canada life™

Annual Stewardship and Engagement Report

For year ending 31st December 2022

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This year, the world continues to face significant and unpredictable change, which makes our role in supporting customers, colleagues, and society more important than ever. It is in the face of challenges that we must maintain our focus on our purpose and values.

The strength and diversity of our organisation means we are in a great position to withstand the pressures of the challenging external environment as we look to ensure the success and longevity of our business, as well as the protection of our customers.

It's through this strength that we'll continue to drive forward our sustainability strategy to be a force for good and create a positive impact.

We're proud to present our first asset owner stewardship report covering the 2022 reporting period. We hope it helps you understand our approach to stewardship and gives you insight into the work we have done this year.

Lindsey Rix
Canada Life UK, Chief Executive Officer

Foreword

Welcome to our first asset owner Stewardship Report. We recognise that investing money comes with considerable responsibilities, and we take those responsibilities seriously. To deliver the returns our customers and beneficiaries expect from us, we must be good stewards, develop our approach in all aspects of environmental, social and governance (ESG), push ourselves to pursue the low-carbon transition, and invest where we see opportunities and sustainable returns. By doing this, we enhance the resilience and sustainability of our own business and investments, for the benefit of our customers, colleagues and communities to help them achieve their aim of financially secure futures.

Last year was interesting for the markets as real-world issues, including the pandemic recovery, war in Europe, rising inflation and interest rates, and three UK prime ministers, impacted the markets. The effects of these events are likely to persist through most of 2023, and we and our customers will have to continue to face the challenges that they present. Our long-term, thoughtful approach meant our investments were generally well-prepared for 2022 and we hope to replicate these successes in this coming year.

In such times, it's more important than ever to focus on the long-term impacts of our decisions on the wider financial, social and environmental systems, as well as the risks and opportunities that those systems present.

In 2022, we continued to advance our sustainability activities. We launched our sustainability strategy and published our first climate report. We supported our employees most in need by providing cost of living support and becoming a Living Wage Employer. We're proud that in December, Canada Life UK achieved a top quartile industry Sustainability Rating (A2) from Moody's ESG Solutions, which reviews businesses to assess and benchmark companies' performance in: environment, human resources, human rights, community involvement, business behaviour and corporate governance. This demonstrates how we're delivering on our core values to inspire our customers, colleagues and communities through the actions we take to improve society.

The Financial Reporting Council defines stewardship as "the responsible allocation of capital, management and oversight of our investments to create long-term value for customers and beneficiaries". In this report, we set out how we have sought to exercise stewardship effectively and will continue to do so for the benefit of customers, the economy and our communities.

I hope you enjoy reading it.

David Marchant
Chief Investment Officer, Canada Life UK

Principle 1: Purpose and strategy

Principle 1: Purpose and strategy

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.

Context

Organisational purpose, vision, culture, principles, values, business model and strategy.

At Canada Life UK (as defined below), we provide retirement, investment and protection solutions to individuals, families and companies, with a global purpose of building stronger, more inclusive and financially secure futures. Our presence in the UK spans 120 years and we're part of a leading global insurance, wealth and asset management group with nearly £40bn of assets*. We work with a diverse range of intermediaries to provide financial security to 3.6mn* customers so they can make more of life.

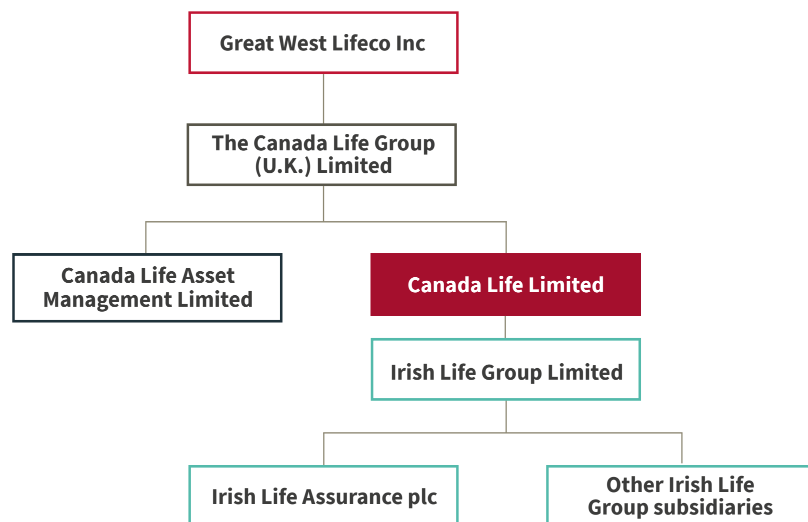


Figure 1: Simplified global group structure chart

**All figures are correct as of 31 December 2022*

Our group's heritage dates back to 1847 with the creation of Canada Life Assurance Company (which has since become part of our parent company Great-West Lifeco Inc). In 2022, we celebrated 175 years of helping our customers plan for their future. We've built on the strong foundation of our parent company, and our continued focus on customer care, colleague development and transformation is testament to our commitment to being the right partner for the long-term. We categorise our assets into two broad categories:

Shareholder assets back our insurance liabilities (to annuity and protection customers) and reflect our own capital and reserves. We control how these assets are invested and managed, including ensuring the integration of ESG and stewardship into the management of these assets through the application of the Canada Life UK's responsible investing approach. As an asset owner we directly manage these assets and do not outsource their management to external or affiliated asset managers.

Customer assets are held within our life and pension products and our customers have discretion in the selection of the funds or assets held within their product to support their investment, saving or retirement plans. The majority of our customer assets are managed by our affiliate CLAM (as defined below), which is also part of Canada Life UK. We can therefore exercise a high degree of control over the integration of ESG and stewardship into the management of these assets through the application of the Canada Life UK's responsible investing approach.

As **Figure 3** shows, together shareholder assets and customer assets managed by CLAM represent 98% of the nearly £19.7bn assets owned by CLL (as defined below), and as the approach to the management of these assets is consistent, these are the focus of the report.

To understand which asset classes are relevant to shareholder assets or to customer assets please refer to **Figures 7** and **8** later in Principle 6. These help to clarify which approaches are relevant to assets owned and managed by CLL (shareholder assets) and which approaches are relevant to assets selected by our customers, owned by CLL (customer assets) and managed by CLAM using the umbrella approach we apply to responsible investing. We report on our approach to the stewardship of customer assets managed by external managers in Principle 8.

Our simplified organisational structure is outlined in **Figure 1**. In this report we're speaking as Canada Life Ltd (CLL). We refer to Canada Life Asset Management Ltd (CLAM) and the other group entities in the UK division (which are not all shown in the simplified organisational structure) as Canada Life UK.

Principle 1: Purpose and strategy

The terms 'we', 'our' and 'us' primarily refer to CLL, however, when we refer to our asset level approach to responsible investing, provide case studies or other asset specific information we're referring to:

- **Fixed Income:** this covers sovereigns, supranationals, private placements and corporate credit. The term 'we' 'our' 'us' refers to either CLL, in respect of shareholder assets, or CLAM, in respect of CLL customer assets managed by CLAM;
- **Equities:** the term 'we' 'our' 'us' refers to CLAM, in respect of CLL customer assets managed by CLAM;
- **Multi-asset:** the term 'we' 'our' 'us' refers to CLAM, in respect of CLL customer assets managed by CLAM (invested through a fund of funds structure);
- **Real Assets:** this covers direct property, commercial real estate loans; and equity release mortgage assets. The term 'we' 'our' 'us' refers to CLL, in respect of shareholder assets.

When we refer to our 'investments' or 'assets' we are referring to those assets that we have control and influence over and this includes shareholder assets and customer assets managed by CLAM.

Figure 2 shows our assets split by asset type and **Figure 3** shows our assets split by shareholder and customer assets.

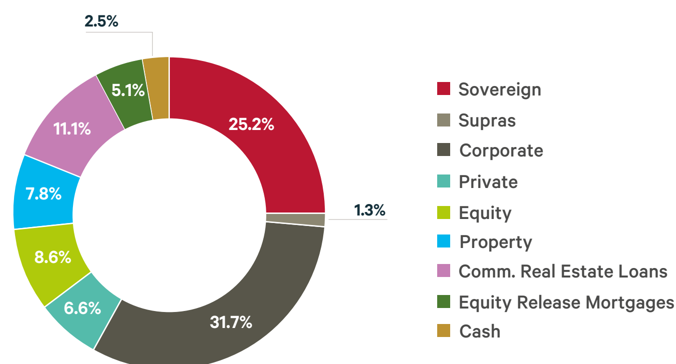


Figure 2: Assets split by asset class

CLL is proud of our presence in the UK market, owning assets valued at nearly £19.7bn, as at 31 December 2022, in fixed income, equities, UK property and multi-asset solutions. Our parent company, Great-West Lifeco, is a financially strong and stable global organisation, with total assets under administration of £1,522bn as at 31 December 2022.

Purpose

Throughout our history, our focus has been on making every decision matter and that sets the standard for who we are and how we deliver. We aim to support our customers through life's milestones, being there when we're needed to help build stronger, financially secure futures.

We believe it's our expertise, genuine care and attention, as well as our focus on providing opportunities for all, that makes the greatest positive impact for the world around us.

Vision

Our vision is to ensure our customers build stronger, financially secure futures while reducing the impact on the planet and supporting a society in which everyone can thrive and fulfil their potential. Our belief is that we can help to achieve this through how we invest and how we engage with our investments. We will deliver this through our Responsible Investing strategy which forms a core pillar of our Canada Life UK sustainability strategy which centres around four core areas of focus: Responsible Investing; Sustainable Operations and Customers; Diversity, Equity and Inclusion; and Social Impact and Culture.

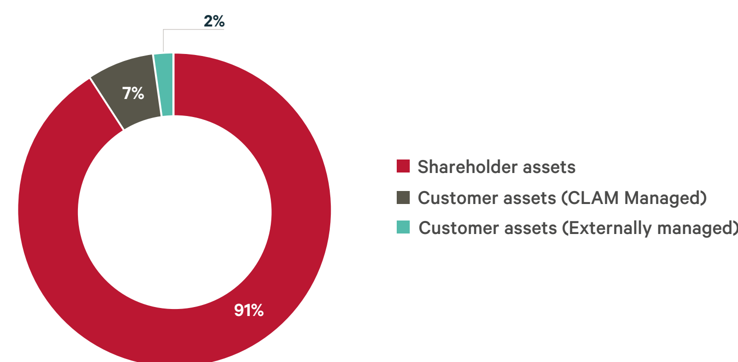


Figure 3: Split of investment assets

Principle 1: Purpose and strategy

With nearly £19.7bn of assets owned and managed by CLL and a broad network of colleagues, business partners and communities, we have the resources, platform, and the capabilities to:

- inspire change and drive forward the solutions to the challenges we face; and
- deliver a resilient business capable of delivering financial wellbeing for our customers.

Our values

We have a long heritage of supporting our retirement and savings customers. We focus our efforts and business objectives on providing good outcomes for our customers. We seek to do what is right, take our responsibilities seriously and seek to design straightforward and easy-to-understand products that are built around genuine customer needs, making it easy for our customers to make sound choices.

As responsible investors, we believe we are stewards of both the assets we are entrusted with and the financial, social and environmental systems that underpin the long-term returns our customers seek. We believe that managing ESG risks well will deliver more stable and resilient long-term returns.

What does that mean for our culture?

We place a high value on doing what's right for all of our stakeholders: our colleagues, customers and communities. We take our responsibilities seriously, be it through shareholder voting, engagement or wider investment activities.

Integrity is important to us. Our culture is one of openness, honesty and accepting responsibility for what we get right and wrong. This not only means being transparent, but speaking up when we believe something is wrong or not possible.

Our business is built on people, expertise and integrity.

Our colleagues are the engine of our business, and our ability to succeed starts with care, expertise and clarity. These are at the centre of every decision we make. The average tenure of our colleagues was circa 8 years at the end of 2022, demonstrating that not only do we nurture our relationships with our colleagues, but they also believe in our business and take pride in what they do. They develop expertise over many years, take responsibility for our products and customers and believe that every decision matters, not just for the current year but into the future.

Our focus is always on our customers. We believe that the best way we can support our customers is by taking a long-term approach in our investment decisions.

As responsible investors, we concentrate our efforts on what we do well, focusing on our core competencies of fixed income, multi-asset, global equities and property. Our team of investment professionals, many of whom work across shareholder and customer funds, is highly experienced and is regularly recognised in industry awards. In 2022, CLAM's multi-asset team was shortlisted for Investment Week's Fund Manager of the Year Awards in the Mixed Investment Shares 0-35% category, recognising the LF Canlife Portfolio III Fund. CLAM launched the LF Canlife Sterling Short Term Bond Fund in June 2022, adding to their fixed income suite. In addition, we also re-launched our Risk Managed Fund range to include volatility targeting. The LF Canlife Sterling Liquidity Fund was awarded a five-star Fitch Rating, while CLAM's multi-asset fund range retained its four and five-star Defaqto diamond fund ratings. They're also risk-rated by Defaqto, Dynamic Planner, Synaptics and Finametrica which makes them easier for advisers to include in a wide range of portfolios.

Our business model

Our focus is always on our customers. We believe that the best way we can support our customers is by taking a long-term approach in our investment decisions. We target our efforts on what we do well, where we can add value, and keep things simple, as complexity generally adds costs without adding a commensurate return.

As we've grown as a business, we've focused our efforts on doing what we know best and growing our presence and capabilities in our core areas of expertise. To continue serving our our customers well, we must evolve and continue to invest in our business. During 2022, in our asset management division, we expanded our engagement and voting capabilities and grew our multi-asset team.

Principle 1: Purpose and strategy

We benefit from a financially strong parent, which provides us with access to wider group opportunities and advice. Such access has enabled us to make long-term decisions, safe in the knowledge that we've Canada's oldest life assurance company alongside us.

Our investment approach

We believe that investments that manage ESG risks well deliver more resilient returns. Good governance is vital to delivering business strategy and commitments. As an active owner, we have the opportunity to develop long-term relationships with the relevant stakeholders.

We engage with management and develop a deep understanding of the issues that are relevant to the investment, whether that's a long-dated commercial mortgage borrower, a property tenant or the management team behind a private placement asset.

We evaluate the management team and its ability to deliver, while considering the long-term attributes of the assets we invest in or lend against. We challenge management where appropriate and consider the environmental impacts of the company or asset we're invested in. Our 12-strong in-house research team of credit analysts provide independent research on fixed interest assets, real estate backed loans and our major property tenants. We also have research specialists in our equities and property teams. Where information is not forthcoming, we explore why.

Good governance practices have long been part of our asset assessment process and we encourage investee companies to uphold the highest standards of corporate governance. This doesn't just benefit our own investments, it's also the right thing to do for our customers and society. We influence management through our use of engagement and voting, to promote strong corporate governance at investee companies. But we also need investments to offer good value. That might be through a higher yield relative to similar assets, the chance of greater capital appreciation, or the opportunity to redevelop and/or improve the characteristics of a property asset.

Our ESG strategy

We recognise that a company's ability and willingness to address how it impacts and is impacted by, ESG issues, can have an important influence on its long-term financial performance. We also understand the impacts – both positive and negative – that our investment decisions can have in a highly interconnected world on people, society and the environment.

Along with being the steward of our assets, we take responsibility for the systems we use to invest and grow those assets. We believe being responsible means taking the role of a steward that cares for our assets as well as the environment in which we operate. With that in mind, ESG considerations are increasingly important in our approach to managing risk and achieving our customers' long-term financial goals.

Good governance practices have long been part of our asset assessment process and we encourage investee companies to uphold the highest standards of corporate governance.

Principle 1: Purpose and strategy

We consider the potential impact of environmental risks across our assets, and we seek to encourage high standards of governance and social responsibility. By integrating ESG metrics and qualitative considerations into our investment process, and by pursuing constructive engagement with companies in which we invest, we aim to achieve optimal and sustainable investment outcomes for our customers, society and our business.

Our investment process considers a wide range of factors, both financial, such as profitability and capital structure, and non-financial, including the sustainability of the business model and ESG criteria. Non-financial factors are particularly important as we aim to be long-term owners; it's these longer-term drivers of performance that can be key contributors to the success or otherwise of our investments.

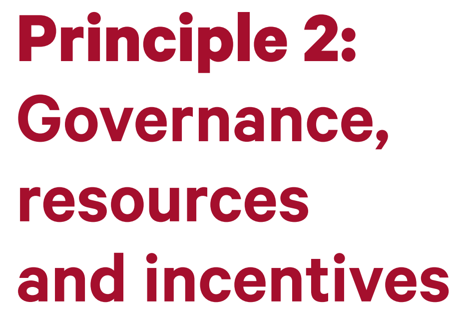
Outcomes

Evaluation of effectiveness of purpose and strategy

We believe that our stewardship approach not only aligns with our corporate purpose, investment philosophy and company culture, but is also in our customers' best interests. We've worked hard to foster a positive, inclusive working environment, and our focus on doing the right thing to deliver sound solutions for our customers has helped us to embed stewardship and ESG principles into our investment process.

The way we conduct our investment activity is important to our customers. Along with significant enhancements to our stewardship activities, we've made great strides in embedding ESG considerations into the way we think and operate. This is because we believe that we're not only stewards of capital, but also of the financial system in general. We explain in Principle 4 how we have been effective in serving the interests of our customers when managing inflation and climate risk during 2022 through our stewardship approach.

We believe our strategy will help us reduce our impact on the planet, support our customers, colleagues and communities, and deliver a business that is well placed to deliver sustainable profits and financial wellbeing for our customers for another 175 years.



Principle 2: Governance, resources and incentives

Principle 2: Governance, resources and incentives

Context

How our governance structures and processes contribute to better oversight and accountability for effective stewardship.

We take our responsibility for our assets seriously and place great importance on good governance at all levels of our business. This is achieved through robust risk management and governance processes that are embedded transparently throughout our business.

These processes ensure we're constantly monitoring and assessing our performance, while challenging our approach and making sure we're treating all customers fairly. A detailed explanation of our approach to risk management is discussed later in this report, where we describe how our oversight and governance structure has enabled appropriate oversight and accountability for effective stewardship. In **Figure 4**, we've set out how our governance bodies interact with each other.

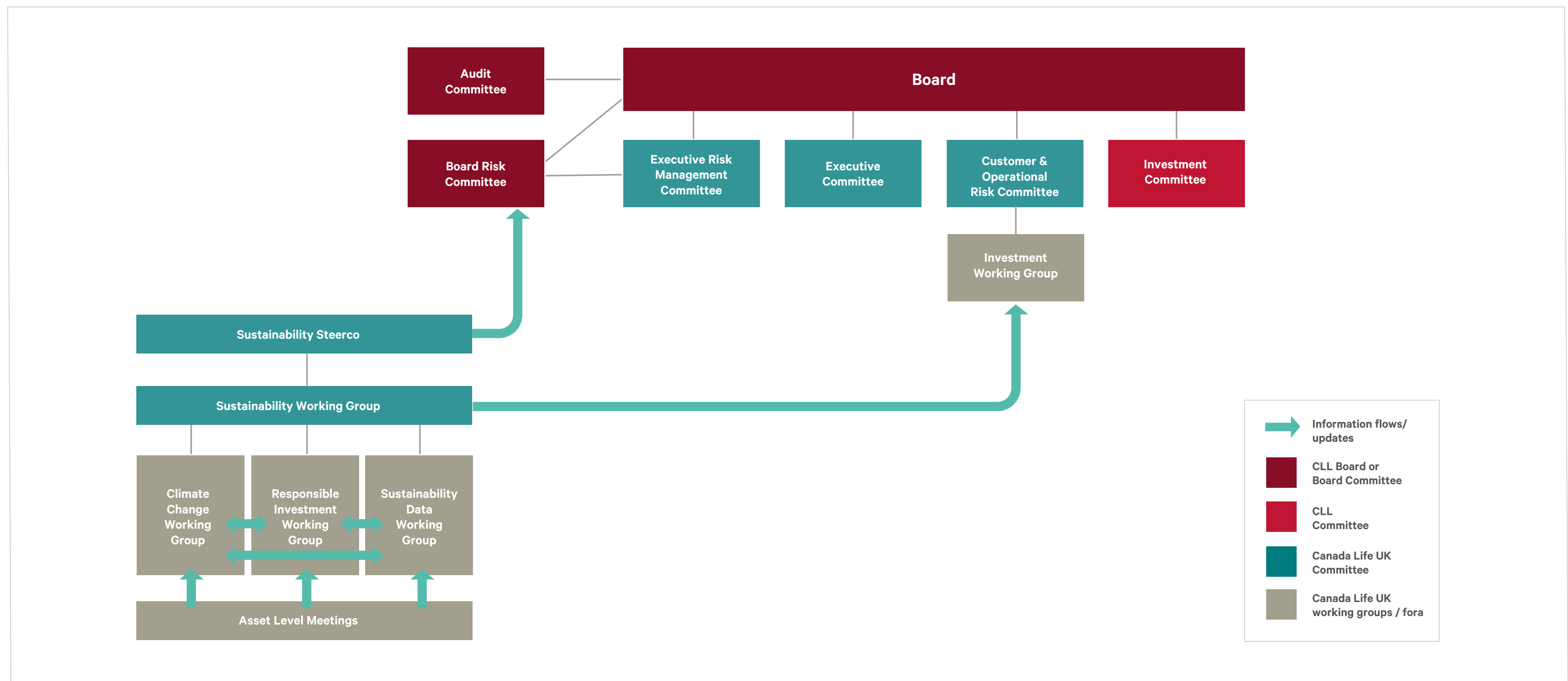


Figure 4: Sustainability governance structures

Principle 2: Governance, resources and incentives

In 2022, we reviewed our governance structure to make it more agile, reflective of our business needs and responsive to the challenges our organisation faces as they emerge. Sustainability appears on the agenda in many internal governance forums. **Table 1** summarises the oversight and decision-making activities of the principal forums involved in the primary oversight of sustainability.

Board or Committee	Purpose	Role in 2022
Board (CLL only)	Our board is ultimately responsible for supervising the management of the business. It's responsible for: setting our strategy and management; overseeing our organisational structure; corporate governance through operating policies; risk management; and ensuring that a culture of integrity is promoted throughout the company. This includes setting and overseeing strategy for ESG, climate change and stewardship activities. Attended by appropriate executives and directors.	Monitored progress of stewardship and ESG activities, including through: • Update on our 2022 Climate Roadmap in March 2022. • Participating in training in April and July 2022 on climate metrics and disclosure. • Approving Canada Life UK's first climate disclosure aligned to the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and inputting into our emerging sustainability strategy in July.
Sustainability Steering Committee (Canada Life UK committee)	Established to determine, guide and drive our climate and wider sustainability strategy and to take our decision making forward at pace. Ensures alignment of activities across Canada Life UK. Attended by key executive decision-makers including divisional Chief Executive Officer (CEO), Chief Risk Officer (CRO), Chief Financial Officer (CFO) and Chief Investment Officer (CIO).	Focused on sustainability decision-making through activities such as: • Reviewing, commenting upon and approving Canada Life UK's 2022 Climate Roadmap and committing to prepare our first TCFD Report. • Reviewing, commenting upon and approving Canada Life UK sustainability strategy. • Approving Canada Life UK's first TCFD Report. • Approving implementation of improved ISS voting tool for our asset management division. • Approving CLAM's 2021 stewardship report.
Board Risk Committee (BRC) (CLL board sub-committee)	Primarily responsible for monitoring and managing risks associated with our business activities, including sustainability risk. Includes four board members, and attended by the Canada Life UK CEO, CRO and CFO.	• Received updates on our progress against our 2022 Climate Roadmap and Climate MI. • Approved the scope of our proposed climate scenarios in June and results of our climate scenarios in November 2022. • Approved initial phases of, and plan for, a wider piece of work to determine our sustainability risk appetite building on our emerging sustainability strategy and enhanced climate data in June. • Approved a Sustainability Risk Appetite in December.

Continued on page 13

Principle 2: Governance, resources and incentives

Continued from page 12

Board or Committee	Purpose	Role in 2022
Responsible Investment Working Group (RIWG) (Canada Life UK)	Accountable for delivering our Responsible Investment Strategy, including stewardship activities and reporting. Attended by sustainability subject matter experts from across the business, including first and second line who act as business-level champions disseminating best practice through the business.	• Refining and delivering our Responsible Investment strategy. • Developing carbon risk rating across asset classes. • Preparing Canada Life UK TCFD report and CLAM stewardship report for 2021. • Developing engagement strategy including our engagement template, developing our prioritisation and engagement framework. • Embedding ESG and stewardship across all asset classes and activities.
Sustainability Data Working Group (SDWG) (Canada Life UK)	Developing and delivering accurate and timely sustainability data for management information, risk monitoring, client requirements, regulatory and other internal needs.	New group formed in 2022 to improve the quality, timeliness and assurance of our climate data.

Table 1: Summary of board, committee and working group sustainability decision-making and action

Principle 2: Governance, resources and incentives

Embedding ESG into our investment process

Earlier in this report we discussed how, as a long-term investor, our processes evolve dynamically with the markets, societies and ecosystems in which we operate. ESG considerations are an increasingly important part of our approach to managing risk and achieving our long-term investment goals. We want to ensure that those considerations are integrated into our approach. We've also discussed that it's important that all our investment teams, at all levels of seniority, are involved in and are responsible for, our stewardship and ESG activities. We believe this is the best way to ensure we're a truly responsible investor.

Our approach is to embed ESG and stewardship into our existing teams of analysts and fund managers. We achieve this by using existing processes where possible and making enhancements where necessary. For example, our fixed income credit analysts know and understand the companies we invest in so they take responsibility for considering the ESG issues that affect these companies. This promotes a holistic approach where a single analyst develops a complete picture of a specific company.

We encourage our colleagues to be responsible, develop themselves so that we can enhance our business, and carefully make decisions from a position of expertise.

Appropriate stewardship resources

We recognise that embedding ESG into relevant teams responsible for stewardship and stewardship processes means we're asking more of our colleagues, so we need to provide the right resources and tools to allow them to do this effectively. We're committed to supporting our colleagues to develop their understanding of ESG risks and opportunities. We achieve this by providing relevant colleagues with training, knowledge-sharing opportunities, the tools to understand ESG risks and opportunities, chances to collaborate, and new ways to enrich our investment process.

We've been investing in stewardship to take our activities forward in 2022. Much of this investment has focused on our asset management division. A big focus for us has been engagement tools, and in 2021 we upgraded our Morningstar Sustainalytics licence to incorporate its thematic engagement tool, joined the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA100+), and the UK Sustainable Investment and Finance Association (UKSIF). In 2022, these networks have provided our colleagues with opportunities to enhance our collective engagement activities, develop and learn from industry best practice, and better engage with our industry. We discuss later in this report (Principles 8 to 11) how effective we have found these networks to be in generating meaningful stewardship activity.

In 2022, we also invested in specialist resources to support our teams, including an ESG and engagement analyst to provide specialist support to our fixed income and equities teams. We are pleased to report that this new analyst supporting stewardship activities joined in July. We also recruited to our central sustainability team again showing how we are investing in our workforce structures serving Canada Life UK. In early 2023, a programme lead joined to facilitate delivery of our sustainability and stewardship reporting and programmes, and a data lead joined to enhance our sustainability data (including stewardship) quality, systems and assurance.

We encourage our colleagues to be responsible, develop themselves so that we can enhance our business, and carefully make decisions from a position of expertise. We continue to encourage and invest in external and internal training, where we consider it will assist our colleagues in delivering on our ESG and stewardship ambitions. Since 2018, our real estate team has had a rolling programme of externally provided ESG training. We also rolled out training on climate disclosures to relevant subject matter experts in 2022.

Principle 2: Governance, resources and incentives

In 2022, we began rolling out sustainability training for all colleagues. These sessions have been well received and we hope to reach even more colleagues in 2023. Our aim is to give all colleagues an overview of our sustainability strategy and expectations around it, as well as providing a foundational level of knowledge around ESG.

Connecting colleagues' incentives to stewardship objectives

Our colleagues are key to achieving our ESG and stewardship commitments. We aim to attract, retain and support qualified and experienced colleagues who will contribute to, and enable, the realisation of our ESG and stewardship objectives.

We believe in recognising and rewarding our people as part of a competitive salary and benefits package, which is regularly reviewed to ensure it aligns to our values and strategy. Our asset management division bonus scheme is designed to reward and incentivise colleagues by aligning individual contributions and behaviour to the achievement of financial and long-term strategic objectives. It provides both for deferral (adjustment before payment in respect of deferred payments) and clawback, to ensure that compensation aligns to our preferred risk exposure and long-term objectives.

To support our corporate purpose, every colleague has three shared performance objectives. Colleagues have to demonstrate how they:

- Understand and care for our customers;
- Manage risk and assets effectively; and
- Lead themselves and others forward which includes evolution of our culture, ways of working, strategy and business.

Individual performance against these objectives has a direct impact on bonus payments.

For relevant colleagues working in the asset management division and wealth division, we ringfenced a significant proportion of an individual's available bonus and determined that this should be paid out on achievement of non-financial objectives (including those explained above). In 2022, these non-financial objectives formed part of the performance assessment process and could override financial criteria.

Diversity, Equity and Inclusion (DEI) is recognised as a core strategic objective across our global company.

Alongside this, as part of our effort to create a strong firm-wide commitment to ESG and stewardship, relevant colleagues were additionally given the objective of integrating ESG and stewardship into their thinking and daily activities. These non-financial objectives will be retained in 2023.

To encourage high-level accountability, key decision-makers in our company have elements of their remuneration tied to stewardship objectives. These include the CIO (whose incentives are linked to ESG), our CRO (linked to climate change), and the CEO (linked to our sustainability strategy).

A diverse workforce

Diversity, Equity and Inclusion (DEI) is recognised as a core strategic objective across our global company. We're proud of the progress we're making in DEI, while recognising there's more to do. That is why in 2022 we launched a new DEI strategy at Canada Life UK. Our internal ambition is to create an inclusive workplace with a diverse workforce where everyone can feel they belong and achieve their potential regardless of gender, ethnicity or any other protected characteristic.

In 2022, we launched our new corporate purpose. It was delivered through interactive sessions, designed to enable colleagues to understand our strategic drivers and associated behaviours and values. We also re-launched colleague-led networks for LGBTQ and gender balance, to raise awareness and continue to create change, and introduced bias awareness sessions.

Principle 2: Governance, resources and incentives

Board of directors

When we appoint members to the board, we try to reflect our corporate culture and behaviour at the highest level. We have a board diversity policy that recognises the value of appointing directors who bring a variety of opinions, experience, skills and backgrounds to our discussions and decision-making processes. Diversity is important to us at the board level because it enables more dynamic oversight and strengthens our governance. While merit and suitability remain the most important drivers of appointments to the board, we ensure that we also consider a range of factors including gender, race, religion, sexual orientation and age.

In 2022, we did not make any new appointments to the board (albeit one appointment was formalised during the year following regulatory approval). However, our policy is to give new board members an induction that includes an update on our climate and responsible investment activities, reflecting the importance of these matters in our business model.

From 4 April 2022 (upon confirmation of the appointment referred to above) , the CLL board had 44% female representation.

Colleagues

As at 31 December 2022, Canada Life UK had 16% ethnicity representation at all grades and 8% representation at senior leadership grades. We have made further progress with female representation, as at 31 December 2022, Canada Life UK had 48% female representation at all grades and 27.4% representation at senior leadership grades, an increase on last year's figures of 46% and 26.9% respectively. 17.5% of the population have not reported their ethnicity at end of December 2022 and it was 19.2% at end of 2021.

As a business that prioritises responsibility, integrity and fairness, we're committed to improving all forms of representation. In 2023, we continue to focus our efforts on improving female representation at senior levels of the organisation. We aim to encourage positive DEI behaviours through incentives and, in particular, in 2022 all people leaders had a link in their leadership objectives to supporting DEI. This has been retained for 2023.

Sourcing and attraction

All job vacancies are posted on targeted job forums that appeal to a wide and diverse population of candidates with a variety of characteristics relating to age, social mobility, gender, ethnicity, sexual orientation and returning to work. We also include gender-neutral language to increase the proportion of applications from female candidates. We introduced a requirement for balanced shortlists in all external hiring in 2022, and now encourage all applicants to talk to us about flexible working arrangements.

Assessment and selection

Talent acquisition processes ensure there is robust challenge, feedback and expert opinion on candidate potential, ensuring that final hiring decisions are bias-aware. We analyse candidate data throughout the recruitment process to uncover and address any hidden barriers experienced by candidates who apply for open roles with us.

Identifying and managing talent

We continue to grow our talent management capability to link our workforce to future business needs. We conduct annual talent reviews of all senior managers and provide individuals with targeted development plans. In 2022, we built on this process by analysing the data we gathered, identifying blockers to the development of high potential colleagues, developing measures to address these blockers and creating career opportunities. Our data confirms we have higher representation of women and ethnic minorities in the pipeline compared to the current senior management team. We believe that identifying future talent and embedding targeted development opportunities will contribute to the future success of the company.

Fair and equitable compensation principles

All starting salaries for new senior level appointments are reviewed by senior management to ensure consistency and fairness. In addition, our annual performance reviews are conducted through an inclusion lens. All data is reviewed according to gender, ethnicity, age, work pattern and level of seniority to ensure that reward and compensation decisions are fair and consistent. In 2022, we enhanced our bonus methodology to allow periods of family leave to be included in calculations. We continue to review our policies from a family-friendly perspective.

Principle 2: Governance, resources and incentives

The way we work

In 2022, we continued to encourage blended working. This was supported by the upgrades to our premises that had taken place over the last couple of years, this includes our office relocation during 2022 in Bristol covered in case study 11 later. This shows that we are investing in our people and adopting a sustainability-led approach to the design, construction, transportation and sourcing of materials for our premises and providing appropriate technology to colleagues.

The change in how we connect and work has enabled us to redefine how, where and when our people engage while at work, making it easier to balance competing priorities. This has allowed us to be more flexible about where roles and colleagues are geographically based to encourage talent movement and progression.

Outcomes

Evaluation of effectiveness of governance, resources and incentives

We're committed to promoting ESG and stewardship throughout the company and this is of particular relevance to, and reflected in, the structures and systems in our asset management and wealth divisions . We ensure that we prioritise ESG and stewardship in our asset management activities from our board of directors, through our senior leadership team and down to every individual colleague delivering our responsible investing strategy.

In 2022, we reviewed our governance and, as part of that, our ESG and stewardship governance, to ensure the structures we adopt respond to emerging sustainability challenges and support greater accountability. By emphasising stewardship and ESG within our corporate governance structures, we're better able to monitor our activities and empower relevant colleagues to take greater control of, and be accountable for, their stewardship responsibilities. We consider that the mix of experience, views and different levels to challenge decisions in our governance structure delivers effective oversight of our stewardship and ESG activities, as evidenced by the advancements we have made this year.

In 2022, we focused on the culture and behaviour that will deliver our corporate purpose. For colleagues delivering our responsible investment ambitions we prioritised stewardship and ESG, our customers, and responsibility in our culture, objectives, training, incentive structure, and investment in our business. These measures have already borne fruit this year, which we highlight in Principles 7-12 later. We believe we have moved our responsible investing strategy forward and further embedded and enhanced our ESG and stewardship processes, which we will continue to build upon over the coming years. We keep our governance under review and plan to review the allocation of roles and responsibilities of teams relating to stewardship, ESG and wider sustainability in 2023, to reinforce and clarify lines of accountability.

Principle 3: Conflicts of interest

Principle 3: Conflicts of interest

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

How we identify and manage conflicts of interest

Our approach to managing conflicts of interest is tied to our overarching values. In Principle 1, we set out how integrity is fundamental to our culture and values. We expect our colleagues to always act with honesty and integrity, as this is what helps us to build trust and long-term partnerships with our customers, between colleagues and with communities.

Our global code of business conduct, a link to which can be found in Appendix 2, sets out the core values that frame our decision-making. It acts as a guide for colleagues to better describe their responsibilities and to ensure that they do what is right. These values include putting the customer first, acting with integrity and building trust and partnerships. The code of conduct's clear ethical guidance, combined with global and local policies and procedures, describes the legal and ethical standards we strive to uphold in all our actions. We encourage colleagues to integrate these principles into their daily activities, through an annual programme of awareness and attestation to the principles outlined in the code.

The code of conduct's clear ethical guidance, combined with global and local policies and procedures, describes the legal and ethical standards we strive to uphold in all our actions.

Policies and procedures

We recognise the importance of having appropriate systems, controls, and a clear framework of board-approved policies and standards in place to identify, prevent, and manage potential and actual conflicts of interest that arise because of our activities. We act in accordance with the best interests of our customers in all areas of our business, including when exercising the levers of influence that we have available to us as an investor, such as shareholder engagement or voting.

These policies include such areas as:

- Outside employment or directorships by colleagues;
- Colleague relationships;
- The acceptance of gifts and hospitality;
- Personal account dealing rules and dealing in shares issued by other group companies; and
- Business activities where conflicts may arise.

These policies are subject to regular reviews.

Conflicts of Interest policy

We seek to mitigate our exposure to conflicts of interest by promoting the following principles in our conflicts of interest policy:

- Supporting and promoting the correct colleague behaviours and attitudes;
- Identifying and considering any conflict of interest in a timely way;
- Managing conflicts of interest fairly and effectively;
- Avoiding situations where personal interests could inappropriately influence judgements; and
- Disclosing the nature/source of a conflict of interest that risks damaging the interests of customers, before undertaking business with them.

Details of our full conflicts of interest policy are available on our website, see link in Appendix 2.

Principle 3: Conflicts of interest

The controls described in the conflicts registers are reviewed regularly to ensure the effective management of potential conflicts and to avoid any actual conflicts arising.

Conflicts register and conflict management

CLL maintains business area conflicts registers which are updated at least once a year. These serve to identify any potential conflicts of interest generated by our business activities and/or the conduct of our colleagues, together with the management controls we consider to be appropriate.

When a new potential conflict is identified during the year, the conflict registers are updated. The controls described in the conflicts registers are reviewed regularly to ensure the effective management of potential conflicts and to avoid any actual conflicts arising. The asset management conflicts register covers a range of potential conflicts, including, but not limited to:

- Trading and investment management;
- Fund pricing and asset valuation;
- Remuneration; and
- Gifts and hospitality.

We also retain and review records of colleague relationships and outside business interests. All colleagues receive annual training to ensure they're conflict aware, can identify conflicts, and understand their responsibilities, should a potential conflict of interest arise.

As a result of our internal controls, it's extremely rare that we find actual conflicts of interest. No stewardship conflicts were discovered in 2022. Any occurrence of a material conflict of interest would be reported through our risk function.

Case study 1

Independence of the fixed income credit rating process

Potential conflicts may arise if decision makers are responsible for both assessing and grading risk as well as managing and valuing risk. There may be a real or perceived pressure to 'over rate' an issuer when assessing its level of credit risk, which would make the market valuation appear more attractive.

This potential conflict of interest is managed by:

- Maintaining clear separation between the roles of credit analyst and fund manager. This division of responsibilities protects the integrity of the credit rating assessment process from any real or perceived influence over the investment decision-making process. This helps to ensure that customer outcomes are not compromised.
- The credit research team not having the authority to make the investment decision to buy, hold or sell assets.
- The investment decision makers not having authority to influence the credit rating assessment process.
- The credit analysts' independence being bolstered by other processes and systems. These include risk oversight, along with a focus on the quantity, quality, timeliness, and monitoring of credit assessments contained within the non-financial component of the bonus plan. Here, the focus is not the outcome of the credit rating assigned or the outcome of the investment decision. This promotes the highest standards of integrity and independence.

Principle 3: Conflicts of interest

Case study 2

Real estate conflict management

In real estate, potential conflicts can arise where CLL competes for assets with CLAM or co-owns assets.

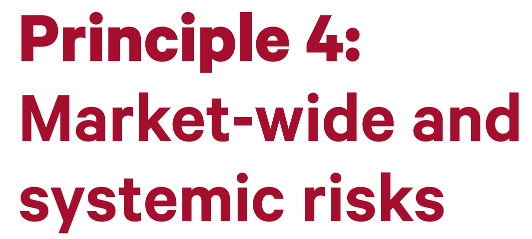
To limit and manage the risk of conflicts arising we adopt the following policies:

- Investment introductions are logged centrally and reviewed at monthly investment allocation meetings chaired by the UK Head of Property, who holds the casting vote; and
- Completion of a co-ownership trust instrument between CLL and customer funds to ensure there are clear management procedures in place.

Outcomes

Evaluation of effectiveness of conflicts of interest management

In the year under review, we continued to manage conflicts of interest effectively. As a result, we didn't encounter any stewardship related conflicts of interest. We believe that our current approach to identifying and managing conflicts of interest is robust. If we identify any new conflicts that are not sufficiently covered by our existing policy, we'll consider updating our procedures. We'll continue to emphasise to our colleagues the importance of doing what is right and ensuring our colleagues have the tools to identify potential conflicts.



Principle 4: Market-wide and systemic risks

Principle 4: Market-wide and systemic risks

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

Context

Our investment management teams continually monitor and manage market risks impacting our investments. CLL uses a variety of frameworks to identify and manage market and systemic risks. We hold quarterly meetings to identify and review current and emerging market and systemic risks to develop a top-down view across asset classes, covering trends and issues, and our responses to them. This leads to the compilation of an investment asset portfolio risk register. This generates discussion and more in-depth analysis of our response at the asset level, which allows us to ensure our management of these risks is appropriate and suitably overseen.

The meeting to consider risks and responses is attended by the relevant members of the asset management division senior leadership team, representatives from the risk function, and the CIO. The risks often reflect discussions held at the asset mix meeting, which our investment professionals use as a forum to identify and discuss macroeconomic events and develop a broad view across asset classes to identify trends and issues. As long-term investors, we believe it's important to respond to emerging risks in a pragmatic manner. We build our portfolios with the aim of withstanding major macroeconomic events as much as possible, for example by placing limits on sector and individual company exposures.

Here we set out our responses to several systemic and/or market risks that we considered to be of key importance in 2022.

Principle 4: Market-wide and systemic risks

Cost of living crisis

The issue

2022 began with rising inflation, as we forecasted and continuing a trend from 2021. Our forecast was primarily based on the unprecedented support provided by governments and central banks around the world to support their economies during the Covid-19 pandemic, on top of the already accommodative monetary policy still in place following the Global Financial Crisis. Some of the rise in inflation entering 2022 resulted from temporary factors such as supply chain bottlenecks due to the pandemic. Additionally, there were credible medium and long-term factors that indicated that much of the rise in inflation may be more persistent rather than transitory.

However, during 2022 two unexpected events put further pressure on the rising cost of living. First, at the beginning of 2022, Russia's invasion of Ukraine constrained the energy and food markets leading to higher prices. Second, towards the end of 2022, Prime Minister Liz Truss's 'mini budget' failed to gain market support and led to a spike in bond yields and credit spreads, exacerbated by a bond market liquidity crisis from margin calls on derivative contracts. Falling market confidence and the rising cost of borrowing put economic growth at risk, but also caused a sharp increase in mortgage rates squeezing the finances of already struggling consumers.

Activity: how we manage inflation risk

Rising inflationary expectations, rising interest rates and bond market volatility can lead to significant deviations in valuations of individual assets and liabilities. For our liability-matching funds, a key component of managing the impact of inflation and rising interest rates is to keep asset and liability cash flows closely matched – this mitigates changes to bond yields and fluctuations in the shape of the yield curve. Matching assets and liabilities can also be achieved by matching inflation-linked liabilities with inflation-linked assets.

The assets in our liability-matching funds are closely matched against the liabilities, limiting the impact (including liquidity requirements) from changes to rates or inflation. Additionally, we focus on quality investment grade assets that are more resilient to the spread and price impacts that result from volatile market movements. We maintain a pool of highly liquid assets to ensure that any collateral calls for our derivatives exposure can be comfortably accommodated.

Analysis of the inflationary environment is a key input to our yield and currency forecasts for our customer bond funds. Inflation directly affects our foreign currency allocations and duration positioning, as we're seeking to maximise performance in real terms. In 2022, as inflation continued to rise to multi-decade highs in the US, the Federal Reserve was forced to engineer one of the fastest hiking cycles in history with a cumulative 4.25% interest rate rise over the year; in response we increased our allocation to US dollars and reduced the duration of our US holdings.

During 2022, most economies experienced broad based inflation with higher goods, services and energy inflation than during the prior cycle. During the year, we made several adjustments to our customer equity portfolios; some of these changes involved increasing exposure to companies better able to preserve profit margins by passing through price increases to their end customers or push back cost increases from suppliers. We also opportunistically tilted our relative exposure to value and growth stocks during the year. Value stocks tend to benefit more from higher inflation, though during the year the market did start to consider the prospect of peak inflation which helped growth stocks. We also sought companies with strong pricing power, as they are more able to pass on cost inflation to customers.

Continued on page 25

Principle 4: Market-wide and systemic risks

Cost of living crisis (continued)

Our multi-asset portfolio fund range maintains an allocation to index-linked gilts in the lower risk portion of the range. During 2022, we improved the inflation sensitivity of this section of the portfolio by allocating to shorter-duration US inflation-linked Treasuries. The broader market disruption of 2022 had a significant negative impact on longer duration elements of the portfolios, but we mitigated some of this risk through allocating to short-dated sterling corporate bonds. In the LF Canlife Diversified Monthly Income Fund, in addition to UK and US government inflation-linked bonds, we also purchased infrastructure investment trusts as the dividend policies are explicitly linked to UK RPI, which enhanced investment performance during 2022 as RPI rose significantly.

Inflation and bond yield risks on credit ratings are also considered within the ongoing due diligence work carried out by the credit research team. The team monitors quarterly, interim and annual results to assess the actual and potential impact of inflation on the creditworthiness of issuers. Our research team enables our fund managers to focus the bond portfolio on issuers with better creditworthiness. To better position our credit portfolio against potential credit rating impacts, due to inflation lowering profit margins for our issuers, we prefer issuers with the pricing power to pass on a significant proportion of inflationary costs. For companies less able to pass on higher costs, we look for our issuers to strike a balance between shareholder remuneration and protecting financial resilience to support its creditworthiness.

The longer higher inflation persists, the more pronounced the impact will likely be on the health of the economy, including the corporate sector and consumers. The impact will be greatest for sectors and companies with less ability to pass through price increases or more reliant on consumer discretionary spending such as retailers. We take a more cautious approach to certain sectors in our retail-sector focused funds, so in 2022 we refrained from purchasing bonds in residential property altogether, only made small allocations to retail, and kept allocations small and short duration in the automotive sector.

Outcomes

Our liability-matching portfolios were resilient to the market turmoil that followed the 'mini budget', with limited liquidity impacts. Our view is that our precautionary approach to inflation risk combined with our focus on quality served our customers well. We discuss in case study 27 how the disruption in the markets led to us taking a risk-based approach to an issuer-proposed amendment to a corporate bond (and pricing approach). The increase in interest rates improved our solvency ratio. We were well protected against the market volatility as we make limited use of derivatives and have no exposure to liability driven investing solutions, so problems with collateral postings in our industry had marginal impact on our liquidity. Over 2022 our bond portfolio generally experienced more upgrades than downgrades.

Inflation has impacts that extend beyond the financial markets and we have sought to raise these issues through engagement work, for example, through engagement around the cost of living crisis, discussed later in case study 19. We have acted too as an employer; this year Canada Life UK became a Living Wage Foundation employer and provided cost of living support to those employees most in need. The impact and meaning of rising interest rates that were a consequence of rising UK government borrowing rates were the subject of enhanced disclosure we provided to new and returning customers in our equity release business.

We also used the public discourse around one of the catalysts of increasing inflation, the Russian invasion, to engage with some of our investee companies around their exposures to Russia (set out in case study 18) and with asset managers managing customer funds most at risk of having an exposure to Russia (in case study 13). Canada Life UK also responded to the humanitarian issues that resulted from the invasion; in April 2022 Canada Life UK joined with our Irish and German businesses to fundraise for UNICEF's Ukraine Emergency Appeal. Together we raised a total of €395,000 (€145,000 from employee donations and €250,000 from a corporate donation) and we registered several properties we own under the Homes for Ukraine scheme.

Principle 4: Market-wide and systemic risks

Climate Change

The issue

Climate change continued to dominate the agenda in 2022. As a long-term investor, we must identify where to direct our capital to ensure we protect future returns. Given its importance, climate change is a significant factor in our analysis and decision-making process.

Doing our part to mitigate the effects of climate change is not only the right thing to do for our customers, but it's also the right thing to do to support financial stability. While simply divesting from carbon-intensive industries may protect us and our customers in a narrow sense, in a wider sense it fails to recognise that we all have a part to play in protecting financial systems. Some carbon-intensive industries will be part of the solution, such as copper for electrification, while others will help maintain economic stability during at least part of the transition, such as natural gas.

As investors, we believe there is an argument in favour of supporting those companies as they transition, especially if they're making efforts to improve their carbon footprint. Additionally, we don't want to force carbon-intensive industries into ownership structures that are hidden from investor scrutiny. We want to support industries that will contribute to the energy transition: this will sometimes mean providing capital to carbon-intensive industries to help them clean up their operations.

With any change there will be winners and losers, and climate change is no exception.

We seek to do more than just identify the winners for investment and the losers for divestment. Through engagement, we also want to support companies to become winners.

We own a wide range of investments that carry with them varying levels of risk relating to climate change and the transition. We factor these risks into our investment decision-making and engagement activities, appreciating that we can influence the impact of these risks on our investments.

We recognise the different characteristics of the various assets we manage and therefore the level of control we have. Consequently, our approach to integrating climate risk into our investment decision-making to achieve our transition targets varies by asset class.

Continued on page 27

Principle 4: Market-wide and systemic risks

Climate Change (continued)

Activity

In 2022, we developed a high-level proprietary carbon risk-rating system, looking at all asset classes from a bottom-up perspective. This involved developing a tiering system, to be applied across all asset classes, to help us manage and monitor these risks across the combined portfolio.

We categorise each asset in one of three buckets, based on our view of the alignment of the asset to net zero. This carbon risk-rating system allows us to look at the assets through a different lens, to easily assess the level of alignment of each asset with our own pathway. The carbon risk-rating system also helps us to identify holdings that require engagement in support of our net zero targets.

Taking fixed income counterparties as an example, the investment team considers a number of factors when tiering our credits, including: if the counterparty has a credible, quantifiable net zero by 2050 commitment; if they have published details on how they plan to achieve it (e.g. a transition plan including interim targets); and transparency of their reporting through public disclosure.

Counterparties with a net zero by 2050 target, supported by high-quality science-based or Paris-aligned interim targets and high-quality disclosures, are categorised as leaders, whereas counterparties without a net zero by 2050 target and weak commitments to greenhouse gas (GHG) reduction are categorised as a laggards.

Outcome

While we are continuing to develop our use of the carbon risk-rating system, we have already begun to apply it at the asset level to prioritise engagement and activity (such as further analysis). We anticipate using it as an additional way to monitor transition risk.

This year, we collaborated with the financial industry on climate change. This was focused on our membership of CDP, the IIGCC and CA100+, which we describe in more detail in Principles 9-11. We also became a TCFD supporter this year and published our first climate disclosure aligned to the TCFD, which you can find a link to in Appendix 2.

Principle 4: Market-wide and systemic risks

Outcomes

Evaluation of effectiveness of management of market-wide and systemic risks

Our fund managers have discretion to manage the investments in their funds against pre-defined guidelines. Each manager is empowered to make pragmatic decisions based on research, third-party ratings, analysts' views and other data inputs when deciding to buy or sell assets. These decisions reflect an assessment of a variety of economic and market factors, as well as sector exposures and individual asset contributions.

As a steward of our assets, we believe it's our duty to invest in a responsible and sustainable fashion to build resilient portfolios. We believe we can effect positive change through our investment activity, by engaging with companies on their ESG credentials. We also seek to identify the macro trends that could undermine the performance of our portfolios, manage those risks, and monitor and engage around the issues we identify as most relevant.

As active investors, we take a genuine interest in what is happening at both the local and global levels and believe changes to the world have implications for our portfolios and, ultimately, our customers. Over the past year, we've responded to challenges posed by the climate and inflation as these affect financial markets and the economy.

We've also empowered our fund managers to make decisions that are both in the best interests of our customers and align with our stewardship objectives. This allows managers to adapt their approach to reflect the changing nature of the risks.

Principle 5: Policies, processes and effectiveness

Principle 5: Policies, processes and effectiveness

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

Context

Ensuring our stewardship report is fair, balanced and comprehensive.
In preparing this report, we created a working group that comprised our CIO and relevant members of the Responsible Investment Working Group. The group's objective was to ensure this report provides an accurate description of our stewardship activities in 2022, clearly describing these activities and outcomes while being fair, balanced and comprehensive.

The report was reviewed internally by our oversight functions, including relevant members of the asset management and wealth division leadership teams, the Sustainability Steering Committee and submitted to the board for approval.

Assurance in relation to stewardship

In 2022, our risk function undertook a review of our stewardship processes and effectiveness. During 2021 and 2022, we enhanced our approach to stewardship and we were seeking a view on whether this had introduced risks around our delivery processes and procedures, and whether our processes were as effective as they should be. We considered that the best way to deliver this was through a risk and internal audit review. These functions have significant experience evaluating risks associated with our internal processes. This complemented a compliance-led review completed in 2021, which focused on whether we were meeting the requirements of the Stewardship Code.

The risk review findings, together with additional recommendations from the Responsible Investment Working Group, were reported to our Sustainability Steering Committee, and formed the basis of our activity in 2022. The overriding aims of the recommendations, which were implemented throughout the year, were: to generate more impactful, harmonised activity; to improve our processes to reduce risk; and to reduce the burden of report preparation.

Some of the steps taken to address recommendations of the internal audit and risk reviews included developing system and process improvements to strengthen audit trails and allocation of responsibilities, recruiting a programme lead to support sustainability disclosures and data capture, rolling out an updated template for capturing engagement activity, and associated training to support harmonised reporting and consistent approaches to engagement.

Stewardship information is now displayed more clearly, and we have more assurance around the accuracy of the data supporting fair, balanced and comprehensive disclosures.

Embedding of changes as a result of 2021 internal review

Our aim is to report our stewardship activities in a clear and transparent manner, as a result of an investment governance thematic review in our asset management division we have focused in the last two years on engagement data analysis and reporting. Specific steps taken have included:

- rolling out a new engagement template across asset management. This is generating a more complete and sophisticated understanding of our engagement activities.
- developing a specific 'responsible investing' content area hosted on the CLAM website. This includes enhanced voting records, engagement case studies, and policies and reports. Links to those areas are then hosted on the footer of the Canada Life UK website for easy cross navigation access.
- enhancing our engagement and voting disclosures , allowing our customers a more comprehensive and intuitive experience when searching for this information.

The first phase was completed at the end of 2022, followed by the second phase in early 2023. Improvements included qualitative engagement case studies, launching a live interactive voting reporting tool (which includes our rationale for voting against management resolutions, as we consider these to be significant votes) and annual engagement activity reporting. An overarching principle for undertaking this activity has been to improve the transparency and quality of our disclosures to support good customer outcomes. Stewardship information is now displayed more clearly, and we have more assurance around the accuracy of the data supporting fair, balanced and comprehensive disclosures.

Principle 5: Policies, processes and effectiveness

Review of policies to enable effective stewardship

We set out in Principle 2 how our stewardship activities are overseen and reviewed through a series of committees and the board of directors. This reflects the priority we place on stewardship and ESG activities and ensures that best practice filters into all areas of our investment practice.

All policies, standards or guidelines related to stewardship and engagement are subject to annual review. As discussed later in this report, we refined our prioritisation and engagement framework in 2022 and, as a result, our engagement policy was updated in Q1 2023. A link to our engagement policy can be found in Appendix 2.

Our risk management system is articulated through our Enterprise Risk Management framework. The framework allows the board and management to:

- Establish its strategy for risk taking;
- Communicate and monitor adherence to risk appetite using risk limits and risk indicators; and
- Identify, measure, monitor, manage and report on risks.

We have a risk governance structure based on a 'three lines of defence' model, which is widely used within the financial services industry. This model separates ownership and management of risk from oversight and independent assurance.

We discussed in Principle 2 how we reviewed our governance structures in 2022 to ensure clear accountability, purpose, and reflection of our business needs. This work reinforces our three lines of defence model.

Table 2 shows the high-level responsibility for each line of defence, together with operational responsibilities.

Line of defence	Responsible Function	High level responsibilities
First line		
Own and manage the risks	Business and support functions	• Business areas are the owners of risks. • They are primarily responsible and accountable for day-to-day risk management operations within the established risk management framework, including designing and implementing risk mitigation techniques and internal controls. • Primary responsibility and accountability for risk identification, measurement, management, monitoring and reporting.
Second line		
Oversee and provide specialist support	Risk and compliance functions	• The risk and compliance functions are primarily responsible and accountable for the oversight of all risk-related activities and processes across CLL. • The second line of defence challenges and assesses the first line of defence's operation of the risk management framework and provides oversight of compliance with applicable laws and regulation.
Third line		
Independent process assurance	Internal audit	• Internal Audit is responsible for the provision of comprehensive assurance to the board and senior management about the design and operational effectiveness of the risk management framework, based on the highest level of independence and objectivity within CLL. • The third line provides an independent assessment of the effectiveness of the first two lines of defence.

Table 2: Responsibilities of the three lines of defence

Principle 5: Policies, processes and effectiveness

The CRO attends several committees that allow the risk function to keep abreast of developments across the business, providing oversight of, and challenges to, a wide variety of risk-related matters.

Under our governance structure, committees are set up to facilitate efficient and appropriate risk oversight, management and decision making. The CRO attends several committees that allow the risk function to keep abreast of developments across the business, providing oversight of, and challenges to, a wide variety of risk-related matters. This model ensures we have an effective operational control environment, making sure our policies and procedures are followed in respect of our stewardship activities.

Outcomes

Evaluation of effectiveness of policies and processes

During this review period, we took a deeper look into the processes that support our stewardship activities. We evaluated where we could improve our processes to ensure that the risks associated with developing our stewardship activities were well managed. We completed the work, which had been prompted by a 2021 Investment Governance thematic review, and started to implement solutions to address findings/recommendations of our internal audit, risk review and the Responsible Investment Working Group. Among other initiatives, we took credible steps to strengthen audit trails, the allocation of responsibilities, data capture and confidence.

Principle 6: Accounting for client and beneficiary needs

Principle 6: Accounting for 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.

Context

Our vision is to support advisers, customers and colleagues to build stronger more inclusive and financially secure futures, while reducing the impact on the planet and supporting a society in which everyone can thrive and fulfil their potential. We recognise that ESG factors can have an important influence on the long-term financial performance of our investments. We also understand the impacts – both positive and negative – that our investment decisions can have in a highly interconnected world on people, society and the environment. That is why our investment process considers a wide range of factors, both financial, such as profitability and capital structure, and non-financial, including the sustainability of the business model and ESG criteria. Non-financial factors are particularly important as we aim to be long-term owners; it's these longer-term drivers of performance that can be key contributors to the success or otherwise of our investments.

We recognise that ESG factors can have an important influence on the long-term financial performance of our investments.

We have discussed in Principle 1 how we categorise the assets that back our products into customer and shareholder assets. Of the nearly £19.7bn assets CLL owned at 31 December 2022, 98% are managed by us or our affiliate, CLAM, under an umbrella investment approach which ensures the integration of ESG and stewardship into our investment strategy and process. Those customer assets not managed by CLAM under our umbrella policy are supervised by our wealth division and the process for their management is detailed in Principle 8.

As discussed in Principle 1, CLL invests in a range of asset classes across fixed income, equities, property and multi-asset strategies that help our customers achieve their long-term financial objectives.

Figure 5 shows CLL's shareholder assets and **Figure 6** shows CLL's customer assets, in each case, in 2022 broken down by geographical region.

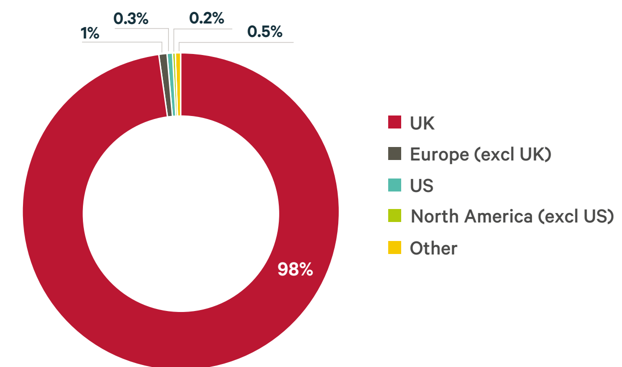


Figure 5: Geographic breakdown of shareholder assets

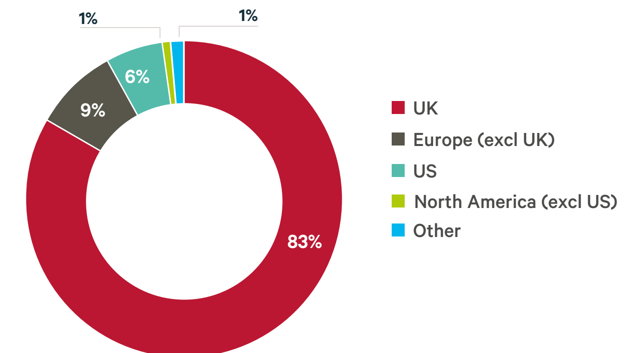


Figure 6: Geographic breakdown of customer assets

Principle 6: Accounting for client and beneficiary needs

Figure 7 shows CLL's shareholder assets and **Figure 8** shows CLL's customer assets, in each case, in 2022 split by asset class.

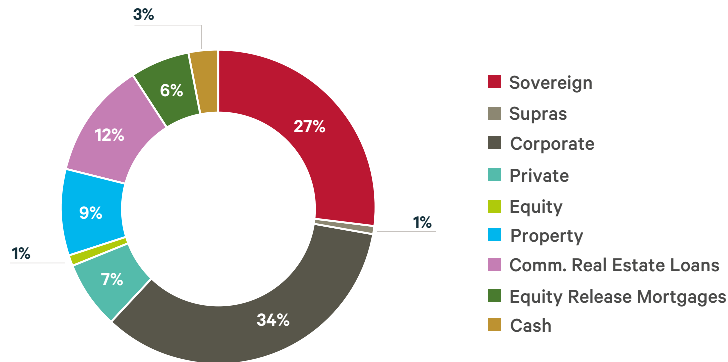


Figure 7: Shareholder assets by asset class

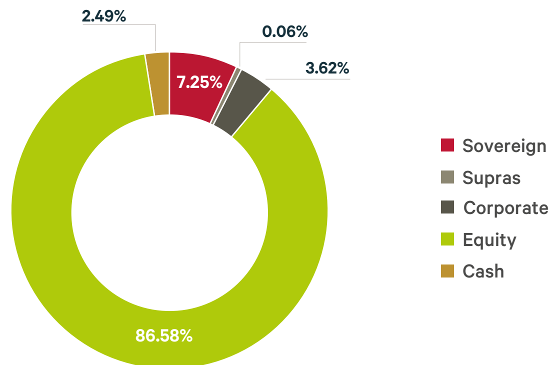


Figure 8: Customer assets by asset class

Figure 9 shows CLL's customer assets in 2022 broken down by manager, showing the majority of these assets are managed by CLAM.

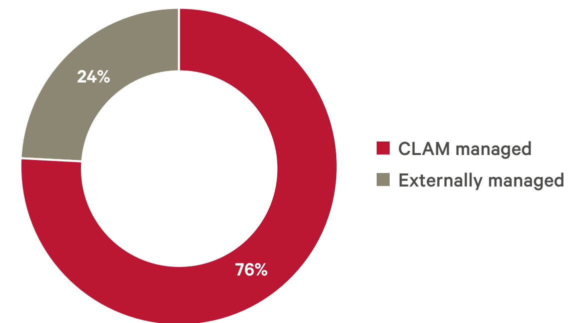


Figure 9: Breakdown of customer assets by manager type

For a detailed breakdown of the individual equity portfolios managed by CLAM in which our customer assets are invested, including portfolio turnover and portfolio turnover costs, see **Appendix 1**.

Shareholder assets and beneficiaries

We invest our shareholder assets for the benefit of our annuitants and protection customers to ensure both regular ongoing income and/or one-off lump sum payments can be made as due. Our annuitants expect regular income and certainty of payment. As at 31 March 2023, the weighted average age of all of our annuitants was 77.6 for males and 77.5 for females. We weight by annuity amount and purchase assets that can match the expected annuity payments over a long-time horizon. We invest to reflect our assumptions around the life expectancy of these beneficiaries (the life expectancy of an average aged annuitant is more than 10 years) and with their income requirements at the centre of our approach in accordance with our obligations to them. The asset split shown in **Figure 7** favours assets such as fixed income that generate steady income streams and assets that generate yield enhancements and steady income such as equity release mortgages and commercial real estate loans.

Principle 6: Accounting for client and beneficiary needs

Our protection customers can receive one-off lump sum payments or regular income streams. Our protection business is large with just under three million employees insured in the UK and we invest our assets to ensure an appropriate level of liquidity to meet claim payments. The asset split shown in **Figure 7** favours liquid assets which can be seen in the strong allocation to fixed income assets.

Customer assets and Life and Pension Customers

These customers are taking control of their savings, investment and retirement needs through products such as our onshore bonds and retirement account. These customers may have different profiles. Those customers further from needing to access their savings, including for retirement, will have more tolerance to risk and are likely seeking growth in the value of their investments. As customers move closer to retirement or as they need to draw from their investments, their appetite for risk and growth will decrease and they will focus on risk reduction. As at 31 March 2023, the average entry age of these customers is 63.4 years and the average age of these customers is 72.6 years and so again it is appropriate to invest over a long time horizon. The asset split in Figure 8 shows a stronger allocation to equities which reflects this different risk profile. We provide these customers with a range of investment options which they can tailor to their preferences and include CLAM managed funds and externally managed funds.

Customer and beneficiary needs

We are always working to develop how we can facilitate communication between our customers, advisers and us and understand the changing preferences of our customers over time. We have been enhancing our work in this area recently and we have been undertaking more research into customer behaviour and preferences (see case study 4) and brand research directly focused on unpicking our customers' sustainability preferences. Where customers are selecting saving products such as our life and pension schemes we work hard to understand our customers preferences and aim to offer a reasonably broad range of funds across different sectors and asset classes. We concentrate on assessing and monitoring the factors that are important to them such as inflows, outflows, long and short term performance (with more detail in respect of our approach set out at Principle 8 later).

Customers can now more easily access our stewardship reports, supporting policies and disclosures and our public climate reporting.

Customer reporting and communication

Annual statements, regular reporting and ad hoc reporting (triggered by such things as corporate actions and fund closures) are provided to our customers and beneficiaries as appropriate to their product. These communications focus on annual earnings, financial performance and outcomes as applicable to the customer or beneficiary type. Our customers and beneficiaries can find out more about our stewardship and ESG activities by visiting our public reporting hosted on our website. In our response to Principle 5 we set out some of the work we have been doing to prioritise our Responsible Investing activities on our website and how we have developed the content we provide. Customers can now more easily access our stewardship reports, supporting policies and disclosures and our public climate reporting. We plan to work over the coming years to provide more sustainability information to our customers and beneficiaries and to the intermediaries that support them.

The intermediary relationship

The majority of our customers and beneficiaries are introduced to us and our financial products through professional advisers or intermediaries. We are therefore responsible for providing timely, high quality, accurate information to those advisers and intermediaries to ensure that they can advise their customers effectively. We provide advisers with a range of tools so that they can do this and case study 4 later shows how we are thinking about and developing the support we provide to advisers.

Principle 6: Accounting for client and beneficiary needs

Case study 3

The Internal Account Property Fund – Tenant survey

The situation
We recognise that our property business activities have wide-ranging ESG impacts. Our aim is to create positive social and environmental outcomes for our stakeholders. We regularly engage with our occupiers, through meetings and correspondence, to promote sustainability and our own green initiatives. Every three years, we run our Tenant Engagement Survey. This survey gains insight into our occupiers' views of the quality of the environmental and wellbeing features provided and opportunities for improvement, both for sustainability and asset management.

Our approach

The Tenant Engagement Survey was piloted on a CLAM managed fund in 2019 before being rolled out in 2022 to the internal account property fund (the Property Fund). The survey was prepared by our environmental consultants, Evora, in the form of an online questionnaire. The link was emailed to all occupiers by managing agents and the CLL property manager.

The questionnaire was specifically designed to identify and measure occupiers' satisfaction with elements including building performance, sustainability features and services provided (e.g. cycle storage and electric charging) as well as overall building management, including property managers' responsiveness and health and wellbeing support.

The survey also included a customer loyalty metric aligned to the use of a Net Promoter Score® (NPS) to measure tenant satisfaction – a metric developed by Bain & Company, Fred Reichheld and Satmetrix, which was then used to track overall progress. The NPS indicates how many respondents would be happy to recommend CLL as a landlord.

The response rate was regularly monitored and further reminders were sent out to all those who had not responded to obtain as many responses as possible.

The results were then analysed and shared with the CLL team and the managing agents. This was done with the aim of creating asset management and sustainability projects and initiatives that would not only be financially viable, but also meet the needs of our buildings' occupiers.

The outcome
The 2022 survey resulted in a NPS of 66 which compared favourably to the 2019 pilot referred to above.

The results showed that sustainability and energy efficiency measures are very important to our occupiers. 100% of respondents indicated they still want engagement with their property managers on sustainability matters.

We have shared the Tenant Engagement Survey results and analysis with our managing agents. We are collaborating on developing further sustainability projects and asset management strategies to make sure our occupiers remain happy, and the buildings meet their expectations and needs. This is just one example of how we try to understand the needs of our customers and respond to their demands.

This case study shows how we try to understand the needs of our underlying customers, the occupiers of the buildings we manage, and use this data to enhance our proposition for the benefit of our beneficiaries.

Principle 6: Accounting for client and beneficiary needs

Case study 4

Understanding the financial advice process using behavioural psychology

The situation
Having a strong understanding of our adviser audience and their needs is extremely important to us as a business. We want to work with advisers to ensure successful outcomes for both them and their customers - our end customers. To get a deep understanding of the behavioural psychology taking place during adviser and customer conversations, we commissioned our behavioural psychology partners, Innovation Bubble, to interview a range of advisers and customers.

This qualitative research involved conversations with both advisers across our product range, and their customers. We looked at two groups of customers: those with a longer tenure and another group we termed as 'dabblers', who we identified as having had an initial meeting with an adviser but hadn't continued the relationship. This would give us insight into how to better support advisers in their initial conversations, and to understand what biases each group may need to be aware of and overcome when seeking financial advice and exploring financial products.

Our aim was to bring insight to advisers to help them win and care for retained customers. We were particularly interested in the high number of first-time conversations which don't convert to longer term relationships. This work was also complementary to our regulatory obligations to achieve better outcomes for ongoing customers.

Analysis
We learnt that there are a large number of behavioural biases at play, which need to be overcome to ensure a good conversation about financial needs. Additionally, we learnt that it's essential to the on-going customer relationship to build empathy and trust. This isn't easy in a short amount of time, such as during an initial conversation.

One example of such a bias includes advisers being seen as the financial experts. They talk rationally and technically about products. This can lead to customers being unwilling to reveal their level of knowledge and understanding of technical terminology.

Advisers themselves were telling us that they receive little to no formal education in this area of softer skills and psychology. Rather, it's something learnt through experience. This feedback and research highlighted the need for education and training in soft skills to help advisers recognise and learn how to adjust their tone and language according to a customer's emotions around finances. In this way, they'd be better positioned to help support their customers in articulating future life ambitions and establishing the financial goals necessary to achieve them.

Outcome
As a result, we published a series of articles on behavioural psychology and distributed these via a suite of content on the Canada Life UK website, via our PR agency and we have spoken about the importance of the findings at sponsored adviser facing events in 2022. As a result of the popularity of this, we're also developing a CPD accredited eLearning platform to be launched in 2023, which will be made available to advisers and other financial intermediaries. The short courses will be based around the soft skills advisers can use to encourage deeper conversations with their customers. In turn, these conversations stand to create a better and more thorough understanding of customers' mindsets that can then, be used to identify actions to help overcome the behavioural biases our customers may have towards their finances.

Principle 6: Accounting for client and beneficiary needs

Case study 5

Putting our customers first – customer assets

The situation
We had a range of risk-targeted funds managed by CLAM and offered to our Life and Pension customers which shared a naming convention but were not viewed as a family of funds as they did not share a consistent approach to investing. These legacy products were unduly complex. On review, we concluded that modernising the range would deliver better customer outcomes and create a true fund family with a consistent message. We wanted to focus on improving volatility targeting, to facilitate tying the funds' investment strategy to customers' attitude to risk and ensure that the set volatility boundaries enable customer expectations to be managed in relation to the ups and downs of the investment journey.

Activity
We carried out a detailed review of the funds and proposed a list of changes that could be made to better address the needs of customers. Our review covered areas such as: product and proposition; legal and governance; customer services; risk and compliance and operations. This ensured that risks and issues were recorded, monitored and actioned appropriately. The overriding focus of these workstreams was delivering good customer outcomes.

During the process we kept customers informed in writing as to what we proposed and developed a tailored landing page with customer FAQs on our website, which had further details on the changes that were taking place to better answer customers' queries. We explained in all communications the reasoning for the changes and the benefits we had identified.

Outcome
The Financial Conduct Authority approved changes to the relevant CLAM collectives, and all CLL customers were given 30 days' notice for the resultant changes to our life and pension funds.

We believe that the changes will provide better outcomes for customers. The stable risk profile aligned objectives and policies, global diversification, along with being part of a coherent range, will assist both advisers and customers. We had recognised that the structure of this offering could be improved and took steps so customers were directed to a more appropriate offering for delivering their desired outcomes.

Principle 6: Accounting for client and beneficiary needs

Case study 6

Putting our customers first – customer assets

The situation
We offer a range of life funds linked to an external provider as a strategic partner to underpin their financial advice process to support our mutual customers. During 2022, this partner contacted us to confirm that they were making changes to their advice strategy and processes, which meant that we needed to make changes to the funds we offer to our customers. This involved managing corporate actions across these funds and the launch of 2 new funds to complete the fund range.

Activity
We collaboratively engaged with the external provider (which was both the fund manager and the adviser) including joining an external working group to ensure consistent communications. The changes were viewed as good for customers by the external provider. We independently reviewed the proposals to determine customer impact and communication approach for existing customers in the existing funds. We also approved the launch of the new funds.

We wrote to customers twice during this period. Once to tell them of the changes to the funds themselves. We then wrote again to customers to confirm that, later, the domicile of the underlying funds was moving from Ireland to the UK. This change of domicile involved a trading outage for the customers selecting these externally provided products and therefore, the Canada Life funds. We worked hard to ensure that our customers were prepared for this and there was as little disruption to customers as possible. We assessed in advance the regular withdrawals expected from existing customers' policies, assessed the impact of allowing these to continue on both the fund and other invested customers. We determined that allowing these to continue wouldn't have a material impact to other invested customers, would reduce the operational complexity of administering missed payments and ultimately had a good customer outcome for those that receive the regular withdrawals. Where a large withdrawal occurred, for example, as a result of a death it was agreed by the internal project group that these would be dealt with on a case-by-case basis. Therefore, whilst the funds were unavailable to new customers they were available for existing withdrawals. In the end, notwithstanding this planning, we did not need to exercise these provisions.

Outcome
Customer outcomes were at the centre of our approach to this activity. We believe our thorough review process and customer-focused communication approach prioritised the needs of our customers. Ultimately the funds operated in line with the external provider's new advice strategy, incorporated ESG into the investment process, updated the objectives and reduced the charges, all with the aim to provide better customer outcomes. Two additional funds were created to help with the risk profile allocation and allowed for more selection for the external advisers to suit the individual's needs.

Principle 6: Accounting for client and beneficiary needs

Outcomes

Evaluation of effectiveness of accounting for client and beneficiary needs

We believe that we're aligned with our customers' interests and have demonstrated a desire and willingness to understand their needs during the year under review. Our business model is built entirely around providing our customers with the products and information they need to support their needs.

Technology, trends and financial markets are in a constant state of flux, so we're always seeking ways to improve what we offer.

During the year, we demonstrated that we're focused on stewardship across the range of investments we manage for ourselves and our customers, we've reflected customer needs in our investment process, considered how we can deliver better customer outcomes and changed our product offering as a result and worked with intermediaries to enhance communication, understanding and ultimately outcomes.

Principle 7: Integrating stewardship and investment

Principle 7: Integrating stewardship and investment

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

Context

We recognise that an important influence on a company's long-term financial performance is its ability and willingness to respond to ESG risks and opportunities, as well as its resilience to ESG risks. We understand the impacts – both positive and negative – that investment decisions can have, in a highly interconnected world, on financial systems, individuals, societies, and the environment.

Our process and managing all relevant risks influencing the financial performance of our investments over the long-term.

Not only are we the stewards of our assets, but also the stewards of the financial systems we use to seek returns. By integrating ESG metrics and qualitative considerations into our investment processes and pursuing constructive dialogue with the companies in which we invest, we aim to deliver more stable long-term returns and achieve sustainable investment outcomes for our customers, society and our own business.

We believe many ESG risks will arise over the long term. We have a heritage of assessing and managing all relevant risks influencing the financial performance of our investments over the long-term. Given that society and financial markets are placing greater emphasis on ESG risks, our research and investment process are more explicitly assessing and managing those risks.

We continue to approach long-term risks as we have in the past, but increasingly do so while also highlighting ESG risks. Our robust investment process and holistic risk evaluation places ESG assessments alongside financial assessments. Applying our expertise and genuine care and attention to our investment process ensures we make every investment decision matter.

Corporate fixed income assessment, integration, engagement

Research

For fixed income, we apply screens at the beginning of the investment process to define the investment universe. We introduced a coal and UN Global Compact (UNGC) screen to all managed assets in 2022. In 2023, we'll review our screens and where appropriate we'll add to them. Morningstar Sustainalytics is our screening tool of choice.

Once an issuer has been screened, we overlay our own detailed analysis to ensure we validate the decision. This has, in a small number of cases, led to us either contacting Morningstar Sustainalytics – when we were concerned about the data (see case study 17 later) – or applying an override to the screen.

We apply an override when sufficient evidence can be provided at our ESG risk review meeting to support such an override. The ESG risk review meeting is a joint fixed income and equities review meeting, and involves investment management colleagues from Credit Research, Equities Research, Fixed Income and Equities Fund Management and is chaired by our CIO.

Positions acquired before the introduction of the coal and UNGC screen have since been run through Morningstar Sustainalytics' screening tool. A very small number of these legacy holdings exceed the coal screen. In these cases, we've agreed to hold, but not add additional exposure to these issuers, and we'll engage to try to speed up the reduction in coal within the relevant issuers' asset mix. This approach was approved at the ESG risk review meeting, and will be regularly reviewed to ensure the appropriateness of the recommendation.

In relation to the UNGC screen, we only identified one legacy issuer in breach. Our approach to this legacy issuer is explained in case study 29 later.

Any issuer that passes our screen is then assessed from an ESG perspective using an internal proprietary template, which is included in all credit reviews. The template uses a traffic light system for ESG considerations, with detailed commentary on identified risks and opportunities. The ESG assessment is supported by data drawn from Morningstar Sustainalytics, ISS (for climate), the issuer's own reporting, other public data sources and third-party research providers. We're augmenting this with our own climate data, which we developed during 2022.

Principle 7: Integrating stewardship and investment

The ESG assessment sits alongside our traditional credit analysis, which identifies and assesses the risks that feed into the decision process for each investment. Our decision to invest or not is based on a sound financial analysis that includes an assessment of ESG factors. Given the long-term nature of our investments, we seek sustainable and resilient companies that can provide sufficient investment returns and cash flows through market fluctuations and changes in ESG sentiment. We believe that considering long-term ESG factors alongside financial factors supports both our beneficiaries and customers' goals and our corporate goals.

While we consider ESG risks holistically in our investment decisions, we also assess E, S and G risks as individual strands in our bottom-up analysis. For the environmental factors, we emphasise climate change, focussing on carbon emissions generated by the counterparty directly or indirectly through its products and services. For social factors, we focus on identifiable actions that companies are taking to be good corporate citizens. For governance factors, we focus on the integrity of the board and management, minority stakeholders' rights and the transparency of financial reporting.

Our process ensures that ESG issues are identified, assessed and understood, and we consider these issues in our decision making, establishing a consistent ESG assessment across investments.

Integration

ESG factors play a significant role in our investment decisions. ESG assessments are discussed at our weekly credit review meetings. Our monthly ESG risk review meetings review holdings where an ESG concern has been flagged and provides a forum for discussing ESG approaches. It's also where any overrides to screens are reviewed and discussed. Our process ensures that ESG issues are identified, assessed and understood, and we consider these issues in our decision making, establishing a consistent ESG assessment across investments.

When trading in corporate fixed income, the short, medium and long-term implications of the factors driving the ESG assessment must be considered by the fund manager, based in part on the views discussed at the weekly credit and the monthly ESG risk review meetings. We discuss in Principle 4 how we managed our fixed income assets differently to tackle inflation risk depending on whether the assets constituted customer assets or liability matching shareholder funds over 2022, showing how our approach flexes to reflect different objectives.

The implications of ESG factors are considered in the context of the investment valuation and expected investment horizon, before making the appropriate investment decision. The investment rationale, given ESG considerations, is presented at the ESG risk review meeting, and is also provided as justification for investment within the trade approval process.

At a higher level, investments in sectors with inherent environmental risk are limited by the screening processes and limit framework. Additional investment is limited for issuers with idiosyncratic ESG risk, unless they have a plan to address the highlighted issue(s).

Principle 7: Integrating stewardship and investment

Case study 7

Corporate fixed income: How our research has informed our investment decision-making

The issue
During our ESG analysis, an issuer was flagged by our credit research team as having historical failings in areas of risk management and compliance and therefore received a negative governance assessment. The company's management had been involved in public controversies and had resulted in a complete management overhaul, thorough internal reviews and the announcement of a significant business restructuring.

Our analyst noted that recent announcements and strategy/restructuring announcements could be an indicator of governance starting to improve. The analyst explored this view with the investor relations team on a bilateral engagement call.

Activity
Acting on the analysis provided by our credit research team, and given governance failings continuing to be uncovered, the fund management team determined that it was currently difficult to justify further investment. The investment recommendation for the issuer was downgraded from 'investible' to 'hold and review' with the hold recommendation informed in part by the fact we held senior bonds. This decision was reviewed and approved at the ESG risk review meeting.

Outcome
We'll continue to review the appropriateness of the recommendation at forthcoming ESG risk review meetings. Any change in an investment recommendation would draw on both further analysis from our credit research team and engagement activity focusing on understanding the latest developments in these governance issues. To change our view, we would need credible signs that their recent strategy/restructuring plan is being embedded and taking effect. This issuer featured in our engagement prioritisation in 2022 and will again in 2023.

This is an example of how our approach to research has led to a change in our investment decision-making. Furthermore, it shows how engagement can be a useful input into our research process.

Principle 7: Integrating stewardship and investment

Case study 8

Corporate fixed income: Engagement supplementing our research process for Wisconsin Electric Power Company

The issue
We apply a coal screen to new investments and legacy holdings. When we introduced the screen, a legacy holding in Wisconsin Electric Power Company was flagged as potentially in breach. This issuer operates as an electric, natural gas and steam utility company in the US. The company generates electricity from a combination of coal, natural gas, oil, wind, hydro and biomass.

Activity
Our credit research team undertook a review into Wisconsin's public reporting and contacted the issuer to understand the percentage of revenue derived from coal and its coal reduction targets.

In mid-2022, Wisconsin responded by providing information for the holding company rather than the underlying operating company, which we didn't feel was sufficient. The fund management team concluded that, until additional clarity was provided, we should not add to our exposure and put Wisconsin on review until we could establish the full facts.

Later in 2022, the holding company publicly released more aggressive carbon reduction targets that align with our coal screen. We contacted Wisconsin again to determine whether this would apply to the underlying operating company. The holding company is targeting a significant reduction of coal in its energy mix, with it only acting as a backup fuel from 2030 (contributing to less than 5% of power supplies) and eliminating it by 2035. The holding company confirmed that while the separate subsidiaries wouldn't have their own coal reduction targets, we could assume that the operating company's coal exposure would be consistent with the holding company's exposure.

Outcome
Although we own the operating company, we're engaging with the holding company as well as the operating company to reduce coal in the operating company as they are both involved in the solution to reduce the group's coal use.

Given the holding company has set targets for carbon reduction in line with our screen, the investment recommendation changed to allow further investment in the issuer subject to monitoring and further engagement. This decision was reviewed and approved by the ESG risk review meeting. We'll continue to monitor the issuer and holding company's progress to make sure that, over time, the actual level of coal and emissions are in line with the trajectory it has set. In this context, we'll then be able to review the appropriateness of our recommendation.

This approach aligns to our investment philosophy set out in Principle 4. We want to encourage transition to net zero in our issuers. Our view is that this means supporting them through their decarbonisation programmes, where they are setting ambitious targets and, crucially, sticking to them. Engagement will be a key monitoring tool in this case to ensure that Wisconsin is transitioning.

Principle 7: Integrating stewardship and investment

An important part of our sovereign analysis includes the World Bank's statistics on Ease of Doing Business and Governance.

Sovereign fixed income

We've established limits with respect to our exposure to each sovereign bond issuer. Exposure limits are primarily credit-driven, with a strong influence from our long-term view of each issuer. An important part of our sovereign analysis includes the World Bank's statistics on Ease of Doing Business and Governance. Additionally, we plan to include sovereign carbon emissions data in our credit assessments. We expect to further develop and consider these non-financial factors in the coming years, to better integrate environmental and social issues into our analysis.

Over the course of 2022, we looked for ways to engage with sovereigns. We joined the early signatories to the 2022 Global Investor Statement to Governments on the Climate Crisis, ahead of its public launch during New York Climate Week and the 77th session of the UN General Assembly in September 2022. The Investor Agenda, an initiative coordinated by IIGCC, published a statement, which we joined, calling on governments to take action on specific climate issues, such as: ensuring the 2030 targets in their nationally-determined contributions align with the goal of limiting the global temperature rise to 1.5°C; supporting the effective implementation of the Global Methane Pledge; and strengthening climate disclosures across the financial system.

Private placements

We have a similar approach with our private placement portfolio as we have with our corporate bond portfolio. For private placements, which are more frequently not covered by public ESG ratings providers, we're more reliant on the issuer to provide the required data for our analysis and this naturally leads to greater engagement.

Case study 9

Private placement – utilities energy mix

Situation
We were looking at a private placement transaction with a European utility company, which was likely to be increasing its reliance on thermal coal power generation in the coming years.

Action
It was uncertain whether this would result in a breach of our policy thresholds for revenues generated from thermal coal, but our estimates suggested that it could be close. Although the issuer has plans to transition to greener energy sources, the near-term increase in reliance on thermal coal concerned us.

Outcome
We declined to participate in the transaction.

Principle 7: Integrating stewardship and investment

We strive to adopt environmentally sound practices and procedures across our property portfolios.

Property

Given that we primarily invest in property over the long term, either to secure income and/or target value-added opportunities, we try to ensure that, as active owners, we consider the long-term risks and opportunities, including those that stem from ESG analysis.

For over 20 years, we've been operating under established environmental due diligence procedures and processes, including environmental risk assessments, flood risk assessments, and Energy Performance Certificates (EPCs). As with other asset classes, this analysis sits alongside and often overlaps our financial analysis, which aims to ensure the asset is fairly priced, the income stream is secure and the returns are likely to be in line with our objectives.

As our understanding of risk evolves, so do our processes; we're always developing our procedures to reflect our understanding of risks.

We strive to adopt environmentally sound practices and procedures across our property portfolios. To do this, we employ a specialist environmental consultancy that helps us prepare and review our real estate ESG policy (a link to which is found in Appendix 2) and operate an environmental management system (EMS) aligned to ISO14001 accreditation. The EMS comprises a set of procedures and policies around acquisitions, refurbishments, asset management and reporting.

Our process evaluates risk and opportunity, informs the decision-making process and identifies where specialists may need to be instructed to undertake further environmental due-diligence assessments. The consultant also works with us on setting clear ESG-related objectives and measurable targets on an annual basis. We set annual targets to ensure a process of continual improvement in aspects such as data coverage, data accuracy and understanding, technical and green building certifications, carbon emission reductions, and tenant and community engagement.

During 2022, we increasingly focused on the EPC ratings of our existing holdings. There were multiple reasons for this:

- To assess preparedness for the more stringent energy efficiency regulations due to come in force in 2023 and confirm that all assets requiring improvement had been identified and tackled;
- To leverage this dataset to gain a better understanding of the transition risk facing the portfolio, using scenario analysis;
- To estimate emissions from assets where we do not have tenant data to better understand our emissions baseline; and
- As an input into tiering our assets, when trying to understand the level of alignment with our net zero goals.

This piece of work will inform our management actions, helping us to prioritise activity, manage and mitigate risk, and transition the portfolio towards net zero.

Research

Our procedures ensure we undertake a full environmental assessment of a property before acquisition, which is delivered through asset-specific bespoke due diligence prepared for us by our selected providers.

Buildings that don't have an EPC rating of C or higher, or a feasible strategy that can be developed to improve the rating, are not considered for acquisition. Similarly, we'll not acquire a property if it doesn't pass our flood risk screen, which requires assets to be excluded when they exceed the risk level we deem acceptable, unless suitable flood mitigation measures are in place.

We developed these procedures in 2022 to reflect our net-zero carbon roadmap, a link to which can be found in Appendix 2. This includes adding a requirement for a net-zero roadmap for each asset we acquire.

Principle 7: Integrating stewardship and investment

Integration

The output of this independent due diligence is reviewed by our team of property specialists; it's considered and discussed before being approved, or not, by our UK Head of Property.

If we proceed to acquisition, our due diligence will be commented on in the papers prepared for our investment approval process. These comments would identify physical and transitional environmental risks, opportunities for value-added investment and identification of remedial actions. This process ensures that we integrate ESG factors into our decision making, from fund manager to executive decision maker.

We have detailed asset management plans for all our assets. The purpose of these plans is to identify opportunities for the asset in terms of adding value, through proactive management, capital investment, operational changes and risk mitigation. We then track progress towards achieving our ESG and commercial performance targets.

We also have a set of procedures that encourage better environmental and social performance from assets during the period of ownership. This includes ensuring that our legal agreements with tenants contain green lease clauses wherever possible (to encourage better data sharing and co-operation over sustainability matters) and performing net-zero audits on a selection of material assets over the course of the year. Case study 10 provides details of how this has contributed to enhancing the resilience of our assets and better customer outcomes.

Reporting and monitoring

To help us understand a property's environmental performance, we collect key asset performance data, such as gas consumption, electricity purchased and water usage. We ensure this information is accurate through several approaches, such as using industry specific software, automated metering (AMR) technology, and validation by our environmental consultants.

At the asset level, in cases where properties are multi-tenanted, we assess performance and resilience of properties through our third-party managing agents. Our agents are required to report on key performance indicators through our legal agreements, which cover matters such as reporting data, application of policies, tenant engagement, and environmental and social targets.

We explained earlier how we are using EPC data, and later we explain how the outputs of desktop stranding analysis inform our investment process, as part of our proprietary carbon risk rating. We will continue to monitor these data points over time.

Also at the asset level, we have a real estate ESG steering group to ensure the successful implementation and adoption of our real estate ESG policy and procedures. The Steering Group also continually assesses the effectiveness of our environmental improvement programmes. It's responsible for considering how sustainability topics interrelate with our business strategy and develops sustainability materiality processes that link with the wider risk management process. By assessing and understanding the range of ESG factors, we believe we're better positioned to deliver consistent long-term investment returns for our customers and beneficiaries.

The Steering Group also continually assesses the effectiveness of our environmental improvement programmes.

Principle 7: Integrating stewardship and investment

Case study 10

Net Zero Carbon Audits and integration of ESG factors into our management process through the ownership period

The situation

We're committed to measuring and improving our environmental performance across our real estate assets to improve efficiency and reduce energy consumption.

We have been undertaking sustainability audits across our portfolio to identify ESG related improvements for individual assets. In 2021, we published our Net Zero Carbon Pathway, which outlined our aims to reach operational (landlord controlled) net-zero carbon for Scope 1 and 2 emissions by 2030.

As a result, the focus in 2022 turned to exploring opportunities to reduce the GHG emissions of our assets and identify which properties would become 'stranded assets' by 2030 without capital investment and/or operational changes.

Activity

Prioritisation of assets for Net Zero Carbon Audits

Following discussions with our energy consultants and managing agents, we reviewed energy consumption data and GHG emissions for all our property assets. We recommended the phased completion of Net Zero Carbon Audits at all properties where there was significant landlord procured consumption including our own corporate offices and then, in subsequent years, consider procuring at all assets including tenanted properties.

Those properties with the highest carbon emissions and/or risk of stranding were then prioritised for a Net Zero Carbon Audit, completed by suitably qualified specialists.

Net Zero Carbon Audits analyse current emissions and then identify improvement opportunities to reduce emissions over the short to medium term. The analysis considers:

- Building structure and mechanical/electrical plant
- Current operational energy consumption/carbon emissions and identifying main causes
- Building performance versus typical UK benchmarks for age and type
- Key potential interventions and implications on future energy performance
- Forecasting future carbon emissions and payback periods in terms of emissions saved for capital costs incurred
- Identifying on-site or off-site renewable energy generation opportunities
- Net Zero Carbon Pathway modelling versus industry published annual reduction targets
- Climate resilience

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Principle 7: Integrating stewardship and investment

Continued from previous page

Case study 10

Net Zero Carbon Audits and integration of ESG factors into our management process through the ownership period

Portfolio desktop analysis
We also undertook a portfolio-wide desktop analysis using CRREM model software to identify potential stranding dates for each asset (when the property will fall below the required performance levels to meet science-based targets) without intervention and improvements.

As the analysis was a desktop exercise, there were limitations to data coverage and quality, but it was a useful exercise to develop our understanding of risk in the portfolio (as a decisioning tool) and was an input to our portfolio carbon risk rating work.

When augmented with our detailed emissions data, desktop analysis enables us to quickly identify the properties at most risk of underperforming. It also facilitates identification of those properties where intervention (capital investment) would yield greatest impact and the aspects of the properties that require most intervention.

In 2022, we commissioned two Net Zero Carbon Audits for properties held in our Property Fund and we have a target to complete four more in 2023. Through this process, we target properties that have the most material impact on our portfolio wide emissions which by nature will be those with demand for natural gas and/or high grid acquired electricity.

The audits' findings will be reviewed in detail before being circulated to our internal fund managers and external property managers, with an instruction to attend to the 'quick win' suggestions, such as managing heating, ventilation and air conditioning operating hours, undertaking air permeability assessments and installing LED lighting. Other suggestions the audits make include medium- to long-term solutions such as replacing gas heating systems with electric ones, installing photovoltaic panels roofs, and upgrading mechanical plant equipment such as chillers with more energy efficient alternatives and/or building management systems at offices. In certain cases, the audits will be shared directly with our tenants, especially where we benefit from sustainability focused co-operation contractual arrangements (green leases). We will report next year on the actions taken as a result of these audits.

Outcome
We have focused our efforts on properties that have the most material impact on our portfolio-wide emissions. This allows us to prioritise sustainability activity and focus resources on those assets that could enhance the performance of the Property Fund. We believe this serves our beneficiaries' interests because it should enhance investment values and reduce future asset stranding risk. By better understanding the detailed risk that each asset faces, we can develop bottom-up asset management plans that reflect the profile of each asset.

Principle 7: Integrating stewardship and investment

Refurbishment

Refurbishments provide an opportunity to improve the resilience of our real estate assets. With that in mind, we aim for a minimum rating under the Building Research Establishment Environmental Assessment Method (BREEAM) of 'very good' or higher for all new developments and major refurbishment projects. We target an EPC rating of B but, where that is not possible, we must achieve an EPC rating of C or higher.

Refurbishments should also support our objectives of being operationally net zero for scope 1 and 2 carbon emissions by 2030 (through activities such as net-zero operational design strategies) and enhancing health and wellbeing attributes for occupiers. This involves detailed liaison and engagement with contractors to identify the most sustainable procurement route for enhancements to the fabric and plant of our buildings, which should deliver energy saving and/or wellbeing improvement outcomes.

We believe these measures make the buildings more attractive to tenants who have their own sustainability agendas, and frequently reduce running costs. We typically seek external validation of our refurbishments/redevelopments to confirm we've reached minimum wellbeing or environmental standards, from organisations such as Fitwel.

Case study 11

CL Office Refurbishments- FITWEL/SKA

The situation

Over the past few years, we've been redefining how we work at Canada Life UK through the core components of people, technology and workspace. We've delivered refurbished workspaces which inspire collaboration, agility and efficiency, and underpin our strategic focus on integrating sustainability into how we work throughout our business.

To do this, during 2020/2021, we commissioned substantial internal refurbishments of our London and Potters Bar owned offices, and in late 2022, relocated our leased Bristol offices to a newly constructed energy efficient office with strong ESG credentials and green certifications, including an A-rated EPC and BREEAM (Building Research Establishment Code for Sustainable Built Environment) Excellent rating.

We want to ensure that the workspaces we offer to our colleagues consider both environmental and wellbeing aspects and we chose to pursue external certifications at our three locations in respect of the work that we instructed, and our appointed contractors carried out, to reflect these considerations.

Analysis

We chose to pursue two certifications:

- **Royal Institution of Chartered Surveyors (RICS) SKA rating.** The SKA rating measures fit-out projects against a set of sustainability good practice criteria. It comprises more than one hundred 'good practice' measures covering energy and carbon emissions, waste, water, materials, pollution, wellbeing, and transport. An example of a good practice measure is that when wooden flooring is stripped out, it should be sent for re-use to a salvage yard instead of to landfill.
- **Fitwel certification.** Fitwel is the world's leading certification system, committed to building health for all. Generated by expert analysis of 5,600+ academic research studies, Fitwel is implementing a vision for a healthier future where all buildings and communities are enhanced to strengthen health and wellbeing.

Obtaining certifications not only helps to demonstrate our commitment to our principles but, more importantly, ensures we consider numerous aspects in the projects we might otherwise not. We therefore appointed an external consultant and qualified Fitwel assessor

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Principle 7: Integrating stewardship and investment

Continued from previous page

Case study 11

CL Office Refurbishments- FITWEL/SKA

to advise us on both schemes, and worked closely with them during each project to maximise scoring potential. We made it a condition of our contractor's appointment that the refurbishment achieved a RICS SKA Gold rating.

The Solution
We are very pleased to confirm that on all three properties we achieved SKA Gold ratings, demonstrating that our appointed building contractors kept sustainability at the forefront of the project.

In addition, all three offices have each been awarded a Fitwel 2-Star accreditation. The Fitwel certification recognises how our workspace has been designed to promote and facilitate health and wellbeing for all occupants, and covers areas such as air and water quality, lighting, views of nature, physical exercise opportunities, access to quiet spaces, and healthy, responsibly sourced catering. The maximum Fitwel rating is three stars and we are delighted with the 2-star accreditation, which took a significant effort from a number of teams within CLL to achieve.

This shows how we are using refurbishments as an opportunity to consider environmental and social factors at our properties and to address these risks and opportunities to improve outcomes for our beneficiaries.

Principle 7: Integrating stewardship and investment

Disposals

Our focus is increasingly turning to how we ensure the work we start as the asset's owner continues after we sell the property. We'll be designing more detailed procedures around this, particularly with reference to net zero. We strive to be a co-operative seller and provide EPC data, building certifications and metered data, where requested, to prospective purchasers. In 2023, we plan to review our disposal procedures to ensure that ESG factors are fully integrated into them.

Reporting and monitoring

To measure and report on our performance in managing ESG risks, our reporting processes are aligned with INREV guidelines. We also submit the Property Fund to the annual global real estate sustainability benchmark (GRESB) survey. The Property Fund was awarded three green stars and achieved 74/100 in its GRESB assessment in 2022.

Real estate finance (REF)

Our REF team is led by experienced specialists who source opportunities and manage the ongoing borrower relationships during the life of the loan facility.

We focus on providing long-term, fixed-rate loans secured against good-quality investment property benefiting from diversified or secure income streams backed by strong occupational demand. As active lenders, we consider the long-term risks and opportunities, including those presented by an ESG analysis.

We have established environmental due diligence procedures and processes. Like other asset classes, this analysis forms part of our underwriting, which also includes an ECAI equivalent rating generated by our internal model. Our focus is primarily on the UK lending market, but we also include the eurozone markets. Our lending approach is consistent across all investments and locations.

Research

As part of our due diligence process, we commission independent environmental surveys to check for flood risk, contamination and ground conditions. Where the due diligence identifies issues, we'll either screen the loan out or, if we think the risk can be mitigated, require the borrower to provide a solution. Solutions might include further Phase 1 investigation and reporting or a commitment to a legally binding obligation to remediate the issue.

We also screen based on minimum EPC ratings. Screens and procedures reflect that this risk falls on the borrower in the first instance. In certain circumstances, where the EPC ratings fall below our minimum requirements, the lending can proceed, provided the borrower has a credible plan to improve the rating or if it is an immaterial part of the portfolio. We'll engage with the borrower to understand its strategy.

We consider ESG factors in our origination and initial analysis of lending opportunities before the decision whether to proceed to due diligence is made.

We also require a building survey report. This report will review and comment on environmental issues in respect of the physical fabric of the building.

During 2022, we increasingly focused on the EPC ratings of the assets secured by our loans. There were multiple reasons for this:

- To assess our borrowers' preparedness for the more stringent energy efficiency regulations coming into force in 2023;
- To leverage this data set to gain a better understanding of the transition risk facing the portfolio using scenario analysis;
- To improve our estimation methodology to enhance our emissions baseline; and
- As an input into the development of our proprietary carbon risk rating for our borrowers.

This informs our management actions, helps us to prioritise activity, to manage and mitigate risk and transition the portfolio towards our net-zero goals.

Integration

We consider ESG factors in our origination and initial analysis of lending opportunities before the decision whether to proceed to due diligence is made. Satisfactory due diligence is always a precondition of lending. The outputs of these independent assessments and our financial due diligence is reviewed by our team of lending specialists, considered and discussed among the team and signed off by our Head of Real Estate Finance.

Before we proceed to lending, this due diligence is commented on in an exchange meeting with internal stakeholders, who are tasked with identifying the ESG risks, including physical and transition climate risks. Together, this process ensures that we integrate ESG factors in our decision making from originator to decision maker.

Principle 7: Integrating stewardship and investment

Our long-term lens means we typically set the legal framework to ensure all material decisions relating to secured assets are referred to us, protecting us and our investors.

Monitor, assess and integrate

Once the decision to lend has been made, we seek to control ESG risks through our loan documentation. This includes extensive environmental representations and covenants, anti-bribery, corruption and sanctions covenants, and appropriate references to matters such as data protection and modern slavery. Where an ESG concern has been identified as part of our due diligence phase (but has not led to the loan being screened out), we add bespoke controls and monitoring rights to our loan documentation.

Typically, loans are monitored through compliance certificates delivered by the borrower and through regular contact with our borrowers. Our long-term lens means we typically set the legal framework to ensure all material decisions relating to secured assets are referred to us, protecting us and our investors while balancing the operational freedoms that our borrowers require. Loans are administered within the group, and our procurement, outsourcing & supplier risk management policy, referred to in Principle 8, applies to this arrangement.

Historically, our primary focus has been on the impacts of physical risks of climate change on our loan book. In 2022, we developed our understanding of the emissions generated by our portfolio and the preparedness of our borrowers for a transition to a low-carbon economy (as set out earlier). This work will help us better manage the transition risks to our book. We'll continue to build on this in 2023.

Principle 7: Integrating stewardship and investment

Equity Release Mortgages (ERM)

Our ERM business is led by an experienced team of specialists who originate loans and manage the ongoing borrower relationships during the life of the mortgage. The team sits in a separate legal entity within Canada Life UK and our relationship is governed by a set of arm's length agreements, which include lending criteria covering ESG considerations such as flood and subsidence risk, fair treatment of borrowers and occupiers and verification of borrower capacity and identity. These preferences are documented in established due diligence procedures and processes. Like other asset classes, this analysis forms part of the underwriting process.

This team focuses on providing long-term, fixed-rate loans secured against good-quality residential property located in Great Britain. We expect them to consider the long-term risks and opportunities, including those presented by an analysis of ESG risks.

Research

The due diligence process commences with an evaluation of the quality of the property; this postcode check delivers an understanding of the likely characteristics of the property based on its location. If the property passes this initial screen, the key environmental risks reviewed are physical risks posed by flood and subsidence risk. We also want to understand the quality of the property proposed as security and an independent, physical inspection of the property is undertaken by RICS qualified property surveyors.

We've begun to develop our understanding of the transition risk associated with our portfolio and emissions generated by the same. The team have found EPC ratings to be a useful guide in this, helping us develop our estimation methodology. The EPC rating is being used as an input into our emerging carbon risk rating. We plan to more fully integrate EPC ratings into our underwriting framework over the coming years, to help us develop more compelling customer propositions, to manage and mitigate risk, and transition the portfolio towards our net-zero goals.

The teams look at the characteristics of each borrower recognising that many of our customers may be vulnerable, including checkpoints to ensure that the customers understand the effect of the mortgage transaction they enter into. Whilst the ERM business is intermediated we want to sure that all our customers are treated fairly.

This team focuses on providing long-term, fixed-rate loans secured against good-quality residential property located in Great Britain.

Integration

Our underwriting criteria contain detailed guidance which will determine if the risks identified by our due diligence are outside of our appetite and must be screened out, or if the risk can be mitigated, and whether additional conditions to mitigate the risk must be satisfied prior to, or in a short period after, the loan is advanced.

Satisfactory due diligence is always a precondition of lending. The outputs of these independent assessments and our financial due diligence is reviewed by the team of lending specialists, considered and discussed among the team and independently signed off by two experienced underwriters.

Monitor

Once the decision to lend has been made, the risks are controlled through our loan documentation. These primarily focus on maintaining the value of the property through keeping it in repair, keeping the property insured, complying with planning, allowing inspections and ensuring the property is remains occupied.

Derivatives

Typically, our customers require cash flows to be in a specific currency that match their liabilities. However, restricting investments to assets denominated in that currency would limit the opportunities available to that customer. As such, we use derivatives (cross-currency swaps) to convert the cash flows of foreign assets into the currency required by the customer. We execute these swaps on an asset-by-asset basis, rather than portfolio basis. The derivative trades are matched to the underlying assets (matching the expected time horizon of the asset investment) to minimize the risk associated with such transactions. Derivatives form a core part of our strategy to achieve our returns and liquidity targets.

Principle 7: Integrating stewardship and investment

Equities

Research

We apply screens at the beginning of the investment process to define the investment universe. As discussed earlier, we currently apply coal and UN Global Compact screens to all managed assets as a baseline screen. In 2023, we'll review our screens and, where appropriate, add to them. Morningstar Sustainalytics is our screening tool of choice.

Once an issuer has been screened, we overlay our own detailed analysis to validate the results. This could lead us to override the screen when sufficient evidence can be provided to our ESG risk review meeting.

We supplement third-party research with reports provided by the company we're analysing and additional paid-for broker research produced by the broker's financial and ESG research teams.

Once our investment universe is defined, we assess the investee company in a three-part analysis process: macroeconomic, strategic and financial, and ESG.

In our macroeconomic analysis, we look at a wide array of top-down economic indicators, such as current and forecast interest rates, employment rates, purchasing managers' index data, government debt levels, corporate investment levels, consumer expenditure, and economic growth trends.

The strategic and financial analysis of individual stocks looks at data points that include long-term trends in sales, operating margins, returns, free cash flow, debt and capex. We look at how well placed a company is strategically, whether its products and services are cheaper or of a higher quality than its peers' products, and how sustainable it is. A positive assessment indicates a company may be able to consistently grow healthy returns.

The ESG analysis relies on insights provided by our third-party research providers which include Morningstar Sustainalytics and ISS to highlight the level of ESG risk and controversies each stock is exposed to, and the carbon intensity of the company. This provides a clear view of the risks in our portfolio. We supplement third-party research with reports provided by the company we're analysing and additional paid-for broker research produced by the broker's financial and ESG research teams. Case study 16 explains how we apply more skepticism to third party ratings in Asia Pacific demonstrating how we flex our integration approach to reflect different geographies.

When appropriate, the ESG risks identified (along with the macroeconomic, and strategic and financial analysis) are integrated in bottom-up research notes. We will assess whether the returns companies are delivering are priced by the market. This will allow us to gauge how much value there could be for our investors if we purchase.

This year, we also developed our proprietary carbon risk rating for the companies held in our portfolios. As set out in Principle 4, we tiered our investees by the quality of their decarbonisation commitments. This gives us an understanding of how aligned investees are to a net-zero world. Tiering will also help us focus our activity, engagement and research, and provide a useful view of carbon risk in our portfolios.

Integration

This information is then used to adjust our active position firstly to reflect our financial risk/reward assessment and then another adjustment to reflect the ESG considerations. Case study 12 illustrates this approach and how research informs our decision-making.

An ESG risk, if severe, might preclude investment. More typically, however, if the risk falls within our tolerance level, we will seek to manage it through portfolio construction, our view of pricing, engagement and monitoring.

Reporting and monitoring

All funds are reviewed quarterly, and the meeting is attended by the relevant fund managers, Head of Equities, and Senior Research Manager.

We review the research provided by ISS and Morningstar Sustainalytics at the portfolio level before such meetings, and the fund managers discuss the justifications for the overall portfolio composition. We look at the evolution of ESG risk and carbon intensity of funds both in absolute terms and relative to our benchmark. We also track the stocks with the weakest ESG risk rating and highest carbon intensity in our funds, as well as the level of concentration in particular stocks. These metrics are an input into our prioritisation and engagement framework.

Our ultimate sanction for an investee company deemed to have excessive ESG risk is divestment. Examples of companies where we have divested for this reason include Easyjet, United Tractors, and Ayala.

Principle 7: Integrating stewardship and investment

Case study 12

Equities research leading to clearer nuclear positioning

Issue
Climate change continued to be a priority risk managed by our investment management team in 2022. We wanted to explore whether nuclear energy could present an investment opportunity.

Activity
Our equities team undertook a thematic review of the nuclear energy sector. It looked at developments in nuclear technology, the policy environment and potential investment opportunities.

We concluded that nuclear power is a transition fuel, which will allow countries to meet their energy requirements while complying with environmental targets. Strides have been made to address some of the risks associated with nuclear and recent innovations provide hope for even cleaner nuclear power. Nuclear also addresses the sovereignty and energy security issues many countries are facing in relation to the use of fossil fuels.

Nuclear power is controversial. Many nations had been moving away from the sector due to high-profile safety incidents like the 2011 Fukushima disaster in Japan. However, the Russian invasion of Ukraine has prompted many governments to reappraise their energy policies and sentiments towards nuclear energy have started turning more positive. This is reflected in the inclusion of nuclear in the EU Taxonomy (an environmental sustainability classification framework).

We assessed investment opportunities in the nuclear power sector by looking at opportunities that included:

- a supplier of nuclear fuel to nuclear power stations (Opportunity A);
- Cameco, a miner of uranium (a critical input required to operate a nuclear power plant) (Opportunity B); and
- NuScale Power, a Small Modular Reactor (SMR) maker with standard design approval from the US Nuclear Regulatory Commission (NRC) (Opportunity C).

Outcome
Opportunity A was not selected for investment because the business model involved payments to entities that would ultimately be controlled by the Russian state. We attempted to engage with the company before making this decision, but they failed to respond to our enquiries. Therefore, the governance risks were outside of our appetite and too significant to permit an investment. Opportunity C was added as a new holding in 2022 and our weight in Opportunity B was increased. Each of these positions has a positive active weight.

These examples demonstrate the ESG opportunities and risks. We want to maintain our exposure to power generation and this approach has allowed us to grow the portfolio, potentially capitalising on a climate opportunity while supporting the transition of our portfolios.

Principle 7: Integrating stewardship and investment

We plan to review the impact of ESG factors on our passive funds versus their benchmarks during 2023.

Multi-asset

The multi-asset team constructs portfolios for both actively and passively managed funds, which provide the building blocks for our asset allocation. For actively managed funds, we can lean on the ESG-integrated approaches across our equity, fixed income and property mandates, which are outlined in this report. For passively managed funds, we're required to be more pragmatic, relying on third-party providers for guidance. We plan to review the impact of ESG factors on our passive funds versus their benchmarks during 2023. We're increasingly focusing on the ESG and stewardship credentials of our passively managed funds and climate change as a theme across our multi-asset funds.

Outcomes

Evaluation of effectiveness of integration of stewardship and investment

As an active owner, our investment professionals have discretion to manage funds within a set of defined guidelines. Our fund managers consider a broad range of factors before making investment decisions, including ESG and stewardship considerations.

Our stewardship process is based on a range of sources, depending on the asset being managed. Sources that help us identify and assess the associated risks include investor presentations, meetings with management (discussed in Principle 9), third-party research, company reports and bespoke due diligence reports.

This process sits alongside our financial analysis and is an input into our holistic decision-making process. We apply expertise, care and attention when considering the appropriate information to include, to make each decision count. In 2022, we enhanced our processes by introducing new screens to our equities and fixed income portfolios, undertaking EPC research in our real asset portfolios, and developing our proprietary carbon risk rating across asset classes. Such steps have supported the integration of ESG into our portfolios and the better management of climate risks by our investment management teams.

Principle 8: Monitoring service providers

Principle 8: Monitoring service providers

Signatories monitor and hold accountable managers and/or service providers.

Activity and outcomes

Overview

CLAM manages the majority of our customer funds as shown in Figure 9 earlier. Therefore we have a high degree of control to ensure that these funds are managed in alignment with our corporate purpose, values and beliefs and that our responsible investment beliefs are incorporated into the management of these funds.

We want to provide choice to our customers, and we therefore offer funds linked to funds managed by third party asset managers.

Our detailed selection and evaluation process determines which funds we offer to our customers. Our diligence process strongly reflects social (such as customer outcomes) and governance (such as systems and controls) factors at the firm and fund level, demonstrating the materiality of these factors to delivering good customer outcomes. Our Investment Proposition and Governance - Wealth team leads this process which is overseen by the investment working group and customer & operational risk committee to ensure appropriate oversight and focus on customer outcomes. We apply this process to funds managed by CLAM (adjusted to reflect that CLAM is an affiliate) as well as funds managed by external managers.

Step 1 Parent Assessment: we review the parent company. We require comprehensive due diligence from the parent company of all of our funds at the onboarding stage to review a number of measures, including their regulatory status, organisational size, head office location, company financial status, assets under management and general reputation. The due diligence package includes the requirement for any regulatory documents, such as: relevant policies and procedures such as anti-money laundering, personal dealing and business resilience & continuity policies and processes. The due diligence package is refreshed periodically, at a minimum of every 3 years, and a general assessment is carried out on a quarterly basis, monitoring the key factors and for any media reports, and the assessment is reported through our governance structure as appropriate.

Step 2 Performance Assessment: The performance of all funds are assessed in detail at the onboarding stage. Fund performance is reviewed based on a number of short-term and long-term timescales to build a comprehensive picture of the funds performance over the preceding 5 year period. The fund performance is then assessed against its peers in the same investment sector to ensure that a fund has performed well in comparison. These same measures are applied on a monthly basis, and on a quarterly basis. To the extent that we deem any fund to be underperforming against its peers we can make a recommendation for action to the investment working group. Actions can range from continued monitoring, to further investigation, to recommending a fund closure, for the benefit of the underlying customers.

We place a high value on doing what is right and we prioritise customer outcomes in our monitoring and governance frameworks.

Step 3 People: Details of the fund management personnel and risk management personnel are collected and assessed at the onboarding stage, reviewing qualifications, authorisations, employment history, and general experience. Any key changes made during the life of a fund would be reviewed if deemed required, and recommendations and actions taken if necessary.

Step 4 Process: Details of the fund management process are collected at the onboarding stage and assessed. The assessment covers areas such as: investment objective, asset classes invested in, typical investor type, tracking controls, asset vetting process, asset allocation methodology, internal committee structures and decision making, segregation of duties and internal risk monitoring. Any key changes made during the life of a fund would be reviewed, if deemed required, and recommendations and actions taken if necessary.

Step 5: Price: The price customers pay for investment into any fund is assessed before onboarding. Any fund deemed to be too expensive and deemed to be outside of market norms would not be acceptable for onboarding. Any key changes made during the life of a fund would be reviewed if deemed required, and recommendations and actions taken if necessary.

As is clear from the above, themes we investigate in on-boarding process are reflected in our ongoing oversight and monitoring of customer funds. We place a high value on doing what is right and we prioritise customer outcomes in our monitoring and governance frameworks. Monthly and quarterly monitoring is carried out to ensure that funds are complying with their investment objectives and are behaving as a customer might expect. We also attend annual meetings with representatives from each external fund manager and this is included in our monitoring reporting. This meeting allows us to engage privately with personnel involved in the management of the fund. Oversight of this process is primarily provided through the investment working group with certain recommendations and actions escalated to the customer & operational risk committee. Where issues are spotted or concerns raised we will undertake further diligence, escalate as appropriate and our ultimate sanction if we remain concerned is to cease to offer the fund.

Principle 8: Monitoring service providers

We also undertake ad hoc monitoring, engagement and reporting. This might relate to a particular macroeconomic or market event (such as the invasion of Ukraine, to which the details of our response are set out in case study 13), or specific actions or concerns relating to a particular manager or fund, which may be event driven such as a fund suspension affecting a manager of a customer fund (whether or not we are invested in that particular fund) or corporate actions and propositional changes. This happens outside the regular reporting cycle and we work hard to proactively communicate with the customer in an appropriate manner (as we set out in case study 6 in Principle 6). In case study 13 we set out how we undertook an ad hoc project to understand how a market issue might impact our customers. We will instigate a full review of customer information materials where a corporate action or change to a fund's investment objective, policy or strategy is material.

Case study 13

Macroeconomic event leading to ad hoc monitoring of customer funds – Russian invasion of Ukraine

Situation

In early 2022, Russia invaded Ukraine. The U.S. and EU responded with financial, energy and technology sanctions on Russia. We were concerned that our customer funds could be indirectly financing Russia's war (for example, via tax revenue from businesses operating in Russia to the Russian government) or facilitating investment in sanctioned entities.

Activity

After the invasion of Ukraine we reviewed all the assets underlying our customer funds to check for exposures. We also reviewed the firms that manage our customer funds and using our knowledge of their fund range lead us to believe that there may be a firm exposure to Russia or Belarus.

We then targeted communications at the asset managers we had identified being at risk of being impacted. We engaged with the asset managers to get a clear understanding of the exposures, if any. In the limited cases where small exposures were found, we entered into dialogue with the asset managers to quantify the exposure, understand what actions they were taking to manage the risk and develop a picture of customer impact. This dialogue continued on an ongoing basis through the year.

Outcome

We consider that through careful ongoing monitoring and proactive dialogue with managers we developed a good picture of the very limited exposure to our customers. The exposures were reported internally to relevant risk forums and to the investment working group and customer & operational risk committee and it was determined that given their very limited materiality, other than ongoing monitoring, no further action was required.

Principle 8: Monitoring service providers

Fund Closure

Sometimes we might determine that it is no longer appropriate to offer a fund to our customers. This may be driven by factors such as poor performance against peers or corporate actions that are inappropriate for our customers (e.g. change of target market away from retail investors). We also monitor the company, and if we had concerns for their size or governance and controls, we would also close the relationship. Where this occurs we'll ensure that this is communicated in a timely and appropriate manner to customers alongside recommendations for alternatives for incumbent customers and put in place provision to ensure that customers remain invested.

Our plans

As we have mentioned for CLAM managed customer assets we ensure integration of ESG factors into the investment process and stewardship through our Canada Life UK umbrella approach to responsible investment. During 2023-2024 we plan to develop our due diligence approach to be more systematic and explicit in our understanding of how our external managers are integrating responsible investment principles into their firms and funds. We will use this to develop how we communicate and report on ESG and stewardship to our customers. Our ambition is to provide customers and advisers with information that helps them reflect their sustainability preferences in their life and pension funds and support the customer, societal and environmental outcomes they seek. In 2022, we began to develop this approach, and we began to engage with our external asset managers to collect climate data. We plan to build on this approach over coming years.

For CLAM managed customer funds or shareholder funds we have a high degree of control over the management of suppliers involved in delivering stewardship activities and set our approach to managing these suppliers below.

We have a company-wide procurement, outsourcing & supplier risk management policy that applies to Canada Life UK. This policy is currently being embedded in our procurement activities. The policy is built around eight principles that help ensure our supplier and commercial risks are appropriately identified, assessed and managed. This sets the framework to assess and monitor all service providers ensuring that they are delivering to meet our needs. Those principles are summarised in **Table 3:**

Business conduct and ethics	Considers alignment of suppliers with our values and business ethics and facilitates communication of our expectations to suppliers.
Commerciality	Looks at value for money with a focus on continuous improvement and best fit with our corporate objectives.
Fair treatment	Supports the fair and ethical treatment of suppliers.
Quality and accountability	Targets partnering with suppliers that deliver quality and responsible products and services.
Selection	Reviews and assesses potential suppliers including risks and subsequent management.
Sustainability	Encourages selection of sustainable, socially conscious and environmentally friendly products, services and technologies.
Performance	Monitors maintenance of agreed service levels and financial viability through a risk-based approach, their criticality and business impact.
Regulatory and legislative	Delivers supplier engagement and risk management practices that are consistent with regulatory and legislative guidelines applicable to our operations, such as legal review.

Table 3: principles embedded into procurement, outsourcing and supplier risk management framework

Principle 8: Monitoring service providers

Case study 14

Voting service provider and improving CLAM's proxy voting process

The situation
An internal review had identified that as CLAM's stewardship activities had grown, our legacy processes and systems were hampering our ability to efficiently provide comprehensive voting disclosures to our customers; therefore, we determined that we should take action to find a service provider that could meet our specific needs.

Activity
In 2022, we began the process of seeking a new proxy voting service provider to support our voting activity, to create a more streamlined and robust vote casting process and assured reporting that works alongside a proxy advice service. The following design principles were set: financial terms; greater control over our provider; moving control and accountability to the front office investment team; capacity in the chosen solution to meet growing demand; enhanced reporting functionality to facilitate reporting, transparency and oversight; ease of use and compatibility with existing systems; and improving data confidence and accuracy.

A team from across investment governance, equities, research, risk and compliance, procurement and legal functions reviewed two potential providers. The process included detailed meetings to understand impacts on our existing systems and greater understanding of the services available. We completed due diligence on each provider and a contract risk assessment for the selected provider.

The solution
The team, supported by the CLAM senior leadership team, recommended changing to an enhanced and more effective voting, disclosure and results service. We selected ISS ProxyExchange to provide this because we were impressed with the ease of implementation, had been satisfied with their research and advice service, and liked the efficient, technology-led solution.

The web-based application allows our investment management team to have real-time access to upcoming votes, alongside recommendations for advice, an enhanced data set, and improved reporting functionality. Key factors in our decision were the reduction in operational risk; increased assurance around our voting data; and improved support of oversight and control. It also has functionality that supports growth and will set us up for long-term success. Implementation began in the late summer of 2022, with vote casting through the new service operational in Q4, and new look disclosures live in Q1 2023.

The outcome
We assessed the risks and benefits associated with each supplier and evaluated their ability to deliver the best possible customer outcome. By creating a cross-functional team for procurement and implementation, we ensured that risks and concerns were identified in a timely manner. The results of our initial testing show that the solution has better functionality, reporting and controls than the previous solution and more fully meets our needs than the previous solution. We will continue to engage with our new supplier over 2023 as we embed the service, and report more fully on its outcomes next year.

Principle 8: Monitoring service providers

How we have overseen research, proxy voting and collaborative engagement providers in equities and fixed income

Canada Life UK use proxy services provided by ISS and ESG research provided by ISS Climate Change, ISS ESG's Norm-Based Engagement Solution and Morningstar Sustainalytics. Morningstar Sustainalytics ESG research and thematic engagement tool, is procured under a global licence to ensure global organisational alignment. The procurement model described earlier (except the commerciality principle, which only applies to the UK model) reflects our global parent company's model. When global contracts are procured, jurisdictional regulatory requirements are reflected in the process.

ISS provides proxy voting advice for our equities team as well as proxy voting workflow management, execution and reporting services, which is discussed in case study 14. Voting advice is not followed by default. We study each recommendation carefully and, on a minority of occasions, choose not to follow it. Generally, this reflects a desire to take a more nuanced approach given what we know of the companies and their management. In cases where we voted against management, we didn't follow ISS's recommendation in:

- 13% of cases in 2022;
- 9% of cases in 2021; and
- 14% of cases in 2020.

As discussed in case study 15, we have worked collaboratively with other industry participants to influence proxy voting providers through our membership of the IIGCC. This is to ensure that ISS provides voting advice aligned to net zero frameworks.

When global contracts are procured, jurisdictional regulatory requirements are reflected in the process.

Our equities fund managers are responsible for evaluating the merits of each vote carefully (in co-operation with our researchers) and we expect them to use their expert judgement and knowledge of investee companies to best protect our assets and customers.

We use the ISS ESG's Norm-Based Engagement Solution. The engagements chosen by ISS are always targeted at serious norms-based violations and we always choose to participate by default.

We believe ISS Climate Change research and Morningstar Sustainalytics ESG research services provide a valuable source of research. We do not integrate them into our processes without enquiry, but often use them as a starting point for our own fundamental ESG analysis.

The equities team's use of ISS Climate Change and Morningstar Sustainalytics ESG research focuses on their strength: a single standardised evaluation approach applied to all companies. The limitation of such an approach is that, by applying a common rating methodology to all companies, the end goal is an overall rating that does not capture nuanced knowledge of companies and sectors.

We therefore draw on multiple forms of research to provide us with a more complete understanding of the ESG risks faced by companies and the sectors they operate in. One useful source is investment bank analyst research, which covers the companies and sectors in question. In case study 16 we discuss how we have developed our understanding of the limitations of the data we receive from third-party service providers.

For fixed income, we find that for detailed information around a company's ESG targets, strategy and progress, we need to supplement the third-party research with public data drawn from sources including the company's annual report and website, Climate Disclosure Project (CDP) and other open-source tools.

Principle 8: Monitoring service providers

Case study 15

CLAM's Proxy Voting Adviser

The situation
Proxy advisers have a central role in guiding investors and asset managers when it comes to exercising their voting rights because of the large numbers of votes every year that investors and asset owners need to consider. Proxy advisers are valuable as they ensure each vote gets the attention it deserves, and the wide adoption of third-party advice should translate into a high level of alignment within the investment community potentially adding to investor impact. However, this also places a great deal of influence in the hands of the proxy advisers, two of which control the recommendations to more than 90% of the market. Investors need to ensure that the proxy advisers' opinions are aligned to and reflect their beliefs and policies.

This is increasingly relevant on topics such as the net zero transition which requires more expertise, granular and highly technical assessments, and consequently tailored set of criteria to vote on resolutions.

Activity
It is important that the proxy advisers we rely on meet our expectations, including keeping up with investors and managers' evolving needs in relation to climate-related voting. For this reason, we joined the IIGCC Proxy Advisors working group in Q4 2022, with the aim of starting to engage with our proxy adviser and work towards the this objective. Our role in this group has been primarily to listen and learn.

We co-signed a letter to ISS in November containing the group's position statement, setting out what would be useful to the industry. This covered director accountability, transition plans, 'Say on Climate' votes, and climate accounting and auditing.

Outcome
Joining the group in 2022 presented an opportunity for us to join the group in time to reinforce this position statement.

We agree with the group's 2023 aim of pushing for the development of voting policies that are more specifically relevant to the achievement of net zero. This will facilitate alignment of ISS advice based on adequately granular and topic-specific analysis. We hope the knowledge-sharing with peer investors and the dialogue with ISS will also help us formalise our own climate-aware voting policy.

Principle 8: Monitoring service providers

Case study 16

Oversight of third-party ESG data – Asia Pacific

The situation

The research our equities team conducted in 2021 highlighted a stark regional contrast in the proportion of companies setting energy transition targets and responding to engagement requests. This was most pronounced in the Asia Pacific region.

We were concerned whether our third-party ESG research providers were noticing similar trends. We wanted to understand whether this translated into a reduction in the quality of the research and ratings we received from them for Asia Pacific issuers.

Activity

We set up a call with the Head of Issuer Relations of Morningstar Sustainalytics to discuss whether they were experiencing any issues around disclosure quality and issuer responsivity in the Asia Pacific region, to better understand the data quality. Morningstar Sustainalytics told us it also notes similar regional differences in the responsiveness of companies to their requests for information. They highlighted regional disparities in the quality and seniority of management contacts at the companies they rated, and also in the response rate to their questions. Among large economies, the response rates to questions were particularly poor in China and India, both scoring in the low teens. The worst response rates were for social risk questions, with responses to environmental questions comparatively better.

Outcome

It is likely that variations in transparency and disclosure across regions could impact the quality of ESG risk ratings. We therefore apply greater caution when applying ESG risk ratings to our Asia Pacific issuers. Our Asia Pacific fund ESG risk score is now below the regional benchmark to reflect this uncertainty. We were encouraged that our data provider had also identified the issue, and we'll consider what we can do to encourage better disclosure by Asia Pacific issuers. This is an example of how we flex our approach to reflect different geographies.

Principle 8: Monitoring service providers

Case study 17

Corporate Fixed Income – Oversight of Morningstar Sustainalytics data, Western Power Distribution

The situation

During 2022, our screening process flagged a potential breach of our thermal coal screen. As a result of our credit research team's in-depth knowledge of the issuer, we disagreed with Morningstar Sustainalytics' assessment of the Western Power Distribution's exposure.

Western Power is a UK-regulated electricity distribution company, which means that the regulatory regime provides good visibility on earnings. Western Power also has a track record of strong operational performance. Our internal ESG risk assessment resulted in a neutral rating for all three ESG factors.

Activity

Our credit research team undertook further ESG research on the issuer to see whether we could understand why Morningstar Sustainalytics data differed from our understanding. We determined that the ownership of the issuer in question had changed due to its acquisition, which hadn't been reflected in Morningstar Sustainalytics' data, and the operating issuer had limited coal exposure.

Given we disagreed with Morningstar Sustainalytics' assessment, our credit research team reached out to Morningstar Sustainalytics to highlight the inconsistency in its data and understand how it reached its conclusion. Morningstar Sustainalytics confirmed that, during 2021 and 2022, it was enhancing its research for operating issuers, moving away from their legacy process of linking the research to the listed parent. Some operating company research was still linked to listed parent company research. It also confirmed that it had investigated the new post-acquisition corporate structure and agreed that the new ownership was not accurately reflected in its database.

Outcome

Later in 2022, Morningstar Sustainalytics reflected these changes in its database, and the issuer no longer flags as potentially in breach of our coal screen, and we continue to hold this issuer in our portfolios. This shows that we apply appropriate scepticism to the third-party research we receive and challenge it where appropriate.

This also shows why it's important to conduct our own research and for our analysts and fund managers to have detailed knowledge of the issuers we hold rather than solely relying on third-party research, particularly for fixed income as the issue may not originate at the listed parent level. A particular problem we have come across with third-party research providers has been issuer ratings based on parent policies or data: where we find examples of this, we provide feedback.

Principle 8: Monitoring service providers

Outcomes

Evaluation of effectiveness of monitoring of service providers

We believe we have delivered proportionate and effective oversight of our service providers during 2022. We interrogate the research and advice we receive from third parties and interrogate data using multiple data sources where appropriate. We use our in-depth thematic and issuer-level research to feed back to providers where necessary, to better serve our customers. During 2022, we worked with our industry peers to enhance the usefulness of climate voting advice delivered by proxy voting advisers, which will continue to serve our customers and industry in the future. We also addressed weaknesses in the services delivered to us, re-tendered those services and secured a new provider, which we consider will enable us to enhance customer outcomes and the transparency of our reporting.

Principle 9 : Engagement

Principle 9: Engagement

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

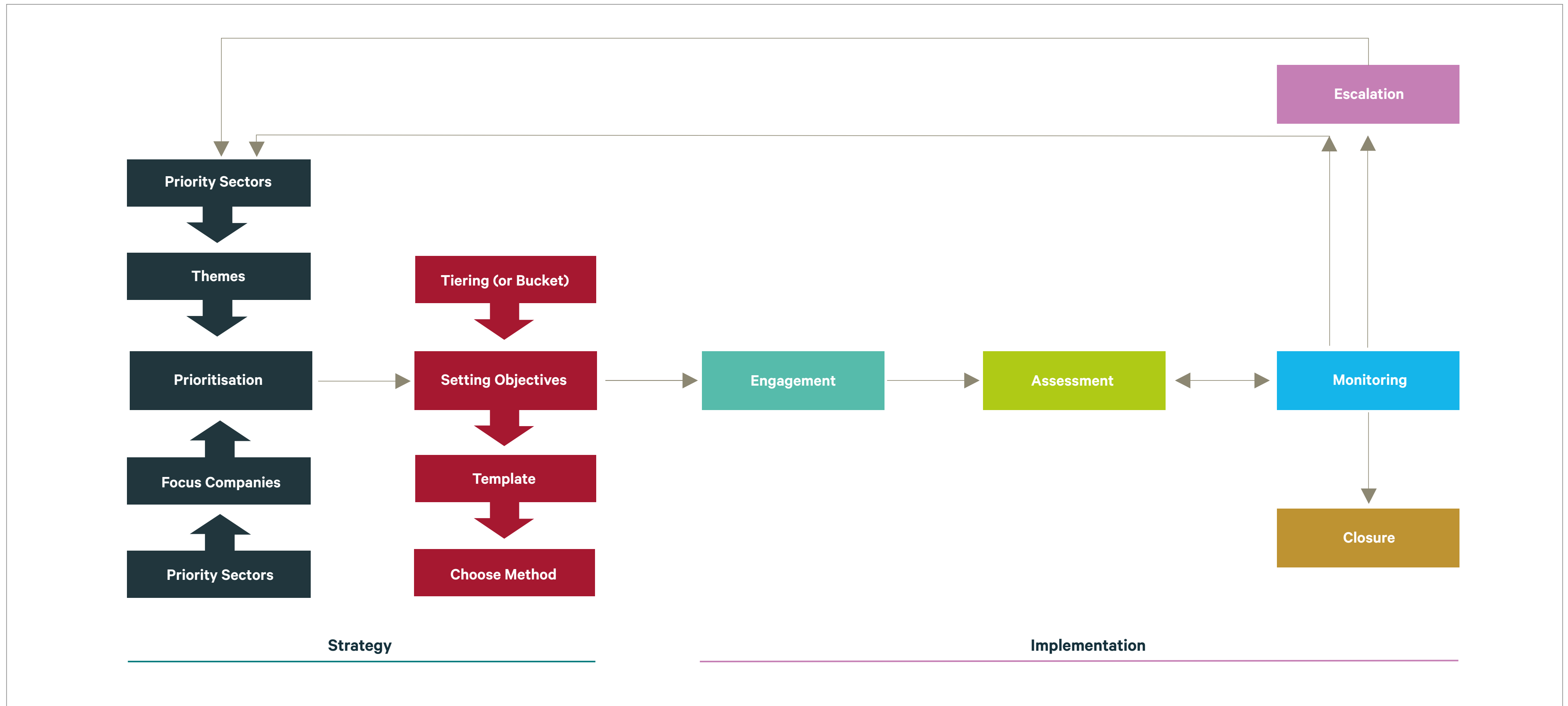


Figure 10: Prioritisation and engagement framework

Principle 9: Engagement

Context

We view engagement as an important process that can enhance the incorporation of ESG into our investment approach. It also allows us to manage and monitor the risks identified and accepted in our investment decision making. Furthermore, over the long-term, we believe it to be a tool by which we can improve the quality of, or reduce the risks in, our portfolio.

We don't view all forms of contact with companies as engagement. We consider engagement to be dialogue with companies that improves public disclosure (information engagements), that encourages improvements in ESG performance or that generates change in the real economy (change engagements).

We continue to develop our engagement approach. Our enhanced prioritisation and engagement framework set out in **Figure 10** includes the following stages:

Prioritisation

Developing our prioritisation score for our fixed income and equities engagements involves a two-step approach.

In fixed income, we first develop a list of focus issuers for engagement, through a multi-factor approach. These factors include, but are not limited to, internal research and thematic issues. These act as a first filter enabling us to establish the issuers where we have identified and accepted an ESG risk as part of our investment process or those that could be influenced by a thematic issue. Second, within this group we then weight the internal factors to determine the prioritisation within that set. These factors can include the internal ESG score, size of holding, credit rating and our exposure to the relevant sector. This allows us to prioritise issuers where we have material exposures to the sector or issuer, and where the issuer may be at relatively more risk of default. External factors which build this picture are risk scores attributed to the issuer and sector by our third-party research provider. This approach covers listed corporates, private placements and sovereigns, albeit with adjustments to the exact inputs to reflect the unique nature of each of these asset types.

During 2023, we'll enhance our prioritisation tool to include this dataset and other research.

We have begun to roll out a similar process for equities. However, the selection criteria are different. Therefore, the initial funnel to identify the list of focus companies for engagement reflects thematic issues and data from our third-party data provider, covering data points such as the ESG risk scores and severe exposure to controversies. This set is then weighted considering internal factors such as size of holding, portfolio exposure to sector and whether there is a crossover with other portfolios. External factors include metrics such as sector risk and more granular ESG metrics.

Our engagement activity begins with the priority sectors by value and issuer number count reflecting their materiality to our portfolio.

As discussed, in 2022, we developed a carbon risk rating for our assets based on their alignment to our climate goals. During 2023, we'll enhance our prioritisation tool to include this dataset and other research. This will ensure that issuers generating the most climate risk and/or issuers with weak commitments and/or disclosures are selected for engagement. We'll report on this enhancement in next year's report.

Set objectives

Our targets are then classified as reactive targets and systemic targets to reflect the reasons why they are included in the engagement list.

Reactive targets are issuers included because of a specific and isolated issue, such as a one-off incident or controversy. Our approach to these engagements is tailored to the issue with the aim of gaining more information and details of the target's action plan, clarifying our expectations and supporting the company with our views on best practice, and monitoring the situation. Our approach, timelines and objectives are tailored to the relevant issue. For an example, see the response to the Russian invasion of Ukraine in early 2022 in case study 18.

Principle 9: Engagement

Case study 18

Reactive target – joint fixed income and equities engagement

Issue/Problem
In early 2022, Russia invaded Ukraine. The U.S. and EU responded with financial, energy and technology sanctions on Russia. We were concerned that our investments could be indirectly financing Russia's war (for example, via tax revenue from businesses operating in Russia to the Russian government).

Action
We reviewed our portfolios to understand where, if any, there could be exposures through our investments to Russia. We found no companies in breach of sanctions and only a limited exposure. One investee company operating in the oil and gas sector had exposure through a joint venture to Russia.

There were overlapping holdings in our equity and fixed income portfolios. We were concerned about the financial risks to the business model of the relevant company and subsequent impact on both share price, dividend security and risk to earnings because of this exposure.

We wanted to understand both the financial impact on the investee company's business resulting from financial sanctions and its approach to this project, noting that it would be unacceptable from an ESG perspective to be financing Russia's war.

A public announcement had not been forthcoming and so we engaged via email.

Outcome
Shortly afterwards, the relevant investee made public its intention to divest its stake in the joint venture and ultimately wrote down its investment. This is an example of how timing is often key to change. The intense public and media scrutiny on companies operating in Russia created a favourable environment for this engagement.

Principle 9: Engagement

Systemic targets include the issuers we have identified as having ESG issues that have sectoral or systematic features or company-specific characteristics relating to their business model/sub-sector, which exacerbate or mitigate those systemic features.

For systemic targets, we have begun to roll out our proprietary engagement tracking tool to help us establish our final focus objectives. This tool reflects our sector research, applicable themes important to our investment process and issuer research. This frames material issues, allowing us to refine the issues we want to engage on, and to develop focused, granular, and measurable objectives.

Research inputs for both systemic and reactive targets inform our focus. This can include data from our third-party data providers, research from third-party ESG research departments, our proprietary research, views of the wider investment management team, research provided by our membership of institutional networks, company disclosures, including annual reports, company announcements and news flow, and investment screening.

We aim to ensure engagement focuses on the issues most material to the attractiveness of our investments and which will impact outcomes at an investment level or at a wider market level.

We then consider the most appropriate way to engage – collaboratively or bilaterally, in person, on calls or in writing. With our highest priority targets, we typically begin with direct, bilateral engagement. The chosen method of engagement will reflect the situation and often the preferred approach of the engagement target. We explain in the following case studies the different methods used and why we considered these methods appropriate.

Engagement

Our fund managers and analysts are involved in engagement as part of their investment process. All engagement is conducted by the investment management team, which facilitates the inclusion of the engagement and monitoring activities into the investment decision-making process.

In 2022, to help structure our engagement activities, prioritise outcome-focused activity and harmonise our disclosures, we recruited an engagement analyst, launched a proprietary engagement tracking tool and launched a new engagement log. We also launched a weekly update to give the investment team visibility on upcoming engagements that colleagues may have an interest in and, if relevant, to flag recent activity that may be relevant to them.

We aim to ensure engagement focuses on the issues most material to the attractiveness of our investments and which will impact outcomes at an investment level or at a wider market level.

Within the equities team, we aim to see investee companies at least once a year to ask questions and challenge their strategy, performance and other relevant issues in a constructive manner. We've worked to ensure that through our engagement and prioritisation framework, we prioritise engagement where our exposure is material or of heightened significance. This ensures we engage on ESG issues of concern. Furthermore, we have focused on developing tools and reporting to harmonise our approach.

As fixed income investors, we believe the best time to engage for meaningful impact is at the point of issuance. However, after issuance, we continue to engage directly as appropriate. Before bond issue, engagement takes place during investor roadshows or at the point of debt issuance or reissue. At roadshows, we expect our analysts or fund managers to ask questions pertinent to our investment decision and, where relevant, we'll follow up with questions to the appropriate contact at the issuer – typically the Chief Financial Officer or treasurer – and/or the arranging bank. A reactive engagement that occurred at the point of issuance is set out in case study 19.

In the case of private placement transactions, where we're more dependent on the bond issuer for information, our initial high-level credit and legal review typically identifies areas where we would like to develop our understanding. We use any initial meetings with the issuer to raise concerns and frequently follow-up with detailed questions compiled between the fund managers and credit analysts. These might be delivered in person or dealt with in correspondence.

With the addition of our prioritisation and engagement framework, we can reflect ESG matters more strongly and at more frequent intervals with our issuers in all areas of fixed income along with our primary concern, to protect investments and our customers from the risk of default.

Principle 9: Engagement

Case study 19

Fixed Income – reactive engagement at issuance

Situation
In October 2022, we attended an investor roadshow for a UK water utility before a debt issuance.

Activity
Given the increasing cost of living and the struggles many customers face to pay bills, we asked the company to explain how they support vulnerable customers.

Outcome
While increases in water bills were anticipated over the next year, the company outlined expanded support to its customers through payment breaks, flexible payment plans and bill reductions. The customer-focused approach was reassuring. This issuer received a neutral assessment on environmental factors, and a positive assessment on social and governance aspects. This was included in our credit analyst's summary to the portfolio managers. Ultimately, we decided not to participate in this issuance due to market conditions, but later invested in early 2023. This shows the importance of engagement at the point of bond issuance.

Assessment and monitoring

Once engagement has occurred, when required, a monitoring template is completed to facilitate dissemination, ongoing monitoring and reporting. We also update our engagement contact log to facilitate reporting.

The team involved in the engagement will assess the quality of the engagement. At the most basic level, a successful engagement might include whether the counterparty was receptive to our engagement, involve disclosure around an area of previous uncertainty or concerns being allayed, measurable objectives being agreed, or meaningful progress against agreed milestones being evidenced.

If the target company failed to respond, provided inadequate answers, or failed to make substantive progress against an agreed milestone, it could lead to escalation and will trigger a negative momentum factor, which will move the company up the prioritsation ranking next time. This enables us to understand the effectiveness of engagement and consider next steps.

We then monitor the relevant issues between engagements (as appropriate), either through our research process or through further engagements with the relevant target company. This monitoring stage can also impact the prioritisation score. The assessment and monitoring steps are linked processes that inform each other. Monitoring might also form an escalation strategy with increased contact with an investee company where the engagement has been assessed as unsatisfactory.

Principle 9: Engagement

Case study 20

Fixed Interest – individual engagement with BMW

Situation
We remain invested in the automotive sector across both fixed income and equities. Our scenario analysis and proprietary research has identified this sector as being at risk of negative credit migration and as having known environmental impacts.

Climate transition risks and failure to exploit transition opportunities drive credit migration risk because of changing regulations, new technologies and shifting consumer preferences. These factors also put this sector at increased reputational risk.

To remain invested in companies in the sector, we must understand how companies are addressing these systemic issues. Our aim is to assess the future resilience of their business model to these transition risks and assess whether they are playing their part in the net-zero transition.

Within the automotive sector, we invest in the stronger investment-grade names. We look for issuers that are embracing electrification and are transitioning the product fleet from combustion engines to electric, integrating climate risks and opportunities into their strategy. Nevertheless, we acknowledge that cars are significant contributors to emissions. Therefore, we are engaging proactively with businesses in the sector to understand their approach and encourage transition.

Like all issuers in the automotive sector, BMW was flagged for environmental issues and, as a result, selected for engagement as a systemic target in accordance with our prioritisation and engagement framework. Notwithstanding the environmental issues, our credit research team considers BMW a leader in its sector. It received a neutral social and governance assessment.

Action
We like to see sustainability issues integrated into business-as-usual activities at our investee companies. So, this year we sought to understand BMW's approach to embedding climate change into its overall strategy. As a secondary objective, through our research (gathered from company reports, the transition pathway initiative (TPI) and CA100+ benchmark datasets), we identified four areas that merited further investigation with the company. These were short-, medium-, and long-term net-zero targets, decarbonisation strategy, climate lobbying, and just transition.

We had a valuable introductory conversation with the company to understand and assess its net-zero strategy and agree expectations around feasible milestones and timelines. There was a technical area of target setting, which we had some questions and concerns with. BMW was asked to expand on how they are tackling these themes, clearly outline how much progress we can expect on each, and relative timeframes.

Case study 20 continued on page 77

Principle 9: Engagement

Continued from previous page

Case study 20

Fixed Interest – individual engagement with BMW

Outcome and Next Steps
The meeting has set the foundations for a solid bilateral relationship. Not only were the company's representatives willing to meet our needs in terms of further disclosure and clarity, but they also proactively requested feedback on specific performance indicators we would like them to report on in the future, commenting that their position is made harder through a lack of reporting standardisation in the industry.

We were also pleased by the company's approach in seeking to embed sustainability considerations across the business rather than dealing with it as a standalone issue. This provides comfort around the extent to which the topic is, and will in the future, be embedded in their business strategy.

Finally, clear objectives and expectations were set around the themes we'd raised. This will facilitate monitoring and holding the company to account. We're pleased to report that the company has made some progress already on these objectives, including further alignment to 1.5 degrees in the technical area where we had concerns and improved climate lobbying disclosure.

During 2023, we plan to continue monitoring BMW's progress and feed this assessment into the prioritisation and engagement framework for the year. Moreover, we plan to move the conversation forward to increase the level of detail of the discussions and widen the set of topics covered.

This example illustrates that engagement can be a meaningful bilateral process, enriching our understanding of a company and allowing us to share what we see in other companies in the sector. It validates our approach to engage with companies in sectors simultaneously so we can, where appropriate, share back to companies in the sector best practice.

Principle 9: Engagement

We had 229 in-person contacts in fixed income, equities, real estate and real estate finance during 2022. We have classified 93 as active ESG engagements. Please follow the link in Appendix 2 for details of our engagement records. Of those 93 ESG engagements, **Figure 11** sets out the geographical region in which the engagement target was located.

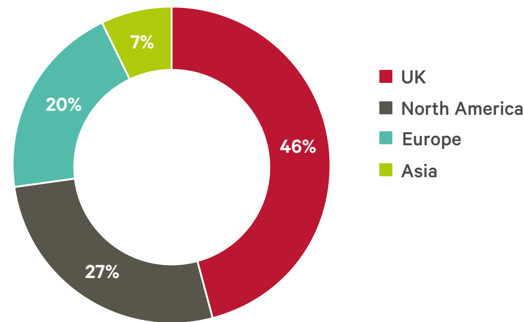


Figure 11: 2022 ESG engagements by geography

Of those 93 ESG engagements, **Figure 12** sets out the topic of the engagement split by environmental, governance and social concerns.

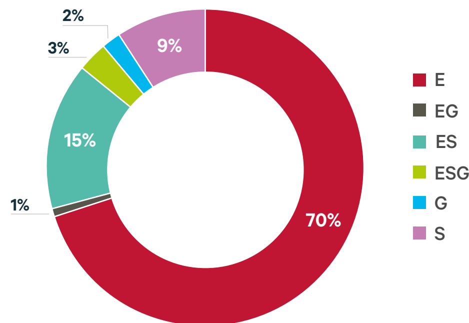


Figure 12: 2022 ESG engagements by topic

Case study 21

Continuing engagement with investee companies on climate information and remuneration in our equities portfolios

In 2021, we worked to understand the scope and robustness of net-zero pledges made by our investee companies and to encourage better public disclosure of those pledges through a thematic campaign. We contacted equities portfolio companies that had made greenhouse gas reduction pledges. This involved contacting more than 100 companies across our portfolios, following up in written correspondence with three of these and participating in 33 conference calls with individual investee companies.

A key concern at the end of this engagement was that only a limited proportion of executive pay was linked to the achievement of GHG-reduction targets. This year, we built on the work conducted in 2021, contacting 74 companies across our fund holdings. This led to follow-up calls or email exchanges with 36 of the companies contacted.

As shown in **Figure 13** *(see page 79),* there is a marked geographical disparity in remuneration committees' willingness to include environmental targets in executive incentives to align pay with their energy transition. Continental European companies lead the way, but in North America both the proportion of companies setting GHG-reduction targets and linking executive incentives to those targets is markedly lower in the group of companies we approached.

Figure 14 *(see page 79)* shows that companies with the greatest absolute emissions were most likely to have linked executive incentives to emissions.

Case study 21 continued on page 79

Principle 9: Engagement

Continued from previous page

Case study 21

Continuing engagement with investee companies on climate information and remuneration in our equities portfolios

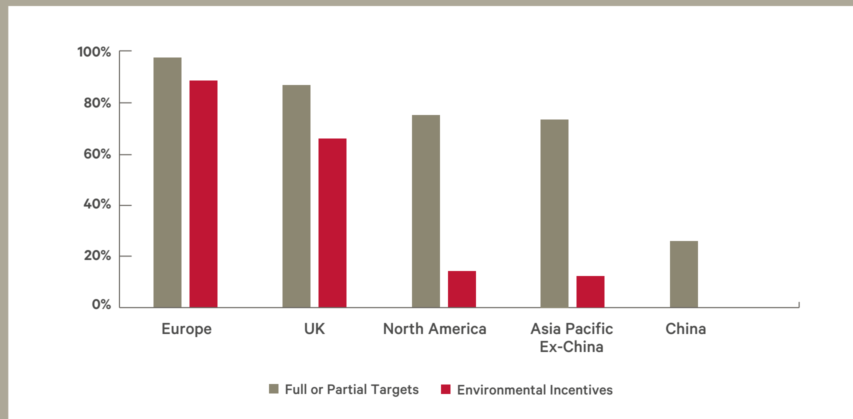


Figure 13: Proportion of companies in our equity portfolios with full or partial GHG-reduction targets and executive remuneration linked to environmental impact

Figure 14: Companies in our equity portfolios tiered by absolute carbon emissions with a link between executive remuneration and environmental impact/emissions targets

We also noted the following themes in our engagements with participating companies:

- Increasing focus on detailed plans to reduce emissions in the short to medium term, with a wide adoption of SBTi-accredited targets noted.
- Shareholder engagement on target setting continues to grow; and
- Customer engagement and pressure is noteworthy among this sample group, with management recognition that these issues are increasingly driving profits.

For example, Ashtead, the UK-quoted equipment rental company, commented that construction companies are asking it to help reduce the carbon footprint of their construction work. DSV, the Danish logistics company, noted a strong interest from clients for their ‘green’ logistics expertise. Union Pacific noted it was attracting custom due to the lower carbon footprint of its rail freight operations versus road transportation.

Principle 9: Engagement

Real estate

Opportunities for engagement exist throughout the property lifecycle. Our engagement activities are focused on occupiers and stakeholders in the communities in which our assets are located.

There are numerous contact points with our occupiers. As a result, we build long-term, constructive relationships with them. Detailed discussions occur when we enter a relationship with a potential tenant and over the lifecycle of the tenancy. There are frequent opportunities for contact or monitoring conversations including focused contacts around our legal rights, such as when licences or amendments to our lease agreements are sought. Our approach to the exercise of our legal rights is set out in more detail in Principle 12 later.

The degree of contact with each tenant reflects our relationship with them, their business priorities at any time and whether the property is managed by our managing agents. Contact may be through written correspondence to arrange access for annual property inspections or to agree service charge budgets, but frequently it's in person or more recently virtually. We deal with a range of contacts from managing directors of small- and medium-sized enterprises, to facilities managers and portfolio managers of our large occupiers.

While many of these interactions are simply contacts, many are also engagements responding to macro events or trends such as the return to the office and wellbeing provision at our properties. Increasingly, we're engaging on a thematic basis. We're increasingly insistent that green lease provisions are included in our leases. This has facilitated a constructive dialogue with our tenants around data sharing and co-operation on sustainability matters. Undoubtedly, these lead to both information engagements and can generate change engagements. In each case, as our relationships with tenants may span multiple years, we aim to develop constructive and co-operative dialogue to build trust. Information gathered may lead us to position our assets differently or it will inform our investment strategy.

In 2022, the Real Estate and Real Estate Finance teams took our engagement framework forward in two key areas. First, we have started to capture our engagement activity more robustly, using the engagement log used in the equities and fixed income teams, to harmonise our disclosures with other asset classes, ensure robust focus on outcomes and facilitate monitoring over time. Second, we are using our proprietary carbon risk rating of assets to focus engagement activity on those assets least aligned with our climate ambitions.

In 2022, we carried out a tenant survey to gain insight into their views of the quality of the environmental and wellbeing features provided and opportunities for improvement both in sustainability and asset management. This was detailed in case study 3 earlier.

Real estate finance

There are numerous contact points with our borrowers. As a result, we tend to build constructive relationships with our borrowers who we aim to partner with over the duration of our loan relationship.

Detailed discussions occur when we enter a relationship with a borrower or potential borrower. There are frequent opportunities for contact or monitoring conversations, as well as more focused contacts around our legal rights during rare default situations, prepayments, scheduled repayment or at the point that a consent, waiver or extension is proposed by a borrower. Our approach to the exercise of our legal rights is described in Principle 12 later.

We usually contact each borrower at least once a year. This may be through written correspondence about valuations, requesting up-to-date tenancy information, insurance schedules or covenant compliance monitoring, but frequently it's in person or, more recently, virtually. The designated contact might be in the finance function, such as a Chief Financial Officer or a debt adviser. Generally, we have more interactions with borrowers that have active portfolios than with borrowers with less actively managed portfolios or properties.

Many of these interactions are simply contacts but a number are responding to macro events or systemic issues such as the Covid-19 pandemic or changing energy efficiency regulations, which reflect our long-term outlook and our constructive approach to our borrower relationships.

We believe early engagement and constructive borrower relationships helped ensure we had low rates of payment default through the pandemic. This remains our view and we want to understand the ESG issues affecting our borrowers and ensure that their responses are protecting our customers. These questions cover a range of factors, financial and ESG, which we then consider holistically before making our investment decision.

In 2022, we took our engagement framework forward applying the same techniques as the Real Estate team.

Principle 9: Engagement

Case study 22

Real Estate Engagement with a tenant

The situation
We identified a leisure unit in our portfolio with a lease that runs until 2027. The existing unit is oversized, overrented, under-utilised and has a poor EPC rating. The building sits on a large site that is almost entirely covered by concrete. Trees line the boundaries which are protected by tree preservation orders.

Activity
Through open dialogue and engagement with the tenant, we established that the tenant's business was not profitable and would, in all likelihood, close before lease expiry. We were concerned that this could lead to negative financial consequences as a result of a loss of rental income and capital value reduction. Furthermore, there was a risk of adverse social consequences including, loss of employment for the area and the redundant unit attracting vandalism and illegal occupation.

We set about establishing alternative occupiers that would allow us to repurpose the site to allow the tenant to vacate the site early, prevent obsolescence and negative social impact. We also wanted to use this opportunity to reposition the site from an environmental perspective.

Outcome
We found a new tenant and entered into an agreement for lease. The new party would take a lease on a new building that would be built to 'BREAAM Excellent' standard.

Sustainable Building – Targeting 'BREAAM Excellent' on the new build obligates us to build in accordance with a strict set of guidelines from procurement of materials, management of waste through to sustainable building practices. Furthermore, the project will provide a net biodiversity gain to include larger areas of planting and an additional 5 established trees.

Social Accountability – Due to the impact on those employed within the existing tenant's business or users of the building, we worked closely with the tenant to ensure clear and consistent communication to staff and the tenant's customers throughout the planning application process.

Responsible Investment Solutions – Planning permission for the redevelopment of the site has been granted and works are set to commence imminently. This outcome provides a solution for the incumbent tenant to exit its lease, retains employment on the site going forward, and creates a building that will be built to extremely high standards with lower operational energy use once completed.

This example shows how we engaged with multiple stakeholders to deliver a commercial outcome that considered environmental and social factors. We engaged with our existing tenant and partnered with them to find a solution that allowed them to exit their lease early. We provided information and support to them to enable them to communicate with their customers and employees. We engaged with a new tenant and the planning authorities to find a viable long-term commercial use for the site, maintaining local employment. Finally, we engaged with our third party suppliers including the design team and incoming tenant to develop a solution that considered environmental factors leading to a biodiversity gain and long-term reduction in emissions.

Principle 9: Engagement

Case study 23

EPC and emissions reduction commitments with REF borrowers

The situation

As described in Principle 4, we tiered our borrowers by the quality of their decarbonisation commitments to give us an understanding of how aligned they are to our net-zero goals. As many of our borrowers are outside mandatory climate disclosure requirements we used this exercise as an opportunity to engage with our borrowers to understand their level of commitment to a low-carbon economy, verify our database to enable us to improve our own emissions baseline, and understand borrower readiness for, and encourage dialogue around, forthcoming tightening of energy efficiency regulations.

Activity

We contacted borrowers by email with standardised written correspondence and then followed up either by email or phone calls. This was useful to explain our objectives, which then elicited more co-operation. We began with those borrowers that represented the largest proportion of our portfolio.

Outcome

As expected in a well-diversified loan book, we found a spectrum of responses ranging from borrowers that had comprehensive EPC records, a high level of regulatory readiness, sophisticated understanding of the emissions from portfolios and emissions reduction commitments and policies (assessed as leaders) to more limited levels of regulatory readiness and record-keeping (assessed as laggards).

This exercise was a useful opportunity to engage with borrowers and identify those taking a proactive approach and those that need more encouragement. This informs both where we focus our active management activity and our engagement activity within our loan book. It has helped us put a spotlight on EPC ratings, both in terms of the current regulatory requirements and the expected future regulatory landscape with our borrowers. We have developed our database, improved our understanding of emissions from our loan book and the assets driving those, and communicated our expectations to borrowers that they should keep us apprised of any changes as a result of works at secured properties.

We improved our EPC coverage to 80%, set an EPC target for our portfolio and plan to engage all borrowers assessed as laggards during 2023 as well as those borrowers that generate a material proportion of our emissions.

Principle 9: Engagement

Outcomes

Evaluation of effectiveness of engagement activity

We believe we've taken our engagement model forward this year, scaling our activities and developing our frameworks and tools to deliver more impactful engagement. We have bolstered our approach to deliver more harmonised, impactful engagement activity across asset classes, which is better integrated into our investment processes.

In our fixed income portfolios, we have concentrated ESG engagement on the most material issues and issuers with the long-term aim of improving the quality of our portfolio over time.

In our real asset portfolios, we are aligning our activity more closely to other asset classes and applying lessons learned in other areas of the business to our engagement work.

In equities, we took our thematic research forward, which generated insight for our investment management team and created the basis for long-term monitoring through engagement.

Principle 10: Collaborative engagement

Principle 10: Collaborative engagement

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

Context

We outlined in Principle 9 that we believe engagement can deliver information that feeds our investment process. Engagement provides us with information that allows us to manage and monitor the risks we identified and accepted in our investment decision-making. Over the long term, this should improve the quality of our portfolio and/or reduce its risk.

We also outlined that we seek to have honest relationships with our investee companies, issuers, tenants and borrowers. As with bilateral engagement, we seek to engage collaboratively when we believe it is the best way for us to have an impact. In each case - in deciding when, how and why to collaboratively engage - we act when we believe we can make a difference to the attractiveness of our investments by influencing outcomes at the investment level or wider market level.

Sometimes bilateral engagement is better at delivering the results we're seeking, as we can reach a shared understanding of each other's priorities and encourage a frank exchange of views that may not be possible in the glare of public discourse. That said, there are circumstances where public and transparent engagements are appropriate. This might include, for example, as an escalation tool, or when the materiality of our holding does not warrant a more resource-intensive approach or where a collaborative approach reflects industry norms.

We aim to join initiatives aligned to our ambitions and goals and seek to influence the issues that we consider are most material to us, and our customers.

The appropriateness of collaborative engagement is considered case-by-case. When participating in collaborative engagement we'll consider:

- The outcome we're seeking and whether a collaborative engagement is most likely to deliver it;
- The extent of our alignment with other investors' objectives;
- The level of flexibility to express any nuance (if we think this will be appropriate); and
- The need for confidentiality.

We aim to join initiatives aligned to our ambitions and goals and seek to influence the issues that we consider are most material to us, and our customers. We seek out initiatives that facilitate collaboration and the sharing of best practice while providing clear opportunities to amplify the impact of our engagement efforts by joining forces with other investors with similar objectives. We apply clear criteria when weighing the relevance of different collaborative initiatives to our ambitions and investment goals before initiating membership. We prioritise initiatives that are aligned to four core principles:

- **Purpose:** Does the initiative align with our corporate and investment goals and priorities?
- **Practical application:** Can the initiative support the investment management team's day-to-day activities by providing best-in-class research, toolkits and/or data?
- **Impact:** Does the initiative have sufficient brand recognition, scale and reach to effectively amplify the real impact of our engagement efforts on a material section of our assets? And does the initiative have quantifiable goals to allow us to assess the impact of the organisation?
- **Strategic relevance:** Does the initiative deliver opportunities to build strategic relationships and strengthen our engagement efforts in a given area?

Our chosen initiatives are reviewed on an annual basis to ensure they continue to align with our criteria and needs. The themes covered by our collaborative initiatives are an input into our prioritisation and engagement framework.

Principle 10: Collaborative engagement

Our collaborative engagement activities are evolving

Historically, much of our industry collaboration has been undertaken through trade bodies such as the Investment Association (IA), the trade body for UK investment managers that collectively manages £9.4 trillion globally. We still find the IA to be incredibly useful.

In 2022, we continued to join working groups on the development of a standardised carbon emissions template for the pensions industry, TCFD reporting, the Consumer Duty and SFDR. While our involvement in these cases was confined to listening and learning from other market participants, this led to enhancements in our understanding of how the industry is tackling material challenges.

Last year, we invested in collaborative engagement tools and memberships. We increased our participation in these initiatives in 2022 and summarise some of this activity in case studies 24-26.

We increased our activity in CDP in 2022, joining its disclosure campaign, details of our participation are set out in case study 24.

Case study 24

CDP – equities and fixed income engagement

The situation
CDP is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states and regions, to help them manage their environmental impacts. CDP members can choose to add their name to engagements, or to lead certain engagements, contacting target non-disclosing companies to encourage them to make high-quality disclosures by responding to CDP questionnaires. In addition, CDP has a comprehensive database of environmental information provided directly by disclosing companies.

Activity
In 2022, we led eight engagements with companies through CDP. This involved sending out letters to the relevant targets and following these up to encourage disclosure.

Outcome
Four out of the eight companies we contacted responded to our letters. Of these, two companies reported for the first time using the CDP questionnaires in 2022 and another confirmed it planned to complete the questionnaire in 2023.

We believe high-quality disclosure underpins investment decision-making. Improving environmental disclosure helps investors make informed decisions and better price the risk of investments. We also believe that it improves the target company's performance, by encouraging better management of environmental risks.

By encouraging disclosure at these target companies, we believe we have added to the public discourse and therefore improved customer outcomes. We are preparing to participate in the 2023 campaign. We also find the CDP database an extremely useful source of granular data for our research, demonstrating the value of this initiative.

Principle 10: Collaborative engagement

We're also members of IIGCC (and through it, CA100+) and UKSIF. These associations provide our colleagues with opportunities to enhance our collective engagement activities and deliver meaningful outcomes, collaborate with our peers and learn from industry best practice. We have found the benefits of these memberships extend beyond simply providing engagement opportunities with issuers. Through these memberships, we can collaborate with peers, develop the groups' focus (inputting into how they shape the public discourse to meet our needs), learn about best practice, and better understand, and input into, development of regulations.

We've provided case studies based on our involvement with CA100+. We also provided feedback and inputs around what we would like to see CA100+ deliver in the future by participating in the Phase 2 CA100+ consultation and the CA100+ Benchmark methodology update consultation, allowing us to shape the agenda of CA100+ for the future.

Case study 25

Walmart - Fixed Income and Equity collaborative engagement activity

Situation

Walmart is a strong investment grade issuer that has defensive properties because it operates in the consumer non-cyclical sector. It benefits from excellent geographic diversification, low leverage, strong cash flow generation and ample liquidity. We hold this in both our equity and fixed income portfolios.

However, Walmart is flagged for both environmental and social concerns. Environmental challenges include water use and water scarcity, waste and greenhouse gas emissions from its operations and supply chain. It has also faced challenges around human rights in its supply chain and labour standards violations and controversies.

Activity

To address such a diverse range of concerns in a single large global issuer, we tackled it from several angles. We deployed our proprietary engagement tracking tool to establish priorities and different engagement channels to achieve specific goals.

Greenhouse gas reduction – In 2021, we exercised our equity voting rights to support a shareholder resolution relating to the use of refrigerants in the issuer's operations. Our aim was to encourage action on environmental issues; specifically, on emissions reductions. In 2022, we wanted to develop our engagement and increase the pressure on this issuer.

Given Walmart's scale and investor base, we decided to seek a collaborative route to escalate our engagement on climate issues to amplify our voice. Therefore, we joined the CA100+ engagement workstream. We have since been leveraging our participation to dedicate special attention to themes such as scope 3 emissions, the issuer's carbon reduction collaboration with its global value chain, CA100+ Benchmark Performance, and land use and deforestation. We have provided commentary on agendas and invested in understanding the priorities of this mature and long-running collaborative engagement.

We also sought to begin a bilateral engagement with the company to increase the pressure on it on specific environmental concerns including waste, energy management and the environmental impacts of its supply chain. We leveraged the CA100+ work and our own proprietary research to reinforce and escalate our views. This resulted in an introductory written exchange with Walmart.

Social issues – Using our bilateral engagement workstream, we also sought to raise concerns with the company around labour practices and social issues in its supply chain. During 2022, we supported another shareholder resolution calling for a report on its animal welfare policies and practices, in the food supply chain, in support of this activity.

Case study 25 continued on page 88

Principle 10: Collaborative engagement

Continued from previous page

Case study 25

Walmart - Fixed Income and Equity collaborative engagement activity

Outcome
This is an example of our prioritisation and engagement framework identifying issuers for engagement and our proprietary engagement tracking tool being used to refine the issues that we raise.

Through the CA100+ engagement, we consider we have created a more tailored, granular, and impactful conversation around climate topics, which are crucial to the issuer's performance as well as our own transition to net zero. By joining a collaborative engagement our voice will be added to those advocating for faster progress. Joining this engagement also allowed a more granular analysis of the issuer's data than we would have been able to generate ourselves, given resource constraints.

Our bilateral engagement with the issuer has already led to some of our disclosure requests being satisfied. The issuer also demonstrated a positive approach towards further collaboration, which we aim to build on in the coming years, when we hope to be able to discuss more specific milestones and targets.

Evaluation
This case demonstrates the pragmatic approach we take to engagement method selection, picking both individual and collaborative engagement where the issues are material enough and opportunities present themselves. It also shows a progression from how we used equity voting rights in 2021, to collaborative and individual engagement efforts to increase pressure on an important issuer with a significant global footprint to escalate our activity as expected by Principle 11.

Principle 10: Collaborative engagement

Through the UK SIF, we were put in touch with CCLA and its ‘Find It, Fix It, Prevent It’ initiative. This is the subject of case study 26. It is an investor-led, multi-stakeholder project designed to harness the power of the investment community to increase the effectiveness of corporate actions against modern slavery.

Case study 26

Modern slavery collaborative case study

The situation

We explained earlier that we look for companies with credible, robust management and sustainable business models able to deliver returns over the long term. If a business relies on modern slavery to deliver returns it is unlikely to satisfy these expectations. The presence of modern slavery in the operations or supply chain of a company indicates exposure to governance, regulatory and reputational risks.

Modern slavery can be hard to identify. The approach of this initiative – to congratulate (rather than sanction) companies that find modern slavery and seek to remediate it–aligns with our investment philosophy.

Activity

Having joined the initiative, in 2022 we signed the Seasonal Workers Scheme Pledge alongside investors with £800bn in assets under management. This is a call to help protect migrant seasonal workers in the UK working in the agricultural sector. The investor group called on firms in the UK agricultural supply chain, including retailers to:

- Implement the Employer Pays Principle, which means that no worker should pay to secure a job and the employer should bear all recruitment costs (recruitment fees and associated expenses such as travel);
- Undertake investigation of existing workers and ensure a fair process to repay recruitment-related costs that may have been borne by workers; and
- Encourage the government to bring the UK’s seasonal worker scheme into line with its international commitments.

Next year, we will progress this project’s work by collaborating with investors to engage with companies in the construction sector exposed to modern slavery risks. Targets and engagement objectives have been set and we look forward to playing our part.

Outcome

We believe that by lending our voice to the pledge we are amplifying the impact we can make and raising awareness of an issue to promote change. The pledge was picked up in the UK national press. We note that Food and Farming Minister, Mark Spencer, announced at the National Farmers Union Conference on 21 February 2023 that workers under the scheme would be paid the national living wage from 1 April 2023 and would be guaranteed a minimum of 32 hours per week.

Principle 10: Collaborative engagement

Equities

We joined ISS ESG's Norm-Based Engagement Solution in 2020. ISS ESG's Norm-Based Engagement Solution allows us to participate in and initiate collective engagement activities with the companies we're invested in. It also allows us to add our voice to their engagements with other companies, improving governance of companies globally.

Using ISS ESG's Norms-Based Engagement Solution, we participated in engagements with 149 companies covering 199 individual ESG topics. A link to ISS ESG's Norm-Based Engagement report on 2022 activity can be found in Appendix 2. We engaged collectively on a wide range of subjects, including stakeholder consultation, human rights due diligence, workplace health and safety, union rights, pollution (air, water and soil), bribery and anti-competitive behaviour, with more detail set out in **Figure 15**.

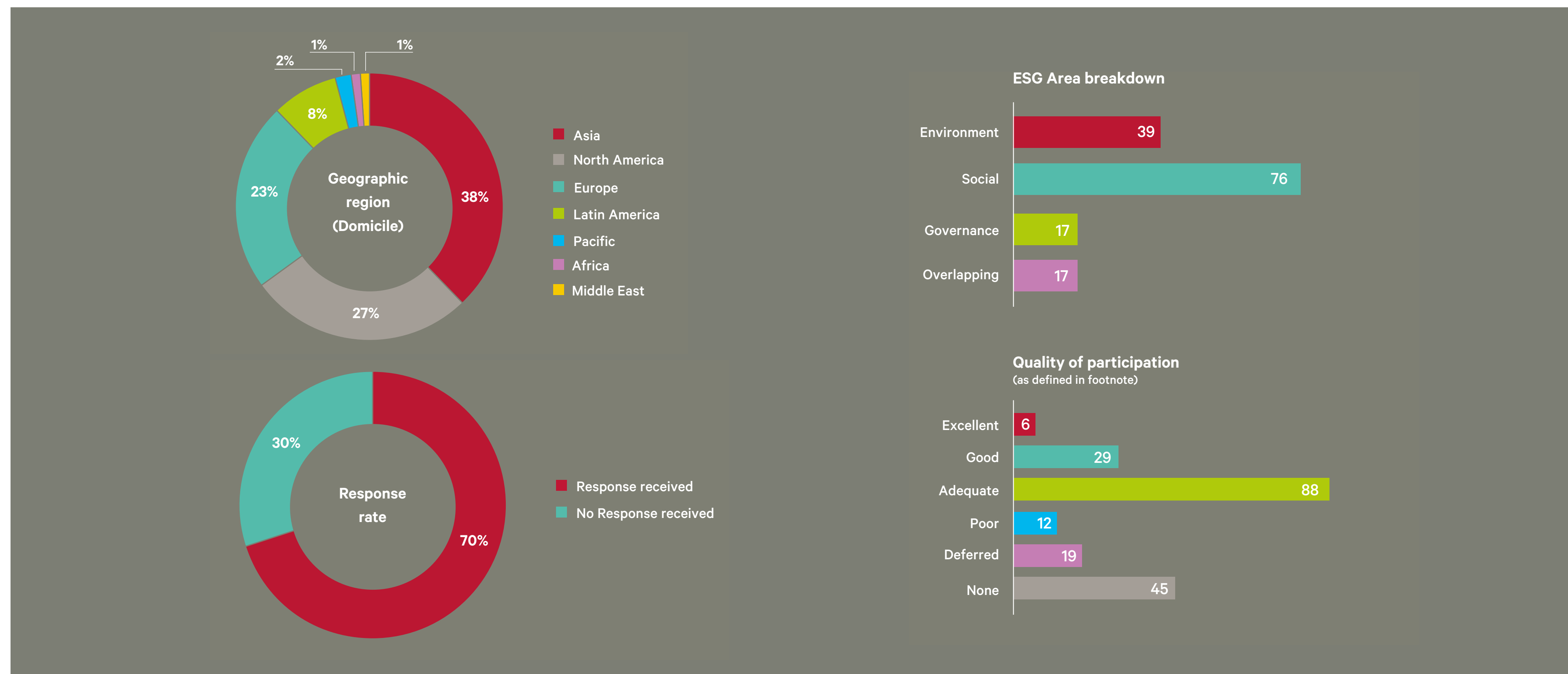


Figure 15: Analysis of engagement through ISS ESG's Norms-Based Solution

Principle 10: Collaborative engagement

Fixed income

Industry convention dictates that bond holders collaborate on consent solicitations. So, when bond holder committees are formed through the Investment Association, we typically seek to be a collaborative participant. We see collaboration in these circumstances as an efficient way to develop our understanding of the consent being sought and to manage the timing, cost and voting threshold problems issuers face. Participating through the Investment Association helps manage risks associated with collaborations, such as competition and anti-trust concerns. In 2022, CLL took part in three Investment Association committees, one of which is the subject of case study 27.

Case study 27

Corporate Fixed Income – Investment Association Special Committee

The situation

We have invested with an issuer since its first issuance, which was over 15 years ago. The issue is a single tenant sale-and-leaseback commercial mortgage-backed securitisation transaction from a strong investment grade FTSE 100 company, backed by a large amount of collateral. The issue scores particularly favourably for governance, given its strong framework around the financing structure of the bond.

The issuer launched a consent solicitation process with the aim of changing the structure of some existing bonds. The issuer wanted to move from an amortising debt structure to a bullet repayment at the end of the term, as well as extending its maturity. The issuer proposed to effect these changes by buying back the existing notes and then re-issuing the notes using a compensation formula that differed from the formula set out in the agreed legal documentation.

The issuer approached the Investment Association, and a special committee (the IA Special Committee) was formed that included CLL.

Activity

Working with the IA Special Committee members and the issuer, the analyst was able to understand the requested changes and the impact for bond holders. Our analyst determined that the proposal would lead to a deterioration in our credit quality assessment.

In addition, the issuer had proposed fixing the interest rate component of the new notes two weeks earlier than the proposed execution date.

Generally, we are not supportive of splitting interest rate fixing and execution because it introduces a level of market risk to transactions. At the time, the market was experiencing significant movements in credit spreads (see our discussion of inflation outlined in Principle 4). In addition, we sought an explanation as to why this approach was sought by the issuer, which elicited an inadequate response. We were not comfortable agreeing to this time lag as we, and the IA Special Committee, concluded it would expose members to undue interest rate risk.

The IA Special Committee agreed that the pricing methodology would not fully compensate for the increase in risk. The IA Special Committee gathered feedback from all the members, including CLL, and expressed its concerns in a letter to the issuer.

The outcome

Subsequently, the issuer terminated the consent solicitation proposal. Later in 2022, the issuer returned to the market, and bought back the existing notes using the compensation formula set out in the existing documentation. The issuer then issued new notes in the public market, which we were able to appropriately hedge (in accordance with our risk appetite) at the time of purchase to offset interest rate risk.

This shows how the market disruption discussed in Principle 4 informed our view of this consent solicitation and how our precautionary approach protected our customers.

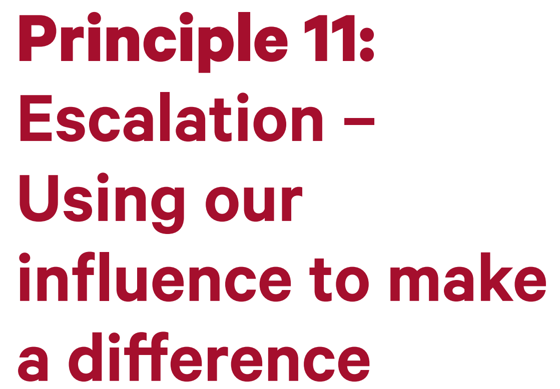
Principle 10: Collaborative engagement

Outcomes

Evaluation of effectiveness of collaborative engagement activity

Where we identified areas we could contribute to, or lead, we've collaborated with other investors and our industry on initiatives or investment specific issues over the course of 2022. We have taken part in more collaborative engagements during 2022. These collaborations (the results of which are highlighted earlier) have contributed to our own investment process, the wider discourse and are generating real-world pressure, which we hope translates into real-world impact. We will continue to investigate other ways we can develop and deepen our collaborative activities during 2023. We hope these will lead to new insights and opportunities to better serve our customers' interests.

Principle 11: Escalation – Using our influence to make a difference



Principle 11: Escalation – Using our influence to make a difference

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

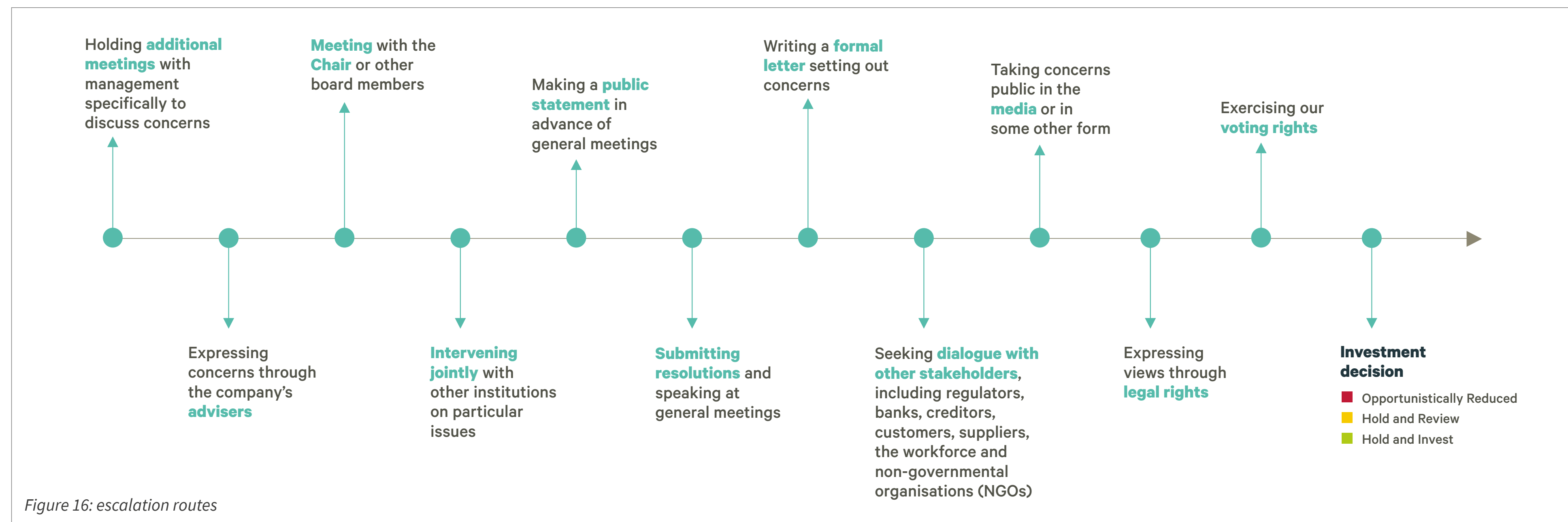


Figure 16: escalation routes

Context and Activity

In deciding when, how and why to engage, we act when we believe we can make a difference to the attractiveness of our investments by influencing outcomes at an investment level or at the market level. The most common escalation route for us is making our point through the exercise of our legal rights, as this is resource- efficient and makes the biggest impact, we discuss this in Principle 12.

As we explained earlier, we worked on our prioritisation and engagement framework during 2022. As part of this, we developed our escalation approaches while retaining a high degree of discretion around escalation strategies to reflect the individual circumstances of each case, as well as the options available to us for each asset class. Escalation, in whatever form, is useful to increase the visibility of a concern both to the industry and the relevant issuer.

Depending on the severity of our concern and the materiality of the holding, and the asset class, there are different escalation strategies available to us. Our approach may include more regular contact and monitoring, raising the issue with personnel of greater seniority, considering a collaborative engagement or, most commonly at present, using our legal rights through voting, consent rights or other options to ensure that our position is known.

In all cases, we'll consider the existing relationship and try to find the balance between co-operation and getting the outcome we seek. **Figure 16** sets out potential escalation routes, noting that this is a non-linear pathway and therefore any one (or more) of the escalation options set out in **Figure 16** may be appropriate at a given time.

Principle 11: Escalation – Using our influence to make a difference

Case study 28

Equities – Escalation

The situation
In late 2021, an investee company in our LF Canlife Asia Pacific Fund was identified through our research as negatively contributing to the ESG performance of the fund. The concerns in relation to this investee company related primarily to its exposure to coal excavation, lack of meaningful decarbonisation strategy and weak environmental disclosures. This led to the investee being identified as an engagement target.

Activity
The fund manager, acting on our third-party research, determined that this holding was hard to justify on ESG grounds.

We considered that the CA100+ engagement would be the best method to engage with this company, because industry norms in its geography mean shareholder engagement is less established. We were involved in agenda setting with participating investors and challenged the company on an investor call. We considered trying to express our view through our voting rights, but the limited topics for votes on the ballot did not present an opportunity to make our view heard.

Outcome
We were disappointed by the very limited efforts to disclose a meaningful decarbonisation strategy, satisfy investor requests for details, or report progress on its decarbonisation strategy. As a result, the fund manager took the decision to remove it from the fund.

This is an example of how we rapidly moved through escalation steps, from concern in 2021, to collaborative engagement, to divestment in 2022. It also demonstrates how our approach in equities may be more time-bound than our fixed income approach, where duration is a consideration. We formed the view that continued efforts to engage were unlikely to result in a performance improvement within our risk appetite in the short to medium term.

Furthermore, this aligns with our philosophical view, outlined in Principle 4, that we will support investee companies in high-emitting sectors that are committed to change. However, we do not see engagement as a means by which we can justify continued investment when robust and credible targets are not being set, met, or progress is not being made.

Principle 11: Escalation – Using our influence to make a difference

Case study 29

Fixed Income – escalation

The situation
As we developed our ESG and climate methodology, our exposure to certain issuers was flagged by our credit research team. Our prioritisation and engagement methodology picked up an issuer as one to prioritise for engagement, as well as to be reviewed by the investment management team.

The fund manager, acting on analysis provided by our credit research team, determined that the holding was hard to justify on ESG grounds. The issuer had a poor human rights record with documented issues around the protection of its workers and indigenous populations where it operates, it had weaker governance controls than we deemed acceptable and, finally, it lacked hard emission targets and made unsatisfactory climate and other environmental disclosures.

Furthermore, to-date, its management had shown little willingness to meaningfully engage with the investment industry, for example demonstrated by its failure to disclose under CDP.

Activity
We have taken a multi-pronged approach to this issuer.

Firstly, the investment management team have taken the decision to stop investing in the issuer and reduce our position. Given the short maturity of this holding, we have decided to hold to maturity but not refinance. If a favourable opportunity to divest arises before maturity, which protects our interests, we will take it.

While we run down our position, to fulfil our stewardship obligations and in accordance with our prioritisation and engagement framework, the issuer has been selected for both our individual and collective engagement workstreams. We want to escalate our concerns and use engagement to encourage the issuer to change. Our escalation from this point has involved the following two steps:

- We joined the CA100+ engagement with the issuer in the autumn of 2022 with the aim of achieving improvements on two key themes: (i) short-term target setting, disclosure and climate governance and (ii) methane emissions reduction. We joined investor calls where proposed agendas and key talking points were discussed, ahead of calls between the lead investors and the issuer. We also joined debrief calls, when the lead investors outlined the progress made with the issuer and used this output to update our monitoring.
- We reinforced our stance by individually approaching the company, reiterating our position and expectations particularly on social issues but also reinforcing the CA100+ views on climate change. We did not receive a response from the issuer, but we will continue to make these points in 2023 as well as considering other escalation mechanisms.

Case study 29 continued on page 97

Principle 11: Escalation – Using our influence to make a difference

Continued from previous page

Case study 29

Fixed Income – escalation

Outcome

Our approach to this issuer entailed two parallel but separate actions: to engage (both collectively and bilaterally) and reduce our position. These actions reinforce each other and make the engagement process considerably more credible, consistent and impactful.

It's a good example of how different investment and engagement channels can work together to maximise real-world impacts and support progress towards a common goal. It also shows how escalation is not a linear process for us, with different levers being pulled simultaneously when the seriousness of the issues justifies such an approach.

While there is still a lot to be done to improve the position of this issuer in the market, we're seeing positive changes resulting from the steps investors are taking. Among the main achievements, the company has committed to quarterly meetings with the lead investors on the CA100+ engagement, which opens a window for dialogue around material issues and which is the first step towards meaningful progress. We will continue to leverage multiple strategies to achieve our objectives and maintain pressure on the issuer, always subject to our ongoing commitment to reduce our position unless meaningful change occurs.

Principle 11: Escalation – Using our influence to make a difference

Real estate

We have been able to achieve our objectives through regular and active dialogue with our tenants, third-party suppliers and the industry. We prefer the nuanced dialogue that tailored individual engagements generate, while also trying to find collaborative outcomes. However, we sometimes escalate discussions and often these escalations occur through the exercise of our legal rights, which is discussed further in Principle 12.

Case study 30

Escalation of concerns regarding a real estate tenant around governance and social issues

Background

The Real Estate team facilitates continual engagement with its counterparties across our real estate portfolio to ensure a deep understanding of our tenants' businesses in order to reduce risk, ensure compliance, and inform long-term decision making. This process begins at the inception of a new acquisition, through the process of onboarding the asset, and continues to expiry of the lease.

The Situation

During 2022, we engaged with a provider of Specialised Supported Housing to fund the acquisition of 75 residential units that would provide high quality housing for those with a severe housing need, such as those recovering from substance abuse addictions, the homeless, or those fleeing domestic violence. The proposed tenant was a charity, registered with the Regulator of Social Housing (responsible for monitoring viability and governance of social housing providers) (the Regulator).

The charity had been working with the Regulator for a period of 18 months in order to address concerns regarding its governance and viability. We met with the charity on a number of occasions to interrogate the status of this work and to understand the most recent position with the Regulator before, ultimately, receiving the comfort required to proceed with the transaction.

However, following completion, a BBC documentary was aired that alleged that the charity (our tenant) had several shortcomings, and which brought about further action by the Regulator.

Activity

Given the sensitive nature of the services rendered by the charity and the severity of some of the claims, we raised our concerns in writing and received a swift, but thorough, written response. Notwithstanding this, given the seriousness of the allegations we felt it appropriate to escalate our concerns, to board level.

We arranged a meeting with the CEO of the charity and a non-executive director to interrogate their written responses to our enquiries. During our conversation we received adequate assurances that the charity was addressing all pertinent matters arising from the BBC programme, and we believed that many of the allegations were either historic and have since been resolved, drawn out of context, or reflect the unavoidable challenges of managing this form of accommodation.

Given that the Regulator served an enforcement notice following the programme, we considered that an escalated monitoring regime over and above that contemplated in our contractual documents was desirable. We requested regular updates from the executive management team to allow us to monitor the situation. We have subsequently met with the charity's CEO and CFO on a monthly basis to ensure the conditions of the notice are being discharged. These monthly meetings will continue until such time as the Regulator is satisfied that the charity is able to meet its requirements for strong governance and a sustainable business plan.

Case study 30 continued on page 99

Principle 11: Escalation – Using our influence to make a difference

Continued from previous page

Case study 30

Escalation of concerns regarding a real estate tenant around governance and social issues

Outcome

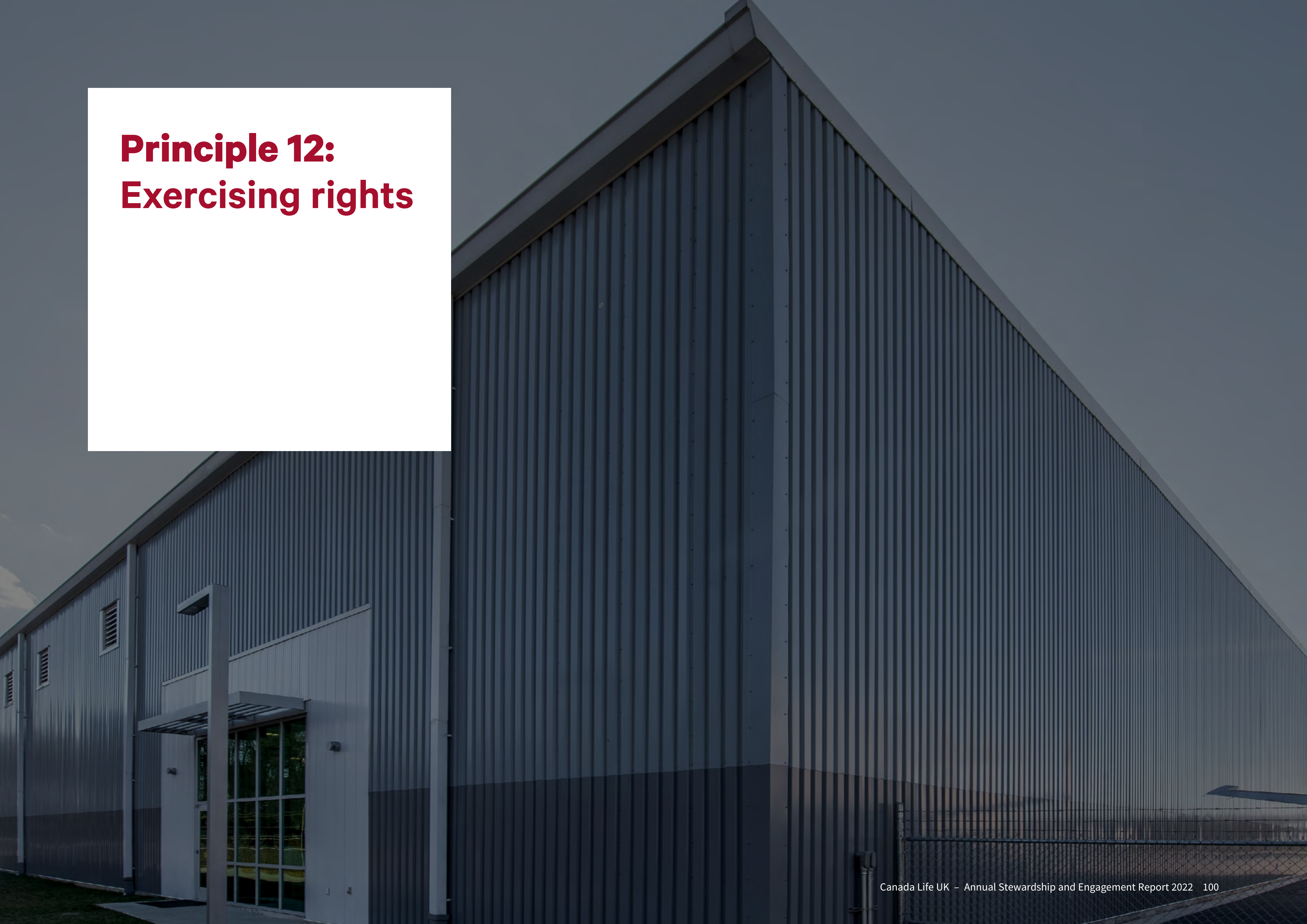
Our close relationship with the tenant has been formed over 12 months of continual engagement and has enabled us to stay close to issues facing the charity. This engagement with the CEO and CFO has enabled us to remain informed throughout the process and receive swift and meaningful feedback from those seeking to lead the charity out of its current difficulties.

This example highlights how we used engagement to gain information at the outset of a transaction to understand social and governance issues facing this tenant, and as a monitoring tool to understand the ongoing risks to our investment. Furthermore, it shows how we escalated our concerns using different techniques (writing and in person meetings) to the board and then executive management team in order to develop both better information and ensure that our concerns were understood and addressed by management to protect our investment.

Outcomes

Evaluation of effectiveness of escalation activity

We have taken our engagement and prioritisation framework and the scale of our engagement activity forward in 2022. Our prioritisation framework helps us identify when to escalate. How we escalate has been refined through the development of our non-linear escalation framework. As we increase the scale of our engagement activities over the long-term, and maintain our focus on priority themes, we expect to see an increase in our escalation activities over the next few years.



Principle 12: Exercising rights

Principle 12: Exercising rights

Signatories actively exercise their rights and responsibilities.

Context

How we exercise our rights and responsibilities depends on the asset class. In equities these rights centre on shareholding voting. In fixed income we're a highly active and engaged bond investor. Our fixed income rights centre on bond consent solicitations, bond tender offers, and understanding at the time that we invest the rights we'll have if the issuer defaults.

In private credit and real estate finance, the legal documentation is typically more tailored to the transaction. In these situations, we focus on ensuring that we address the following:

- The circumstances when we can require borrowers to repay early;
- What information we will receive and when; and
- When a borrower must ask for our consent.

In real estate we negotiate our leases, setting out the information that tenants must provide. These requirements include matters such as when tenants must seek our consent, for example if they wish to alter the property, change its use or assign the lease to a third party; and when we can act against tenants that have breached their lease covenants.

Whichever asset class we are managing, we act when we believe we can make an impact. We view exercising our legal rights as the most powerful way for us to express our opinions and preferences.

Shareholder voting is important to us. We're committed to exercising all votes. We take this responsibility seriously and vote in the best interests of our customers. It is our responsibility to exercise our voting rights in a considered manner, within the context of a positive relationship with the company's management. Sometimes though a vote against management is the most effective way to raise a concern. Our voting policy applies across all geographies and portfolios, to all financial instruments with voting rights.

We treat votes and the influence these give us, on behalf of our customers, as valuable assets and act accordingly in exercising them. Our approach to stewardship is considered, constructive and pragmatic, with the extent of any intervention being determined on a case-by-case basis, putting the interests of our customers first.

We aim to exercise all our voting rights and, during 2022, 99.2% of votes were cast. During the transfer of voting platforms, 0.8% were not cast.

CLAM Equity voting - approach, activity and case studies: customer funds

Approach

We assess each resolution and vote according to our own judgement, supported by the services of ISS's proxy advice service. We analyse company meeting resolutions across our equity holdings. We take a considered approach and our commitment to putting our customers first means we'll deviate from ISS's recommendations when we believe it's the right thing to do. CLAM is the discretionary fund manager for the funds that the majority of our customer assets are invested in and has the discretion to vote these funds.

At all times, we ensure that our voting decisions are properly recorded in a timely manner before shareholder meetings. We aim to exercise all our voting rights and, during 2022, 99.2% of votes were cast. During the transfer of voting platforms, 0.8% were not cast. Our enhanced voting platform discussed in more detail in case study 14 ensures that we receive timely notification of upcoming votes through the workflow tools integrated into our service.

Activity

When we voted against management, this was also against ISS's recommendation in 13% of cases, which compares to 9% in 2021 and 14% of cases in 2020. Where we voted against ISS's recommendation, we voted in line with our own voting policy.

The voting guidelines that direct us when determining whether to vote against management are set out in our voting policy, the details of which can be found in Appendix 2. These guidelines set out our expectations for board remuneration, board structure and shareholder promoted votes on environmental and social issues. This applies across all our funds and geographies.

Principle 12: Exercising rights

Case studies – Selected equities voting activity in 2022

Case study 31

ConocoPhilips – shareholder resolution supported on climate

Situation

ConocoPhilips has set a number of GHG-reduction goals, including a net-zero operational emissions goal by 2050 and an operation greenhouse gas GHG emissions intensity of up of 40-50% by 2030. These commitments, though encouraging, are well below those made by large international peers who have committed to Net Zero targets for all scope emissions or at least working actively to reduce Scope 3 emissions. A shareholder proposal was made requesting the company set short, medium and long-term targets to reduce GHG across scope 1,2 and 3 consistent with the goal of the Paris Climate agreement.

Activity

In line with ISS advice, we voted in favour of the shareholder proposal. Many of its competitors have set targets related to the consumption of their products by reducing their investment in oil and gas development, by pledging to work with customers to reduce demand for oil and gas, and by increasing their research and development investment into alternative fuels and technologies. A failure to act will expose ConocoPhillips to increased regulatory, competitive, legal, and financial risks. It is in investors' interest to better understand how the company intends to remain viable in the long term.

Outcome

The shareholder resolution was narrowly defeated; 55.03% of votes cast against the resolution, 39.43% in favour and 5.52% abstaining. Our position is consistent with our voting policy, to support shareholder votes that encourage ESG risks to be considered and assessed with greater urgency, in particular on climate change. This supports our approach to review each vote on its merits alongside ISS' advice. More granular climate voting advice will become increasingly important, to support the transition to net zero and underscores the value of initiatives such as the IIGCC proxy voting workstream (outlined in Principle 8 and discussed in case study 15).

Principle 12: Exercising rights

Case studies – Selected equities voting activity in 2022

Case study 32

Johnson & Johnson – Shareholder resolution on governance supported

Situation
We voted in favour of a shareholder proposal requesting that the compensation committee should consider the pay grades, salary ranges, and stock ownership incentives of company employees when setting the on-target remuneration of the CEO.

The shareholder resolution argued that setting CEO compensation without considering employee compensation has led to inequality, with a ratio of the CEO's annual total compensation to median employee annual total compensation of 365:1.

Activity
Our view is the ratio of CEO compensation to median employee compensation is extreme, even by the elevated levels of executive pay in the United States. We voted against the advice of ISS, which backed management who argued that its disclosure practices were in line with industry norms so it should not be required to go beyond them. However, this was not our concern; rather, such an extreme pay disparity between the CEO and the median employee was outside our expectations and industry norms. Further, our view is that it is not conducive to managing reputational risk or fostering positive employee relations.

Outcome
We felt that the shareholder resolution would encourage the compensation committee to consider more carefully the method by which they calculate executive pay and to be more transparent regarding its methodology. In accordance with our voting policy, we look for clearly structured, transparent remuneration packages tied to long-term value creation rather than short-term results. The shareholder resolution was defeated.

Principle 12: Exercising rights

Case studies – Selected equities voting activity in 2022

Case study 33

JPMorgan Chase & Co – non-binding vote on executive pay

The situation

In May 2022, the management of JPMorgan Chase & Co put its senior management pay proposal to the shareholders of the company. This was then the subject of a non-binding shareholder vote. The package included $201.8m for six senior executives, including a special award in excess of $50m for the company's CEO, Jamie Dimon. The one-off payment was designed to incentivise Dimon to stay in position for at least five more years.

Activity

While Dimon is highly regarded, including by us, we considered the one-off nature of this payment to be insufficiently linked to performance. We, alongside a majority of other shareholders, voted against the non-binding resolution and in line with ISS's advice. As articulated in our voting policy, we expect the remuneration of the directors of our investee companies to be closely linked to performance. ISS criticised the options as lacking performance criteria for vesting.

Outcome

We hope that the management of JPMorgan Chase & Co takes the views of the shareholders, clearly expressed in this non-binding vote, into account when setting future pay proposals for its executives. We continue to hold this stock but will carefully scrutinise future remuneration proposals put forward by the company.

Case study 34

A consent solicitation supported by an Investment Association special committee we were part of

The situation

The Board of Scottish Investment Trust PLC ('SIT') announced that it had agreed heads of terms with JPMorgan Global Growth & Income plc ('JGGI') and JGGI's manager, JPMorgan Funds Limited ('JPMF'), for a combination of the assets of SIT with JGGI by means of a scheme of reconstruction (the 'Scheme') and voluntary winding up of SIT pursuant to section 110 of the Insolvency Act 1986 (the 'Transaction').

Unlike more recent bond documents and Note Purchase Agreements, the SIT bond documentation required SIT bonds to be repaid at a modified make-whole on a voluntary winding up. Given the cost of such repayment would have been prohibitive for allowing the Transaction to proceed, SIT launched a consent solicitation asking bondholders to approve a proposal (the 'Proposal') to JGGI as the issuer and sole debtor of the SIT bonds.

The solution

The IA convened a Special Committee meeting of SIT Bondholders to consider the Proposal to substitute JGGI in place of SIT in its capacity as the issuer and sole debtor of the SIT Bonds. As a member of the Special Committee, we worked through the reasoning for the Proposal and gave detailed consideration to each of the pros and cons through active discussions with other committee members. Given the nature of the Proposal was not in line with the terms of the bond documentation, SIT had to extend the voting instruction deadline and increase the instruction fee from 10bps to 20bps to help garner more support from SIT bondholders.

The outcome

As part of the Special Committee, we communicated our support for the proposal and highlighted our view of the key benefits to SIT bondholders in the form of an overall improvement in credit quality with a larger asset base, lower gearing, and the implicit benefit of JGGI's stronger financial covenants. SIT ultimately got 89.5% of bondholders to vote in favour of the proposal to substitute JGGI as the issuer and sole debtor of the SIT bonds.

Principle 12: Exercising rights

Detailed breakdown of CLAM equity voting geography, rationale, fund: customer funds

Over the course of 2022, CLAM cast a total of 5,219 votes, of which 396 were against management across 138 companies. This represents 8% of votes against management as a proportion of total votes cast. A link to our voting record can be found in Appendix 2.

Figure 17 breaks down votes cast by region, showing the UK is the largest constituent and Asia Pacific second largest.

However, **Figure 18** shows that it was our North American and Asia Pacific holdings that accounted for most of our votes against management. Our voting behaviour reflects geographical differences, so the disproportionate number of votes against management in these two regions are due to two different reasons.

In North America, it was due to a much higher level of shareholder activism in the form of tabled shareholder resolutions than in other regions, along with executive compensation practices that are less aligned to other geographies and our voting policy.

In Asia Pacific, votes against management were largely due to corporate governance in the region (excluding Australasia) being less aligned to our voting policy than in the other geographies, particularly around the independence of directors.

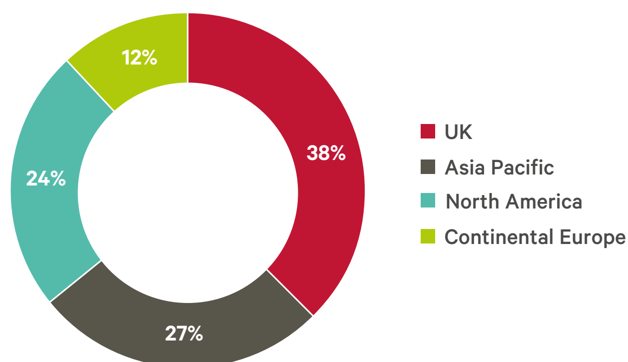


Figure 17: 2022 votes by region

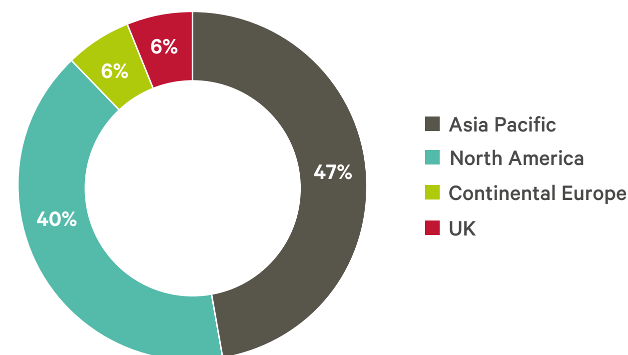


Figure 18: Votes against management in 2022 by region

Principle 12: Exercising rights

Figure 19 shows a breakdown of the reasons why we voted against management in 2022.

Board Structure: The high proportion of votes against management linked to board structure is due to several reasons, which include:

- Concerns around a lack of director independence, in the Asia Pacific region excluding Australasia;
- The more frequent tendency in the United States to combine the roles of Chair and CEO (which goes against our voting policy); and
- Issues surrounding directors who have been appointed to too many boards, affecting their ability to fulfil their oversight of company policy, governance and strategy effectively.

Compensation: Votes against excessive or poorly structured compensation is more frequently an issue that arises for our North American holdings. Our voting policy clearly sets out our expectations around executive compensation.

Governance: Votes against management linked to governance are often linked to our Asia Pacific holdings, where we more frequently encounter requests that would lead to excessive shareholder dilution as well as calls to amend the company's articles of association that are not in shareholders' best interests.

Environmental/Social: Votes against management on environmental and social grounds are frequently linked to shareholder-led resolutions tabled in North America.

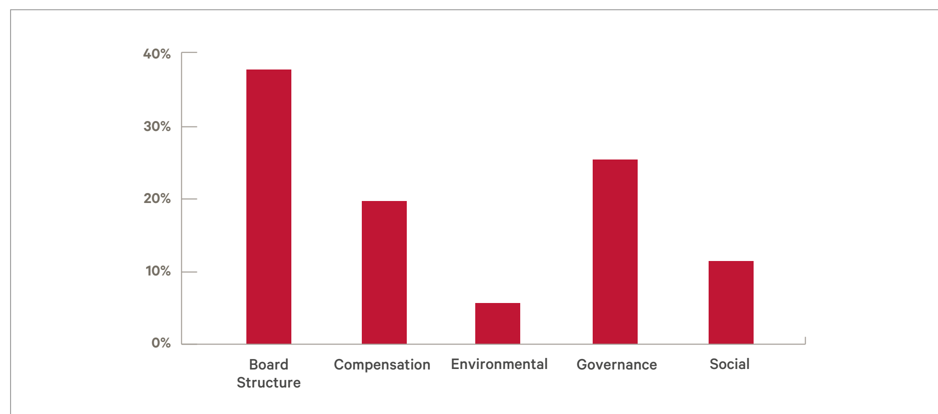


Figure 19: Votes against management by category

We believe that properly managed stock lending can enhance customers' returns while retaining the benefits of share ownership.

Stock lending

We believe that properly managed stock lending can enhance customers' returns while retaining the benefits of share ownership. When assets managed by us are subject to stock lending arrangements, we will consider recalling positions for votes about which we feel strongly and where we consider the size of our holding would have a meaningful impact on the voting outcome.

Fixed income

Corporate bonds

We're a highly active and engaged bond investor that seeks opportunities for stewardship activities in the fixed income market. Unlike equity investors, bond holders do not have the same voting opportunities on governance issues, so our focus is on demonstrating good stewardship before investing, through due-diligence and other activities that allow us to engage with bond issuers.

Pre-trade

We undertake a review of the proposed terms and conditions of a fixed income asset before the investment decision is made. We have declined to participate in transactions due to the terms and conditions not being satisfactory. Our overriding position as a creditor is to ensure that, if there were a default, we have the necessary rights and protections. In addition, we seek rights that ensure the borrower enters dialogue with us if it wishes to erode those rights or if monitoring covenants are triggered.

Principle 12: Exercising rights

Consent solicitations and tender offers

Throughout the life of a bond holding, an issuer may look to amend the original terms of the bond or tender for early redemption or substitution. We actively carry out due diligence of any proposals to ensure bond holders' rights remain protected and fairly compensated for any changes.

While we consider the commercial needs of the issuer, our overriding position is to protect creditor rights and ultimately our customers and beneficiaries. If we consider the change sought by the issuer to be materially negative for creditors, we recommend either amending or rejecting the proposal and/or require fair compensation from the issuer. The number of votes against proposals in any annual period will typically be small.

In 2022, CLL reviewed and voted on every consent solicitation affecting our holdings (100%). Out of the 13 consent solicitations reviewed, we voted in favour of 12, as **Figure 20** shows. On the single occasion when we voted against, we were in the minority and the vote passed anyway. CLL also considered 9 bond tender offers in 2022 (all of those affecting our holdings), of which only 4 were accepted and 5 were rejected, as shown in **Figure 21**.

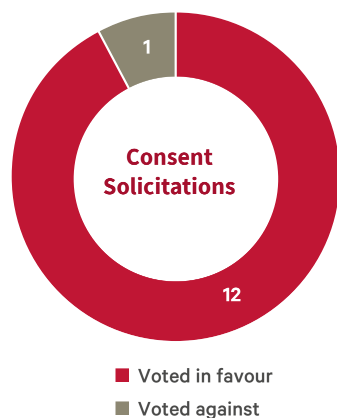


Figure 20:
Consent solicitations in 2022

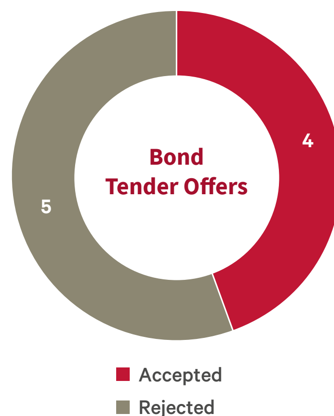


Figure 21:
Bond tender offers in 2022

As a business, we're an active participant in the Investment Association's special committees. These committees are typically formed when a bond issuer seeks to make significant changes to the terms and conditions of a bond and seeks to gain support from the largest holders before officially launching the proposal.

The issuer seeking the change will present its proposal to the committee. Committee members have the chance to ask the issuer questions, during the presentation, to better understand the reason for the proposed changes.

Following the issuer meeting, the committee, which includes representatives from the Investment Association, will hold discussions on the suitability of the proposal. The committee considers whether creditors would be adequately compensated for the proposed changes and, if any aren't acceptable, discuss the adjustments it would require.

Following in-depth discussions, the Investment Association sends a letter to the issuer that contains the committee's thoughts, suggestions and, if needed, proposed amendments. The issuer then considers the committee's letter and either makes the suggested changes and/or improves compensation for all bond holders. In some cases, the issuer will decide to no longer pursue the changes. If the issuer successfully comes to agreement with the committee, the issuer will launch its final proposal endorsed by the committee. An endorsement gives non-committee bond holders greater confidence in the amendments sought. We outline in case study 27 and 34 our involvement in Investment Association special committee in the former where special committee support was not forthcoming and in the latter where strong bondholder support for a proposal was developed through this process.

The committee considers whether creditors would be adequately compensated for the proposed changes and, if any aren't acceptable, discuss the adjustments it would require.

Principle 12: Exercising rights

Fixed income – Private placements

Pre-trade

As a private placement investor, the review and approval of transactional documents is a key part of the process leading to entering into a new investment.

A full review of the proposed terms and conditions of a transaction is undertaken before any investment is made in a fixed income private placement asset, to ensure that we have all the creditor protections that we would expect upon a default, deterioration in monitoring covenants or consent solicitation.

The documentation is reviewed by the private placement fund manager, by our internal legal function and by external investors' counsel, who we liaise with. When we bid on a transaction, we include a list of our documentation requirements. Often, we'll have worked to amend the draft documentation before the point at which a bid is submitted. We're willing to walk away from transactions if the documentation isn't satisfactory and have done so in the past.

We ensure that there is appropriate recourse and risk allocation through the sale contract or third-party contracts.

Monitoring

We aim to have contact with a borrower at least once a year. At a minimum, we expect our borrowers to show evidence of compliance with their financial covenants and to provide financial information to help us verify and understand the information they are providing to us. When private placements are secured on specific properties, we typically have rights to value those properties, which is a right that we exercise. This gives us an understanding of the default risk we face. We monitor the delivery of this information, ensuring it is delivered in a timely manner, and chase outstanding information or further explanations when the information is not self-explanatory.

Amendments, consents and requests

We're regularly in contact with our private placement borrowers, as and when they require our consent to take certain actions as stipulated in the transaction documents. We act in a pragmatic way, seeking to ensure that our position as creditor is protected and the business of the borrower is not unnecessarily restricted. We seek additional legal counsel as required when reviewing requests for amendments, consents or waivers. Where appropriate, we'll work with other investors to discuss the needs of the borrower.

Property

Acquisition

As we plan to hold most of our investment properties for the long term, either to secure long-term income and/or target opportunities to add value, we try to ensure this is reflected in the legal framework when we buy or manage assets.

In Principle 7, we discussed some of the due diligence that we carry out when making a property acquisition. We consider the due diligence alongside our proposed long-term strategy for the asset, ensuring there isn't a mismatch, before ensuring the legal documentation reflects both the specifics of the due diligence and our proposed strategy, to the extent that it can. We ensure that there is appropriate recourse and risk allocation through the sale contract or third-party contracts.

Refurbishments

In the management phase, we negotiate contracts for refurbishments with a long-term view, ensuring the quality of materials and their sources match our sustainability preferences and the likely long-term duration of our holding.

Management and consents

We negotiate our leases in a way that sets out the information that tenants must provide, when tenants must seek our consent and when we can act against tenants that have breached their lease covenants. We keep our asset strategy in mind to ensure we have the flexibility to target value-added opportunities but are mindful that in many cases the relationship could last a long time – frequently beyond 10 years – and during this time laws and commercial best practice will change, and potentially the tenant could change. We try to reach a fair balance with our tenants, ensuring we have control when their actions could put value at risk but giving tenants sufficient flexibility to feel invested and engaged with the property they occupy.

Principle 12: Exercising rights

We also exercise our rights to inspect our properties, seeking to inspect all properties annually.

We seek to have conversations with tenants when they come back to us at lifecycle events such as lease renewals, consents and licences. In each case, we seek to understand their objectives and to accommodate where possible while using our expert judgement to ensure the value of the asset and income stream is protected. Where we can, we use these opportunities to raise ESG matters and see if we can identify opportunities to collaborate. We insist, when lease terms allow, that when a licence to alter is proposed, there is no negative impact on the EPC and, where possible, we encourage improvements. Further, at a lease renewal, we often seek to include green lease terms if they are missing.

We also exercise our rights to inspect our properties, seeking to inspect all properties annually. Inspections are undertaken by our property manager and the relevant managing agent (where multi-let) and include matters such as a review of sustainability initiatives and lease compliance, in respect of repair and alienation covenants. At multi-let properties, we also carry out detailed health and safety inspections and consider sustainability focused initiatives within the common areas. Again, we exercise inspection rights to ensure each property is inspected for a full valuation once a year.

Some lifecycle events require formal litigation to be started. Often this is strategic and procedural, to protect rights around lease renewals for example, and the parties never expect to end up in court. There are other situations when we can't avoid litigation, where we seek to recover possession of a property and/or arrears of rent. These claims may well be contested. We try as much as we can to avoid litigation and seek consensual solutions to lifecycle events. We do, however, note that litigation is very much part of managing a property portfolio and cannot be avoided entirely. Often, it's simply a strategic step to protect value and, in this respect, real estate is quite distinct from other asset classes. We set out an example of when we have used our legal rights to protect our position in case study 35.

Our external lawyers draft sale and purchase agreements, leases, licences and other legal documentation that we are a party to, and our fund managers ensure that our commercial and ESG preferences are included in those documents. We have an internal legal team, which we turn to for assistance when issues arise.

Principle 12: Exercising rights

Case study 35

Enforcing legal rights in lease – Chesterfield and Hull

Situation
Following the completion of landlord works to two separate restaurant units in Chesterfield and Hull, we received fit-out proposals from the incoming tenant.

Under the terms of the two Agreement for Leases, the tenant was only permitted to undertake its fitting out works 10 days following on from practical completion. This period allowed us time to review the tenant's plans. As a responsible landlord we want to ensure that the fit-out meets our ESG criteria and is carried out in a manner that does not harm the fabric of the building, disturb tenants or neighbours and does not have a negative impact on the valuation of the property.

Activity
In both instances, the tenant attempted to enter into the property to undertake its works without approval within this 10 day period. As a consequence, we instructed solicitors to write an enforcement letter to ensure that the tenant adhered to the terms of the agreement. This would enable us and our advisers to review and comment on the tenant's proposals.

Outcome
Moreover, on approval of the tenant's fit-out plans, we ensured they reflected our requirements in the plans including our EMS procedures and needs of our insurers: the tenant was therefore required to meet the following:

1. EPC of 'B' on completion of its works;
2. Confirmation of the use of sustainable materials;
3. Ensuring that a waste management plan was in place so as to reduce waste to landfill;
4. Confirmation that all lighting would be LED lighting; and
5. Fire suppression: our insurers required us to ensure that tenant had installed a fire suppressant system in one of the units.

The tenant adhered to the above and protected the environmental credentials of the building and our interests as landlord.

Principle 12: Exercising rights

Real estate finance

Loan due diligence

The review and sign-off of transactional documents is a key part of the process leading up to entering into a new loan. We take our time to ensure that the future legal framework we create ensures that our rights as a creditor are protected, and that we receive early warnings, if and when, the financial position of the borrower deteriorates.

As our transactions are secured, we spend time understanding the corporate structure, where the value is and what security package is appropriate and achievable for each borrower reflecting jurisdictional limitations. We take time to understand what an enforcement would look like and how we and our customers are protected.

We have our own loan template that reflects both market standard terms and our long-term lending outlook and sensitivities. Our lawyers draft the debt documentation, and our origination team ensures that the agreed terms are reflected in the suite of debt documents. We ensure that issues or features that are unique to the transaction are reflected in the documentation, as well as any points raised during the due diligence process. We have an internal legal team that we turn to for assistance when issues arise.

We take a consensual approach to our borrowers and it’s rare that once the legal documentation process has started a deal doesn’t proceed. However, we’re resolute in ensuring that our minimum legal and underwriting requirements are met. This is assured through an exchange meeting, attended by our Head of Real Estate Finance and CIO, which identifies unusual features of the transaction, where concessions have been made, problems encountered during the documentation phase and how they were addressed.

Loan monitoring

Most of our loan documentation anticipates that a borrower will provide covenant compliance certifications at a minimum annually, while quarterly is our strong preference. Financial covenants and other information covenants give us an understanding of how the asset is performing.

While our loan documentation states that we can periodically request a valuation of the asset, we exercise expert judgement when determining to call for a valuation because we recognise this is a costly exercise for our borrowers. It’s a valuable right that, when exercised, may lead to discussions about, the performance of, or restructuring of, the loan. We believe this to be a critical creditor protection.

Amendments, consents and requests

The level of contact we have with borrowers frequently reflects the nature of the underlying security for the loan. Portfolios or multi-let properties are more actively managed by their owners and therefore consents or management actions occur more frequently. We act in a pragmatic way, seeking to work with our borrowers and ensure honest relationships throughout the life of the loan. But, equally, we always keep in mind the risk of default and our requirements to protect the collateral for the loan. We seek additional legal counsel as required when reviewing requests for amendments, consents or waivers.

Outcomes
Evaluation of effectiveness of exercising our rights

We are mindful at the outset of our relationship with any counterparty of the need to set the legal framework in a balanced and fair way. We recognise that the legal rights afforded to us are powerful, and can be used to express our views and influence the decisions our counterparties make to enhance the value of investments. Our relationships are often long-lasting, so balance is critical to ensure we can create resilient investments, protect our customers and beneficiaries as well as facilitate an environment in which our investments can flourish. We believe that over the course of 2022 we protected our rights judiciously at the outset of transactions, continued to seek to use our legal rights to promote the issues that we care about (be that through our considered shareholder voting or carefully evaluated creditor protections in bond consent solicitations) and promoted green clauses in leases. We have provided examples of how, by exercising our rights, we have protected our beneficiaries, customers and assets effectively.

Appendices

Appendix 1A

Customer Assets - Main CLAM Managed Equity Portfolio (Composition as at 31 December 2022)

The sector allocation and top 10 holdings of CLAM's main equity portfolios are set out below. These funds are invested in by CLL as customer assets

LF Canlife Asia Pacific Fund

Sector Breakdown	%
Financials	29.2
Technology	18.2
Communications	11.4
Consumer Discretionary	9.1
Energy	7.5
Materials	7.2
Other	5.7
Consumer Staples	4.4
Health Care	3.7
Industrials	3.6
Total	**100.0**

Top 10 holdings	%
Taiwan Semiconductor Mfg Co	6.4
Tencent Holdings Ltd	4.7
Samsung Electronics Co Ltd	4.3
AIA Group Ltd	3.2
Alibaba Group	3.0
BHP Group Ltd	2.5
Reliance Industries Ltd	2.1
Commonwealth Bank Of Australia	2.0
Meituan-Class B	2.0
CSL Ltd	1.8

LF Canlife European Fund

Sector Breakdown	%
Health Care	16.2
Industrials	15.7
Financials	14.8
Consumer Discretionary	9.2
Consumer Staples	9.0
Materials	8.9
Technology	8.4
Other	6.6
Other Investments	6.6
Utilities	4.6
Total	**100.0**

Top 10 holdings	%
Nestle Sa-Reg	5.3
Novo Nordisk A/S-B	4.4
iShares EDGE	4.3
ASML	4.0
LVMH Moet Hennessy	3.8
Roche Holding Ag-Genusschein	3.7
Iberdrola Sa	2.8
Novartis Ag-Reg	2.6
Allianz	2.3
Sap Se	2.2

LF Canlife Global Equity Fund

Sector Breakdown	%
Technology	20.4
Financials	14.4
Industrials	14.0
Consumer Discretionary	13.6
Health Care	13.3
Consumer Staples	8.0
Communications	6.1
Other Investments	6.9
Materials	3.3
Total	**100.0**

Top 10 holdings	%
Microsoft	3.7
Apple	3.5
JPMorgan Chase & Co	2.3
Alphabet	2.2
BWX Technologies	1.9
X Harvest CSI 300 ETF	1.8
LVMH Moet Hennessy	1.7
Sumitomo Mitsui Financial Group	1.7
Johnson & Johnson	1.6
Walmart	1.6

LF Canlife Global Equity Income Fund

Sector Breakdown	%
Technology	23.6
Health Care	19.0
Financials	13.9
Consumer Staples	9.2
Consumer Discretionary	8.6
Industrials	8.6
Utilities	5.0
Other	4.8
Communications	3.7
Materials	3.6
Total	**100.0**

Top 10 holdings	%
Apple	5.6
Microsoft	5.4
Carrier Global	3.7
Danaher	3.7
Rio Tinto Plc	3.6
Synopsys	3.6
Xylem Inc	2.9
3I Group	2.8
Aptiv	2.8
Thermo Fisher Scientific	2.7

Continued on page 114

Appendix 1A

Continued from previous page

LF Canlife North American Fund

Sector Breakdown	%
Cash and Equivalents	2.6
Technology	25.8
Health Care	13.2
Consumer Discretionary	12.5
Financials	11.4
Industrials	10.7
Communications	8.5
Consumer Staples	8.5
Other	3.6
Materials	3.2
Total	**100.0**

Top 10 holdings	%
Microsoft	5.2
Apple	5.0
Alphabet	2.9
JPMorgan Chase & Co	2.7
BWX Technologies	2.4
TJX Companies Inc	2.2
Walmart	2.2
Johnson & Johnson	2.1
Amazon	2.0
Netflix Inc	1.8

LF Canlife UK Equity & Bond Inc. Fund

Sector Breakdown	%
Financials	27.2
Other	12.5
Energy	11.6
Utilities	9.9
Consumer Staples	9.6
Materials	8.2
Real Estate	7.8
Health Care	7.3
Consumer Discretionary	5.9
Total	**100.0**

Top 10 holdings	%
BP Plc	5.6
Shell	5.4
Astrazeneca Plc	4.4
Rio Tinto Plc	4.3
Nationwide Building Society 5.769% Perp	3.3
GSK	2.9
BAE Systems Plc	2.6
BHP	2.6
Delamare Finance PLC 5.5457% 19/02/29	2.6
National Grid Plc	2.5

LF Canlife UK Equity Fund

Sector Breakdown	%
Financials	21.0
Consumer Staples	13.4
Energy	12.4
Health Care	12.4
Consumer Discretionary	12.2
Materials	8.3
Other	6.2
Industrials	5.3
Technology	4.7
Utilities	4.1
Total	**100.0**

Top 10 holdings	%
Astrazeneca Plc	8.7
Shell	8.2
Unilever Plc	4.9
BP Plc	4.3
HSBC Holdings Plc	3.4
Diageo Plc	3.3
GSK	3.3
Glencore	2.9
Lloyds Banking Group Plc	2.9
Barclays Plc	2.6

LF Canlife UK Equity Income Fund

Sector Breakdown	%
Financials	23.4
Consumer Staples	14.7
Energy	14.4
Health Care	11.2
Materials	11.1
Other	8.5
Consumer Discretionary	7.4
Industrials	5.8
Utilities	3.5
Total	**100.0**

Top 10 holdings	%
Shell	9.0
Astrazeneca Plc	8.0
BP Plc	5.4
Unilever Plc	4.1
National Grid Plc	3.5
GSK	3.2
Glencore	3.1
Barclays Plc	2.9
Lloyds Banking Group Plc	2.9
HSBC Holdings Plc	2.8

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Appendix 1A

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LF Canlife Global Infrastructure Fund	
Sector Breakdown	**%**
Utilities	46.8
Industrials	27.4
Energy	16.2
Communication Serv.	5.9
Other	3.7
Total	**100.0**

Top 10 holdings	%
NextEra Energy Inc.	5.9
American Electric Power Co. Inc.	5.2
Transurban Group Stapled Securities	3.8
Enbridge Inc.	3.2
Iberdrola SA	3.1
Chenerie Energy Inc.	3.0
Aena SA	2.9
Canadian Utilities Ltd.	2.5
Southern Co.	2.4
Grupo Aeroportuario del Sureste SAB de CV B ADR	2.3

Appendix 1B

Customer Assets - Main Equity Portfolio Fund Turnover*
Currency Turnover Comments for CLAM Managed funds**

Fund in-scope:	Turnover*	Currency	Turnover costs**
LF Canlife North American Fund	50.62	GBP	89,595.16
LF Canlife European Fund	11.86	GBP	4,876.45
LF Canlife Asia Pacific Fund	65.14	GBP	113,581.61
LF Canlife UK Equity Fund	30.66	GBP	650,912.96
LF Canlife UK Equity & Bond Income Fund	13.90	GBP	11,707.87
LF Canlife UK Equity Income Fund	22.25	GBP	206,428.92
LF Canlife Global Equity Fund	49.24	GBP	789,480.91
LF Canlife Global Equity Income Fund	31.55	GBP	6,906.67
LF Canlife Global Infrastructure Fund	92.50	GBP	36,767.46

Methodology
*Turnover = 100 * AVERAGE (Purchases, Sales) / Average Fund Value
**Turnover Costs

Explicit costs only
(commission and taxes)

Portfolio turnover costs are based on the explicit costs of trading (commissions and fees) for the purpose of this report. The turnover and turnover cost data.

Appendix 2

Documents referred to

Great West Life Co	**Global Code of Business Conduct**
Canada Life UK	**Conflicts of Interest Policy**
Canada Life UK	**TCFD Report 2021**
Canada Life Asset Management*	**Voting Policy**
Canada Life Asset Management*	**Engagement Policy**
Canada Life Asset Management*	**Net Zero Carbon Roadmap**
Canada Life Asset Management*	**Real Estate ESG Policy**
Canada Life Asset Management*	**Company Engagement and Voting Records**
Canada Life Asset Management*	**ISS 2022 Engagement Report**

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