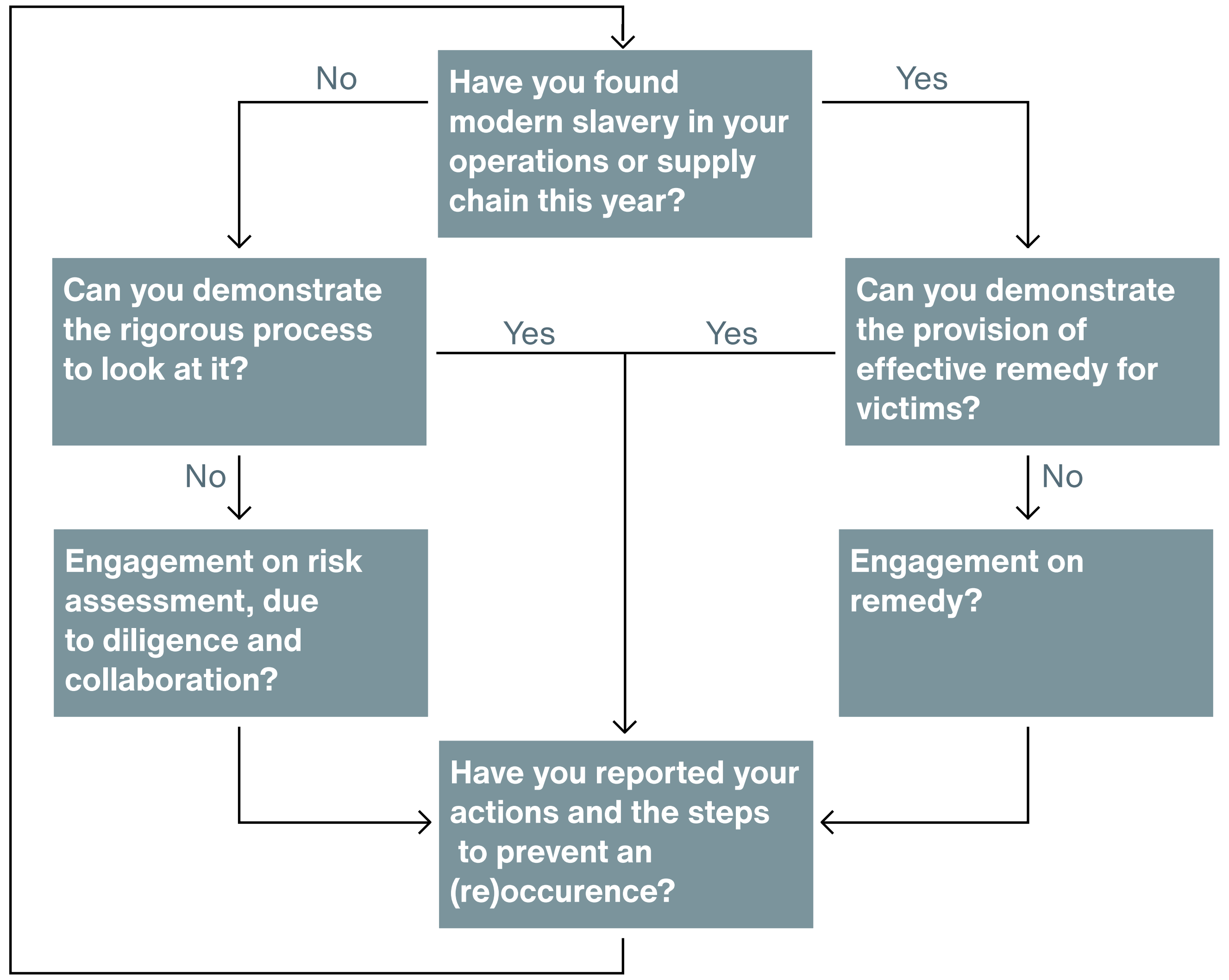
With respect to the first workstream, Aon has shared with appropriate investment managers the FFP Engagement Expectations and we illustrated earlier examples of where our Manager Research team has worked with selected recommended managers to uphold the FFP Engagement expectations. In this way, we are able to hold investees to account indirectly, on the issue of modern slavery and on the basis of the FFP expectations. Aon has also had success in encouraging a manager to join the FFP project. That manager has demonstrated diligence in probing companies on the topic and making its expectations clear.

The FFP approach to engagement

Company Target List	Strategy Target List	Influencing Engagement with Issuers
Find it, Fix it, Prevent it supplied a target list focussed primarily on companies in the UK Hospitality and Housebuilding sectors.	Approach a selection of buy rated global and UK active strategies with exposure to the target list names.	Express wishes to the investment managers regarding their engagement efforts on the issue.

And FFP guidance asks key questions depicted in the flow chart below:

FFP approach to Modern Slavery discovery:



The FFP body believes the engagements they have undertaken to have been effective, in particular in the hospitality sector, where collective engagement has pushed hospitality companies to find, and then act on, previously hidden forced labour risks.

The FFP project is supporting better public policy and over 2022 the FFP body hosted a roundtable bringing together investors with a Home Office Minister. The FFP work was referenced as best in class in parliamentary debates. The FFP project's corporate engagement programme will soon be extended to a new sector, FTSE 350 constituent construction companies and the FFP project continues to be in dialogue with the Home Office to push for changes ahead of anticipated revisions to the Modern Slavery Act.

Supply chain transparency

In Principles 1 and 2 of the Code, we describe the exciting launch of Aon's new Climate team. Their work is on behalf of all of Aon's business lines and our Fiduciary assets can leverage the Aon Climate team collaborations and its ecosystem of public and private partners.
The team is currently investigating data solutions linked to supply-chain transparency. This work supports the transition to a circular and regenerative economy across sectors, starting with agriculture due to the disproportionate impact it has on global freshwater use. In doing this work, Aon is laying down its expectations for investee companies to drive smarter technology for more resilient and sustainable solutions. Several pilot projects, using these emerging technologies and in collaboration with Aon solution line leaders, will be launched this year. The intention is to provide solutions for wider client use in collaboration with leading NGOs with greater resilience and sustainability in economies. These solutions will serve as a strong indicator to companies as to where opportunity can be found in terms of capital finance.

Aon's overall approach to climate risk is anchored in science and we invest a significant part of our research and development budget on climate tools and university collaborations - Columbia University and Jupiter Intelligence.

Aon's investment specialist teams leverage insights and opportunities from the Aon Climate team whose work is a strong indicator to companies as to future capital flow.

11

Principle 11

Escalation

11

Principle 11
Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

As identified earlier in this document, our focus as stewards of our clients' assets is on the asset managers rather than on the underlying issuers. However, we are able to assess the impact a manager is having on underlying issuers through a manager's engagement with investees or issuers. Aon has the expectation that managers influence issuer behaviours, and this is implicit in the stewardship standards we set them, described in Principle 8 of the Code.

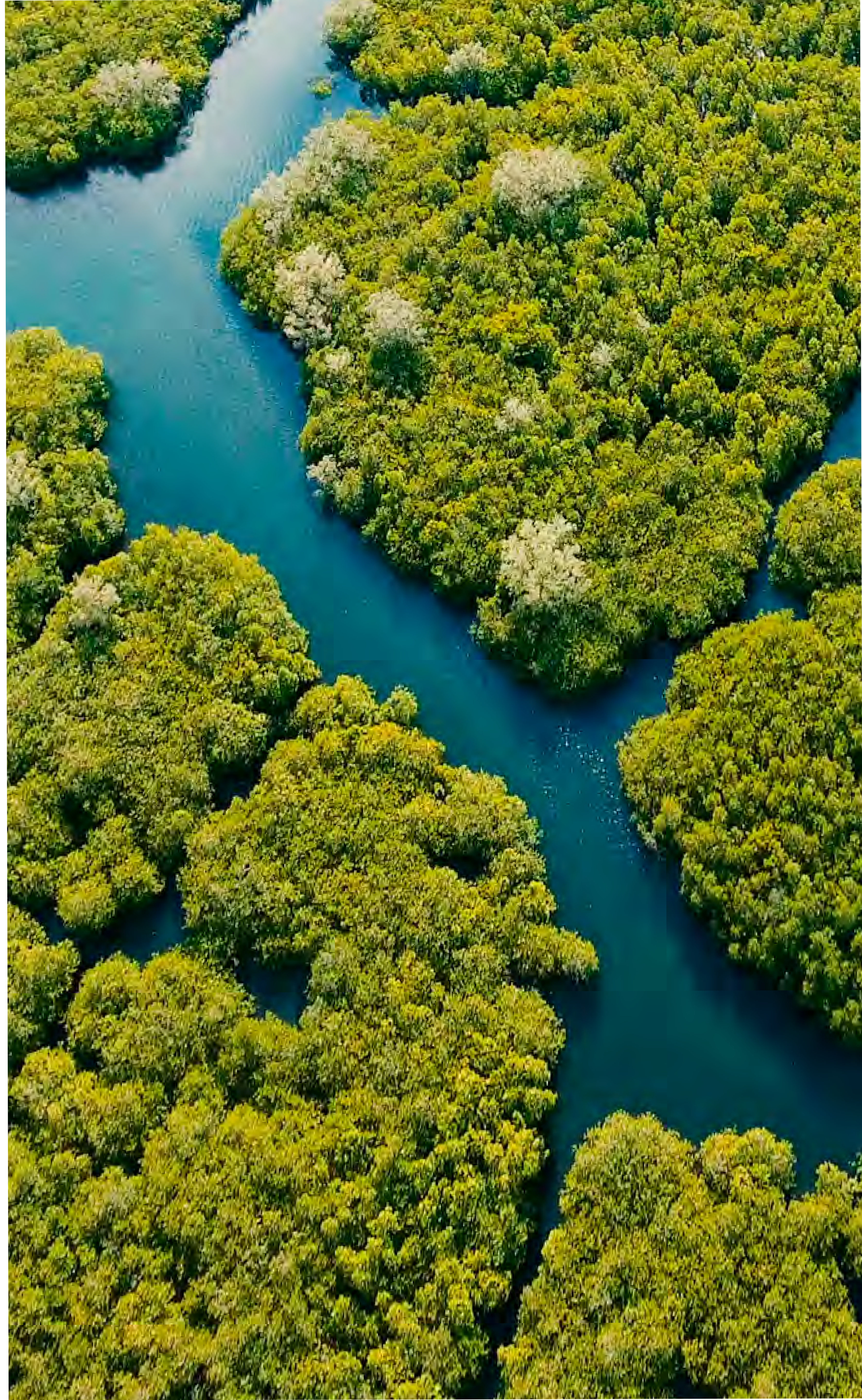
We have three main avenues to review and facilitate effective escalation activities for our clients' benefit:

1. Our expectations and the standards that we set asset managers during the normal course of business, and our Investment Stewardship Principles and Expectations document. Reference to these is made in Principles 7 and 8 of the Code.

2. Where needed, managers who fail to influence issuers adequately in areas of concern will become a focus by Aon's Manager Research team or by the Engagement Programme as appropriate. Aon will seek to engage with the manager in order to employ their escalation procedures, encouraging better issuer outcomes – outcomes that are aligned to the values and beliefs of both manager and Aon.

3. Aon captures broader areas of concern via our Engagement Policy Reporting Tool (EPRT). Our EPRT is a tool whereby our Engagement Reporting team can log inadequate responses from managers have been given. Our reporting team send questionnaires to managers on a systematic basis and when reviewed, concerns will be escalated to either the Manager Research team or the Engagement Programme, as applicable. Meetings will then be held with the manager to resolve. This process is further described in Principle 5 of the report – Client Responsible Investment reporting.

Our escalation expectations and approach are consistent across all asset classes and we expect managers to be aware of inadequate issuer activities.



Aon Investments Limited (AIL) escalation framework

If a manager continues to lag behind our investment and stewardship expectations as regards underlying issuers, it may result in our Manager Research team reducing the manager's ESG rating. This will then be communicated to all our clients that are invested in the manager and its strategy. Our Fiduciary business will sell out of a strategy if an ESG rating falls below an integrated rating for more than 12 months. The real threat of disinvesting from a strategy adds weight to our monitoring and engagement activities. Falling below our ESG expectations could mean a significant fall in assets for the manager.

Due to the scale of AIL and the strong relationships it has with its investment managers, we have found managers are receptive and responsive to engagement on ESG matters.

However, in the event of an unsuccessful engagement, there are several ways that we can escalate:

- Engage with more senior members of the manager's organisation.
- Reflect concerns in the strategy's ESG rating.
- Make current investment, or continued investment conditional on improvements.
- Disinvest from the strategy. This is a last resort although it is worth noting that our policies require us to do so if and when a strategy drops below an 'Integrated' rating for more than 12 months.

We give examples below, where our Manager Research team has escalated selected managers and the team has applied focus to areas of a manager's decarbonisation strategy, involving underlying company exposures, where progress has been slow.

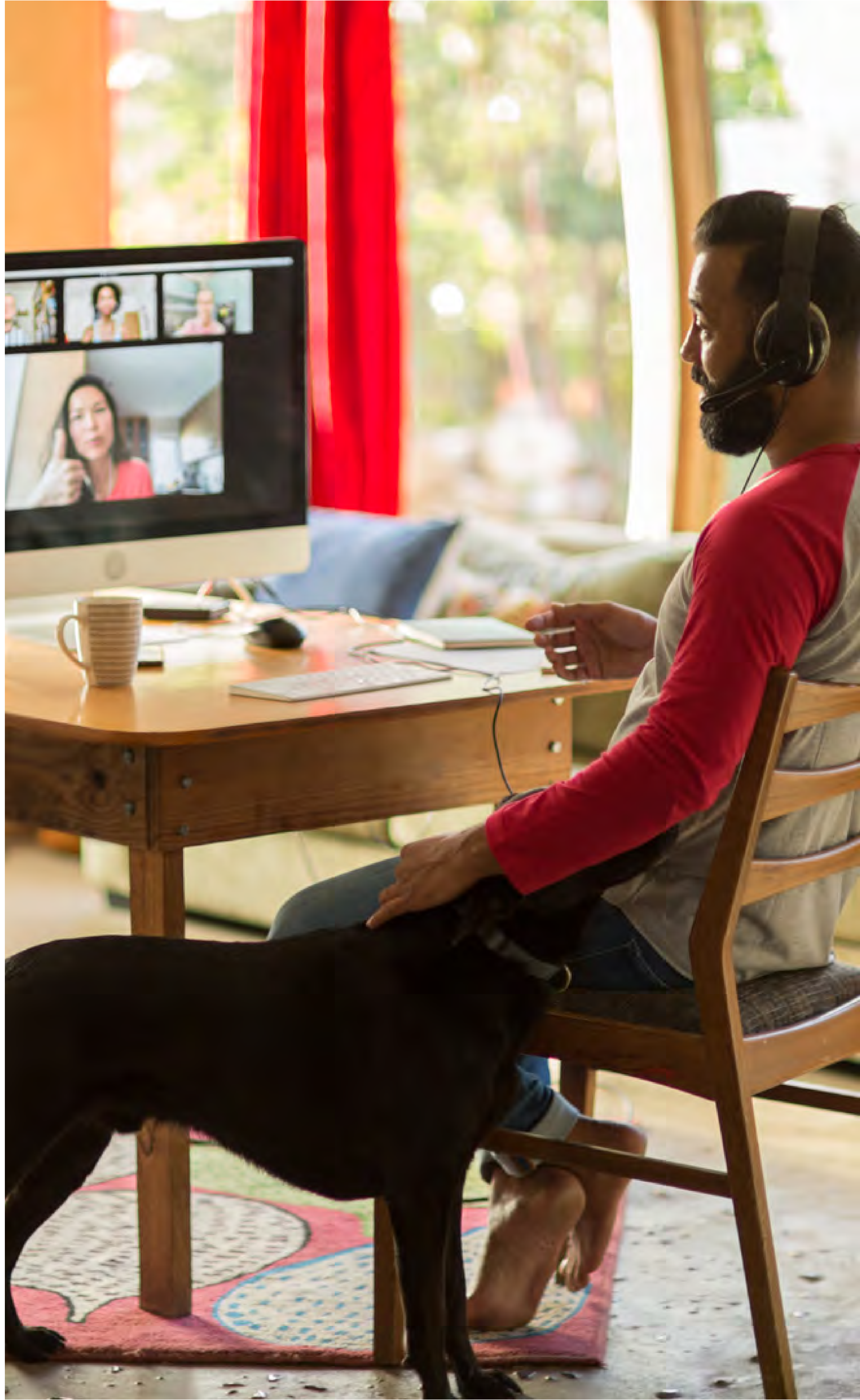
Activities and outcomes 2022

Accelerating decarbonisation plans for managers where progress is slow

In Principle 1 of the Code, we detail the Net-Zero carbon emissions target committed to, by Aon's Fiduciary business. As such we expect the strategies which our Fiduciary assets are invested in, to be working towards a pathway of Net-Zero by 2050. The journey to Net-Zero is complicated, and we believe a 'one size fits all' approach is inappropriate. We understand the implications and trade-offs for certain managers and strategies, are far more visible (for example, a value manager, or Emerging Markets equity manager) than for other types of managers and strategies (for example, a growth manager). Industry pressures and client expectations also vary by geography. This can speed up, or slow down the journey towards Net-Zero carbon emissions.

Given the context of a specific manager's approach, its domicile, and even factors such as its size, we have formed a view of where a manager should be, along the journey to Net-Zero. Therefore, where we identify managers as behind the progress we expect, we engage to find solutions to move managers along this decarbonisation journey.

Our Manager Research team does not engage directly with investee companies. However, in being clear with our managers on our decarbonisation expectations, our managers will follow through with the necessary engagement and expectations they need to make of their investees. In this way, Aon is able to influence company actions.



Over the year, we escalated strategies where our Manager Research team identified a need for additional focus on the Net-Zero commitments our Fiduciary business has made. We illustrate a selection of our activities below.

Case study

Product decarbonisation

Aim: Planning with managers how to achieve a decarbonisation pathway

Manager A

A small emerging markets equity manager with limited ESG resources, focused on small capitalisation stocks (and the resulting limited data for ESG) and investing in the value space (which is typically higher carbon intensity). For a manager such as this, we recognise the journey to Net-Zero will likely be longer, and small steps are required before being able to move along a more progressive decarbonisation pathway.

Aon's Manager Research team constructively engaged with the manager, sharing best practice of their peer group, and illustrated steps that could be taken on ESG and climate integration. As a result of our engagement, the manager revisited data vendors, and started to measure carbon emissions for the companies held it its portfolio. The manager then updated its ESG policy to incorporate its approach to measuring and managing its overall carbon emissions. The manager is now able to track Scope 1 and Scope 2 carbon emissions across the portfolio on a weighted basis and normalised by US$ revenue and US$ market capitalisation. This is now tracked and reported on a quarterly basis and the manager has stated it expects carbon intensity to decline over time, although not necessarily consistently every quarter or year. As a result of this escalation, and given this commitment, our Fiduciary business is able to invest in the strategy.

Manager B

A quantitative manager based in the U.S. and one who does not incorporate a decarbonisation pathway into its main portfolios. We constructively engaged with the manager and have developed a bespoke solution which incorporates a decarbonisation pathway with relatively low impact on tracking error. The approach is novel in that it penalises carbon intensive companies rather than applying blanket exclusions. This penalty function increases through time to ensure alignment with our transition pathway, while providing the requisite flexibility for the manager to capitalise on sufficiently attractive shorter term return opportunities.

We escalated engagement with this manager and strategy because, as a quantitative strategy, we can prescribe and enforce a controlled path of decarbonisation, with minimal impact to other investment parameters. Such an approach did not involve disinvesting, instead a better selection of opportunities could be invested in.

Emerging Markets region

Emerging Markets (EM) start from a lower base on environmental standards and there is mixed consensus on what can reasonably be expected from an Emerging Markets manager. For example, some significant EM sovereigns are not working towards the same 2050 Net-Zero milestone as the UK. Notwithstanding this, we are engaging with EM managers to raise the bar on levels of ESG and environmental risk integration, to move them along the path of Net-Zero carbon emissions.

We are of the view that taking these small actions early, often moving a manager onto the beginning of their carbon journey, is likely to lead to more applied developments, and allow us to exert more influence as the approach develops.

Some examples of where we have had to escalate issues in order to bring more focus to manager solutions with respect to carbon emissions, are provided below:

- We felt current index solutions failed to provide the appropriate balance of ESG integration and investment characteristics. We therefore co-designed an EM index which our Fiduciary business can invest in our solution will incorporate a decarbonisation pathway within a tight tracking error budget and provide tilts to UN SDG's and future green opportunities. This will be a significant carbon reduction relative to the existing position in indexed Emerging Markets.
- Aon has provided ESG feedback to various EM managers, sharing best practice of ESG standards and providing examples of improvements that can be made to move managers along their environmental journey.
- Illustrative examples of this include one EM manager adding hard exclusions to their opportunity set. A second manager has revamped its ESG materials and disclosures; for example, disclosing the portfolio emission pathway against various climate scenarios, disclosing and highest carbon emitters and those which are Paris Aligned, disclosing outlier ESG scores and disclosing engagement examples to address outlier issues.
- We have extended our EM equity buy list to include lower carbon solutions. Over 2022, we extended our Buy rating of one manager to its Sustainable EM strategy, which is managed against an ex-fossil fuel benchmark. In addition, we recommended two EM Impact managers. This provides our Fiduciary business with visible escalation routes – that of choosing alternatives should long-dated engagements with existing EM managers not progress as needed. It also gives our Fiduciary investment team leverage to engage knowing alternative strategies are available.

In the above examples, by creating demand for companies with a superior carbon profile, we add to the market message that decarbonisation will potentially lower cost of capital. Companies should find this attractive and seek ways of lowering carbon emissions.

We recognise that the pace of change and rate of decarbonisation of manager portfolios will not be a straight line, and we believe that certain managers can be expected to be at different stages along this journey. Nevertheless, by escalating focus on a selected manager, we have been able to build solutions that will have lower carbon emissions, whilst also being sensitive to investment considerations such as tracking error. By being clear in terms of our expectations as regards decarbonisation, we expect that underlying companies in our invested strategies will be being scrutinised for their own ability to fall within the required carbon parameters. We believe clients as a result have more robust portfolios with high levels of investment return potential.

TCFD reporting expectations

Due to UK regulation, trustees of larger UK pension schemes are now required to publish an annual report on its climate-related risks and opportunities, in line with the recommendations from the Taskforce for Climate-related Financial Disclosures ("TCFD"). To do so, trustees rely on the support of their investment managers.

The requirement for this support is set out in our Investment Stewardship Principles & Expectations of investment managers, as follows:

As a principle:

"As a result of the stewardship undertaken on their behalf, asset owners should be able to demonstrate how expectations of investee companies have been monitored or met, and how their investment rights and responsibilities have been exercised".

As an expectation:

- Engage with issuers to provide carbon emissions data and promote the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) reporting framework and consider use of science-based targets (SBTi).
- Provide data on Environmental Social and Governance (ESG) factors as required by regulatory bodies in a timely and comprehensive way.
- Provide meaningful, decision useful, transparent and granular reporting on stewardship activities on a timely basis, enabling asset owners to see if there is a mutual alignment of interests. Case studies are a useful way to illustrate active ownership.
- Reporting should be provided at firm and strategy level as appropriate and aligned to market best practice. We encourage reporting to be publicly available except in cases where this is strictly not possible.

One of Aon's clients had decided on a decarbonisation approach and had set climate-related targets for investments across its Scheme. Aon worked with the client to improve the quality of reporting received, for greenhouse gas emissions data across its Scheme and enable better measurement of decarbonisation progress.

Case study

Improving reported data for TCFD reports

Aim: Securing acceptable reported data for carbon emissions, on behalf of a client

First, Aon helped the client to obtain the required data such that reporting and measuring obligations could be met against the trustee's set targets. In its work, Aon looks to provide the trustee with the reassurance that its investment managers have taken a credible approach with respect to the trustee's decarbonisation plans and are able to measure and manage carbon emissions appropriately. However, as we collected the data, we saw that the quantity and quality of data received from the trustee's investment managers was varied. Aon identified the need for some managers to improve their ability to report the required information. This is also a general requirement on behalf of all Aon's clients, and we are keen that standards and quality of disclosure are improved.

To address this, Aon articulated trustee needs in a letter which was sent to investment managers, as appropriate and as part of an escalation process.

These letters clearly outline the trustee's TCFD Reporting Expectations and three versions have been drafted for three categories:

- Investment managers which provided a full response.
- Investment managers which provided limited or no response.
- An individual manager which provided a limited response but does not currently support TCFD.

The trustee understands that TCFD-related disclosures are still relatively new and methodologies are evolving for certain asset classes. However, the required data is an integral component of its approach and its need to be able to identify and assess the quality and management of its climate-related risks and opportunities. The trustee is reliant on the support of its investment managers to provide this.

The draft letters were sent to the investment managers, and expressed that the trustee would be grateful for its investment managers' continued support, fulfilling any additional data or information required, such as updated climate metrics data or clarification around what has already been sent. The letters further request understanding behind existing data gaps and the steps the investment managers are taking to improve the availability of this data going forwards. Where the manager does not support TCFD, it asks for the reasoning for the investment manager's current lack of support.

What was the outcome?

The letters prepared by Aon have been shared and discussed with the trustee and sent to the investment managers. Given the size of the Scheme, the trustee has the opportunity to demonstrate leadership in scope of UK regulatory requirements, to report clearly, using the TCFD recommendations.

By supporting the trustee in this escalation project, Aon also is demonstrating leadership and promoting the need for optimal disclosure and reporting, in order to help mitigate long term ESG risk.

Tackling climate change takes collective action and the trustee looks forward to working together with its investment managers to achieve both the trustee's and wider societal climate-related goals.

12

Principle 12

Exercising rights and responsibilities

12

Principle 12
Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

We believe the need for managers to exercise the rights and responsibilities on behalf of beneficiaries to be essential. We make this expectation clear in our Investment Stewardship Principles and Expectations, further described in Principle 8 of the Code.

Exercising the rights and responsibilities of beneficiaries, across asset classes, is an important tool for asset owners to encourage investees and issuers to themselves promote change for the better.

We assess voting practices when generating a manager's ESG ratings for each strategy and on an ongoing basis through our engagements and monitoring questionnaires. If necessary, we will follow up with a manager directly where we see evidence that their voting policies and /or actions fall short of our Investment Stewardship Principles & Expectations.

Our methods for assessing a manager's voting practices can include reviews of the following:

- Published voting policy and engagement topics.
- Policy on abstentions and special exemptions.
- Policy on allowing clients direct voting in segregated and pooled accounts.
- Reference to split voting proposals.
- Approach to stock lending and recalling stock for voting.
- Link to timely and public voting records.
- Use of proxy advisor services.
- History of filing ESG related shareholder resolutions.
- Recent examples of voting against management.
- Recent examples of voting decisions for contentious votes.

To assist our monitoring of manager voting activities, our ESG Data team request fund manager voting actions on a systematic basis – this is described in Principle 5 of the report – Client Responsible Investment reporting.

To facilitate industry best practice and encourage transparency of voting disclosures, Aon has aligned our voting data requests with the Pensions and Lifetime Savings Association's (PLSA) guide for asset manager voting disclosure. We believe the adoption of this guide should allow managers to build out systems that accommodate increased scrutiny on the votes they cast and enable the efficient transfer of this information to trustees. This data is critical for our clients to be able to make informed decisions about how aligned their managers' voting practices are with a trustees own Statement of Investment Principles. UK pension scheme trustees are now required to assess voting actions undertaken on their behalf on an annual basis.

Aon's Fiduciary team does not vote directly on the assets it manages on behalf of its Fiduciary business. Votes on these assets are instructed directly by the investment manager. It behoves us therefore to apply scrutiny on our manager voting behaviours and decisions.

In Principle 8, we described Aon's Engagement Programme's general approach and we demonstrated how, our expectations around voting behaviours are listed in the goals and touchpoints for an investment manager.

These expectations are also listed in our Investment Stewardship Principles & Expectations (IS P&E) document, which is shared with managers.

With respect to voting, managers should:

- Consider the relevant aspects of each resolution before voting.
- Vote on all stocks where entitled to do so, with limited abstentions.
- Seek to reflect any 'expressions of wish' from pooled beneficiaries in voting actions as and where possible, i.e., accept asset owner voting policies or offer a choice of voting policies, based on potential differentiated asset owner beliefs.
- Be prepared to bring shareholder resolutions and/or vote on resolutions as an engagement tool and/or an escalation measure, voting against management when necessary.
- Provide, at a minimum, quarterly public disclosure of voting activities.
- Provide voting rationales, in particular for 'significant votes' (as defined between asset manager and beneficiaries) and contentious votes (where more than 20% of the overall vote went against management).
- Consider the pre-declaration of voting intentions to clients and portfolio companies. In the absence of pre-declarations, clear communication for the basis of voting actions should be provided.

At our Engagement Programme meetings, Aon looks for a strong connection between a manager's responsible investment policies, its voting actions, and its ability or willingness to bring shareholder resolutions. Where a manager has committed to specific ESG themes in its responsible investment policies, we would expect the manager to use its voting powers in support of its commitments and as an escalation tool, where not enough is otherwise being done at company level. Transparency offered in this way, enables an investor to align its selection of investment manager with its own responsible investment beliefs and values. On the next page, we describe in two case studies how the Engagement Programme reviewed the exercise of shareholder rights and responsibilities by selected investment managers.

Case study

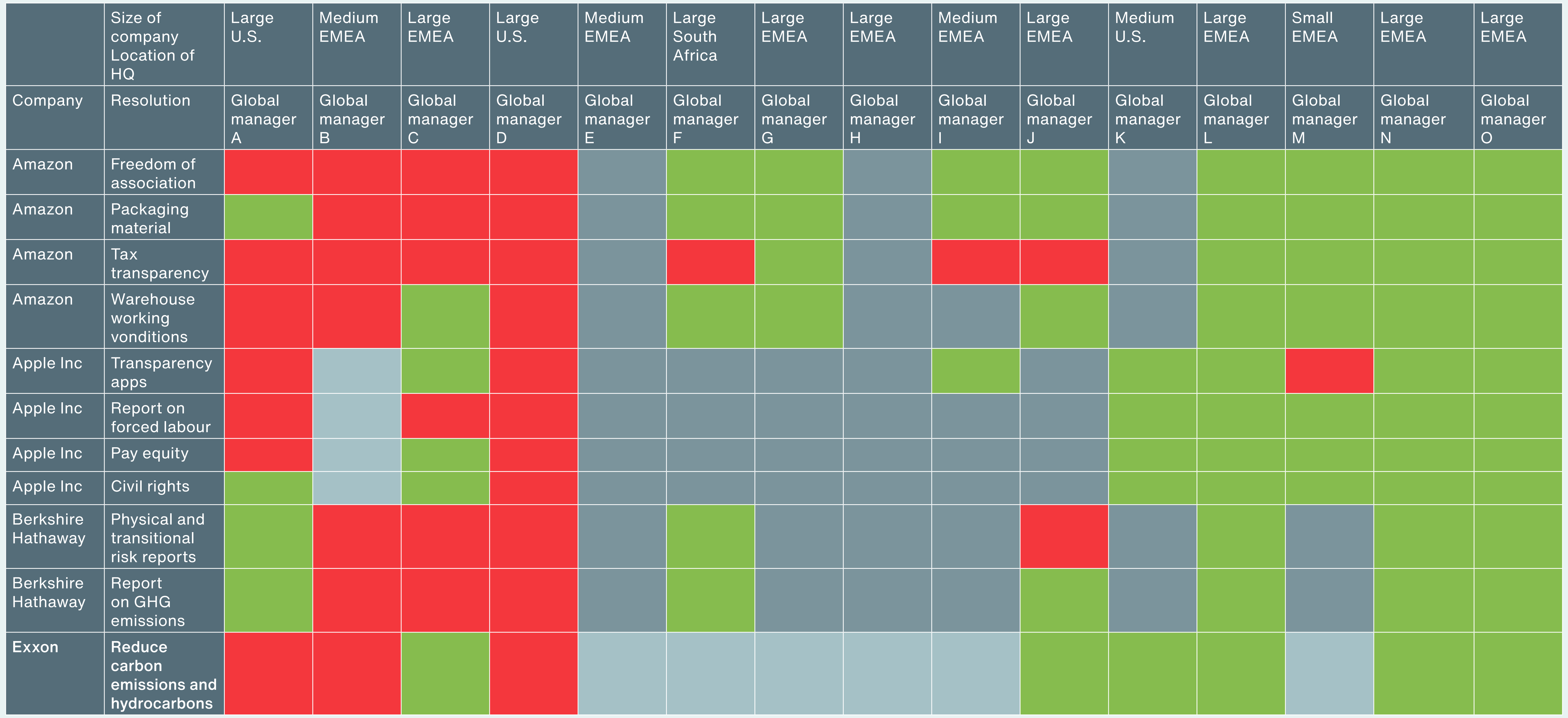
Exercising rights and responsibilities

Aim: Working towards better alignment of voting actions on behalf of our clients

Each year, Aon compiles its list of significant votes, drawn from shareholder resolutions supported by ShareAction, Climate Action 100+, or other industry groups who align with norms associated with the promotion of long-term sustainability for ESG issues. We would also consider including votes put to us directly by our clients.

To the right we show this list as a summary heatmap for the proxy voting season 2022 and the voting actions taken by managers engaged with, by Aon's Engagement Programme. Looking at voting decisions in this way allows us to engage further on the general trend of manager voting or on specific voting actions.

Aon's significant vote list of shareholder resolutions, 2022



Voted against Voted for No invested exposure

Aon's significant vote list of shareholder resolutions 2022 (continued)

	Size of company Location of HQ	Large U.S.	Medium EMEA	Large EMEA	Large U.S.	Medium EMEA	Large South Africa	Large EMEA	Large EMEA	Medium EMEA	Large EMEA	Medium U.S.	Large EMEA	Small EMEA	Large EMEA	Large EMEA
Company	Resolution	Global manager A	Global manager B	Global manager C	Global manager D	Global manager E	Global manager F	Global manager G	Global manager H	Global manager I	Global manager J	Global manager K	Global manager L	Global manager M	Global manager N	Global manager O
Exxon	Report on low carbon business planning	Voted against	No invested exposure	Voted against	Voted against	No invested exposure	No invested exposure	No invested exposure	No invested exposure	No invested exposure	Voted against	Voted against	Voted against	No invested exposure	Voted for	Voted for
Exxon	Report on scenario planning	Voted for	No invested exposure	Voted for	Voted for	No invested exposure	No invested exposure	No invested exposure	No invested exposure	No invested exposure	Voted for	Voted for	Voted for	No invested exposure	Voted for	Voted for
Exxon	Report on impact to business or single use	Voted for	No invested exposure	Voted for	Voted for	No invested exposure	No invested exposure	No invested exposure	No invested exposure	No invested exposure	Voted for	Voted for	Voted for	No invested exposure	Voted for	Voted for
Imperial Oil	Adopt a policy to cease oil and gas	Voted against	No invested exposure	Voted against	Voted against	No invested exposure	No invested exposure	No invested exposure	No invested exposure	No invested exposure	Voted against	No invested exposure	Voted against	No invested exposure	Voted for	Voted for
Meta	Report on effectiveness of community guidelines	Voted for	Voted against	Voted for	No invested exposure	No invested exposure	Voted for	Voted for	No invested exposure	No invested exposure	Voted for	No invested exposure	Voted for	No invested exposure	Voted for	Voted for
McDonald's	Single use plastic reduction	Voted against	No invested exposure	No invested exposure	Voted against	Voted against	No invested exposure	Voted against	No invested exposure	No invested exposure	Voted for	Voted for	No invested exposure	Voted for	Voted for	Voted for
McDonald's	Report on public costs with supply chain	Voted against	No invested exposure	No invested exposure	Voted against	Voted against	No invested exposure	Voted against	No invested exposure	No invested exposure	Voted against	Voted for	No invested exposure	Voted for	Voted for	Voted for
McDonald's	Advisory vote on third-party civil rights	Voted against	No invested exposure	No invested exposure	Voted for	Voted for	No invested exposure	Voted for	No invested exposure	No invested exposure	Voted against	Voted for	No invested exposure	Voted for	Voted for	Voted for
Royal Dutch Shell	Set and publish GHG targets for scope 1-3	Voted against	No invested exposure	Voted against	Voted against	No invested exposure	No invested exposure	No invested exposure	No invested exposure	Voted for	Voted against	Voted against	Voted against	No invested exposure	Voted for	Voted for
Valero Energy	Adopt GHG reduction targets	Voted against	No invested exposure	Voted for	Voted against	No invested exposure	No invested exposure	No invested exposure	No invested exposure	No invested exposure	Voted for	No invested exposure	Voted for	No invested exposure	Voted for	Voted for
Alphabet	Algorithm disclosures	Voted against	No invested exposure	Voted for	Voted against	Voted against	Voted for	Voted against	No invested exposure	No invested exposure	Voted for	No invested exposure	Voted for	No invested exposure	Voted for	Voted for
Alphabet	**Misinformation and disinformation - human rights**	Voted for	No invested exposure	Voted for	Voted against	Voted against	Voted for	Voted for	No invested exposure	No invested exposure	Voted for	No invested exposure	Voted for	No invested exposure	Voted for	Voted for

Voted against Voted for No invested exposure

All managers voted the vast majority of those votes, where entitled to vote. There were few exceptions to this, and all managers voted according to their own voting policy. Where a voting service provider was used, the manager had a process in place for the provider to flag where a management recommendation was contrary to the manager's own voting policy. These particular votes were then individually assessed. This is an improvement from last year when we noticed a handful of managers tending to default to their voting service provider vote recommendation. Aon continues to impress the importance that managers carefully consider each vote in the context of its own responsible investment policies.

Broadly speaking we notice regional differences in voting actions. In particular between the U.S. and Europe. Where we have engaged with U.S. based managers, we find they tend to be less progressive in their voting decisions, voting instead for 'corporate value' over 'stakeholder value'.

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The topic of responsible investment and ESG risk has become politicised in the U.S. and managers are careful not to influence day to day management decisions for non-pecuniary factors.

We see that the number of shareholder resolutions brought by the managers we engaged with, are limited. We also observe that the number of ESG shareholder resolutions brought by the wider market increased in 2022 but support for these resolutions decreased compared to the year before. There is some consensus around the reasons for this – that resolutions have become duplicative, poorly worded and/or overly prescriptive. We encourage managers to provide vote rationales for significant votes and in this way, Aon will assess the reasons where shareholder resolutions have not been supported.

We will continue to engage and report how our recommended managers vote in the 2023 proxy season.

Case study

Looking to improve voter choice, on a voting choice platform

Aim: To receive clarification on the distinction between offered voting policies and voting outcomes

Increasingly, it is expected that shareholders will want to ensure that the managers, managing assets on their behalf, are aligned to their own responsible investment beliefs and values, and vote accordingly.

Over the year, one of our recommended larger global investment managers, expanded its voting choice platform, launched a year earlier. The platform enables investors to have more control over their votes. Aon welcomed this initiative and has followed progress, engaging regularly with the manager, encouraging further development such that interested investors are able to get closer alignment with their own responsible investment approach.

The manager launched a proxy voting service for its clients through the offering of a voting choice platform. As part of this service, clients can choose from the following options:

1. Clients exercise control over voting decisions by using their own voting policy.
2. Clients take a mixed approach to voting, choosing when to vote directly.
3. Clients choose from a slate of third-party policies offered on the platform.
4. Clients default to the manager's voting policy.

Before recommending the platform to its clients, Aon needed to understand in more detail, what the expected outcomes of the offered third party voting policies would be. This context would highlight differences across the policies offered, allowing better alignment with the investors own responsible investment beliefs and expressions of wish.

Therefore, Aon conducted some preliminary research of these options and in particular, looked to substantiate the differences between the offered third party and manager voting policies. Aon therefore focused on options 3 (slate of third-party policies) and 4 (rely on the manager's own voting policy), given the relevance of these choices to clients in pooled funds.

Aon engaged with the manager to:

- Gain clarity on the options available to investors who choose from a slate of third-party policies, and the substance of those policies,
- Assess the rationale for the manager's own voting actions which was often contrary to the third-party responsible investment policies.

During the engagement process, the manager expanded its third-party policy offering to include a range from Glass Lewis, in addition to the existing range from Institutional Shareholder Services (ISS). Aon met individually with all parties. While encouraged by the range of options, further substantiation is needed to be able to distinguish differences, and so enable better alignment with client responsible investment approach.

Aon continues to work with the manager for further substantiation of voting policy choice.

Aon will monitor how our recommended managers vote in the 2023 proxy season in a similar manner, and will continue to promote increased transparency around voting activities and the availability of clear voting actions and rationales. Aon looks for a strong alignment between the manager's responsible investment policies and its voting actions.

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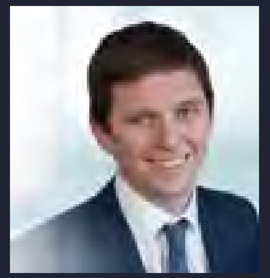

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About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.