



XPS Investment

UK Stewardship Code
Submission 2023

April 2024

This report provides details of XPS Investment's application of the **6 Principles of the UK Stewardship Code 2020** during the period 1 January 2023 to 31 December 2023.

Executive summary of key activities in the year

227

Funds rated on ESG with feedback provided to all managers

39

Sustainable funds (5 new in 2023)

9%

Of AUA in funds with a sustainable objective

8

Sustainability related thought leadership pieces

1

Firm-level net zero strategy

Principle 1: Purpose, strategy and culture

Our purpose, services, culture, values and strategy

XPS Investment sits within XPS Pensions Group, a leading pension consulting and administration business fully focused on UK pension schemes. XPS combines expertise, insight and technology to address the needs of over 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over one million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 81 with assets over £1bn.

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

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

XPS Investment is a fast-moving, exciting business, with a **team of 104 people across 8 locations** exclusively focused on the UK market. We advise DB and DC pension schemes, as well as registered charities, on all aspects of investment, from objectives and strategy to fund selection and monitoring. We do not provide fiduciary management services as we believe it would create a conflict of interest for us to do so, but we do provide fiduciary management oversight services to clients.

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

Our culture and values

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

Our values are as follows:

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

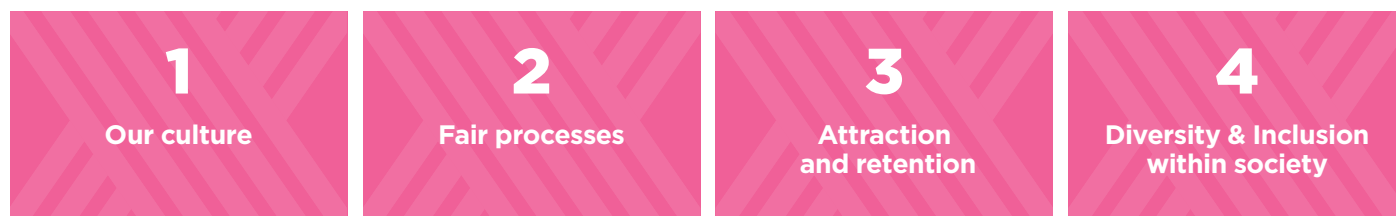
Our culture, driven by our values, has yielded benefits for our employees and clients alike. Our core values are at the heart of our commitment to our people. In our 2023 employee survey, **98%** thought XPS was a good place to work (2022, 98%).

Commitment to inclusion, equality and diversity

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

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

Our DEI strategy has 4 main pillars:



Diversity Committee, our Employee Engagement Group and our Employee Networks. Working with our inclusion specialists, the 'Inclusive Group', and colleagues, we identified what was important to colleagues, clients and other stakeholders, where we could make a difference and what we should prioritise.

We have asked and trained our managers to set clear expectations, to lead by example and uphold the highest of standards and to ensure decisions are fair and free from bias. As in previous years, **all line managers had a 2-hour mandatory inclusion workshop** and we provided tools and knowledge on topics such as terminology, micro-behaviours, and inclusive language to support employees and engage them.

On top of this, line managers were also required to attend training on how to deliver effective feedback. Preferences as to how feedback is provided can differ person-to-person and the training equipped line managers with skills so that they can tailor feedback to the individual needs of each employee. Further, compulsory training was also provided to line managers on menopause so additional support can be provided to employees where required.

A key initiative for us has been to run **unconscious bias training** for all 1,700 employees, and new colleagues as part of their onboarding. In addition, we provide mandatory 'Respectful behaviours' training. Our training again scored an average of 8/10 for engagement and usefulness.

During 2023 we ran training sessions for all staff on allyship and listening circles to understand the lived experiences for colleagues of ethnic minorities. We also participated in the Business in the Community (BITC) Cross Organisational Mentoring Circles, for colleagues from minority ethnic backgrounds and in March 2023, we published our first ethnicity pay gap report, enabling us to track future progress and make changes as required.

Following on from these efforts, during the year we also attained Level 2 of the UK Government's Disability Confident Scheme, 12 months after obtaining Level 1. As a Disability Confident Employer, we have demonstrated our commitment through various initiatives in addition to the above including ensuring our recruitment process is inclusive and accessible to all through various channels including Evenbreak (a niche job board for disabled applicants) and offering an interview to disabled people who meet the minimum criteria for the job vacancy.

In June we were also proud to win for the first time the Professional Pensions Diversity and Inclusion Excellence Award. We believe this award illustrates our approach to supporting and valuing each other, which was also reflected in our Employee Survey, October 2023, where **95% of staff said they felt like they 'belong' at XPS**. We are using this as a baseline for measuring the impact of our DEI activities.

In June 2023, XPS became a signatory of the Women in Finance Charter demonstrating commitment to building a more balanced and impartial financial industry. Our Co-CEOs are the senior sponsors within XPS responsible and accountable for gender inclusion and diversity.

We also became a signatory of the Asset Owner Diversity Charter, demonstrating our commitment to advancing diversity and inclusion in the investment industry. By signing the charter, we pledge to include diversity criteria in our manager selection and monitoring processes, as well as to share best practices and learn from others in the investment community.

During the year we also became a corporate supporter of Girls Are Investors who are working to address the gender diversity issue in the investment management industry and seek to ensure young women and non-binary adults have the knowledge, skills and resources to succeed in the industry. We will help to deliver their programs and events over the coming years.

We participated in the FCA consultation CP23/20 on Diversity and Inclusion and supported their proposals as we agree with the summary of the poor outcomes that will result due to a lack of DEI in the financial services industry, particularly around the impact of 'groupthink' on competitiveness and innovation in the sector.

We now have 5 DEI employee networks, which play a key role in encouraging and supporting all employees to bring their whole self to work. Networks greatly contribute to creating inclusive environments and building a sense of community. Throughout the year we run a full calendar of **25 internal firm wide webinars** hosted by multiple networks working together to bring about a more inclusive culture at XPS.



XPS Menopause Network



XPS Women's Network



XPS Disability Network



XPS LGBTQ+ Network



XPS Multicultural Network

XPS prides itself on being an inclusive company that cares about employees which is demonstrated by the results of our employee survey. The Employee Net Promoter Score question in our survey, which asked 'How likely are you to recommend working here to a friend or relative?', which we use as a measure of levels of engagement was +31. (2022 survey: +33) (The creators of the metric, Bain & Company, state that a score above 0 is good, and above 20 is great.)

98%

of employees said
XPS was a good
company to work for

Health and wellbeing

We want to ensure the best welfare for our employees. As such, we have developed a **wellbeing programme that focuses on mental, physical and financial wellbeing**. It aims to help our colleagues to stay well and to support them when they're not. We have a Mental Health Ally Network and an Employee Voice 24/7 programme who are trained to listen and support colleagues when and where needed. Part of XPS's activity around mental health is a frequent XPS Wellness Hour to encourage employees to use allocated time to focus on an activity that will support their wellbeing, with a different theme each month.

Business ethics

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

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

Actions to ensure our strategy and culture enable effective stewardship

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

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

As a firm

Commitment to zero carbon

In 2021 XPS Pensions Group pledged to become carbon neutral by offsetting carbon emissions across our value chain, Please see detail of the steps taken in 2021 and 2022 in our previous Stewardship Code submissions.

In 2023 we continued to make progress on our net zero commitment, reducing the emissions associated with our property portfolio and honing our procurement and travel policies to operate more sustainably. Internally we now source more sustainable paper stock and we have implemented more stringent controls on business travel.

We are devoted to the net zero objective and in December 2023 we officially submitted our letter of commitment to the Science Based Targets initiative (SBTi). The SBTi are the most respected and stringent independent body in the net zero target setting landscape. Our commitment demonstrates our long-term strategy and dedication to the objective.

In 2023, XPS completed its third consecutive carbon neutrality exercise, offsetting the residual carbon emissions for all of XPS and its suppliers' activities (scope 3), retiring Gold Standard carbon credits. Our annual offsetting exercise focusses on making tangible improvements to the most vulnerable communities. XPS is proud to support verifiable projects that benefit the environment as well as creating work opportunities, safe habitats for wildlife and sustainable ways of living for local communities.

Sustainability Committee

We have firm level commitment through our Sustainability Committee. The Committee was created in 2021 to support the XPS Board with driving ESG initiatives that have a material impact on business strategy, business performance and the long-term sustainability of the Company. It is chaired by one of XPS's non-executive directors.

This year, our sustainability committee reviewed the materiality matrix and realigned our sustainability framework. The process of revisiting materiality was essential to ensure we stay aligned with evolving external developments related to sustainability and ESG matters.

The Committee continues to have oversight of the views and interests relating to sustainability of the internal and external stakeholders of the Company, with activities revolving around our 5 sustainability pillars (governance, employees, clients, communities, and environment).

We summarise below the key activities under the remit of the Committee in 2023:

- **7 of 18 sites** on certified renewable energy supply, with an additional 2 sites supplied by uncertified zero carbon tariffs.
- Overseeing progress against governance ambitions around Board diversity – now **44%** of the Board (target 40% by 2027), and **33%** of senior management (target 37% by 2028) are female.
- Launched our charity matching policy in 2023, and continued offering volunteering opportunities for colleagues, including providing time and manpower to create a safe space for a charity near Leeds in an area where there are few opportunities for young people. For the first time, we organised environmental volunteer days across the UK, which included beach clearing in Belfast woodland maintenance near Reading, and also helping with distributing food, clothes and life-essential items to less fortunate and disadvantaged people (homeless) in inner cities.
- Our **Scams Protection Service** has now helped protect over 10,000 members, covering over £2.0bn of transfers.

Wider industry initiatives

We demonstrate our commitment through active participation in various industry initiatives. Under Principle 4 we provide more detail on our contribution to the broader industry effort around stewardship and sustainability.

Our investment research that underpins client advice

Our philosophy is captured within our stated Principles and Preferences. Our six Principles underpin all our advice, and our six Preferences reflect how we steer clients in the absence of them having a strong view. In particular we have embedded integration of ESG and consideration of Sustainable outcomes as follows:

- Our investment Principle 5 embeds the importance of robust stewardship (in addition to ESG integration) in effective risk management.
- We are clear on our belief that sustainable investment will improve long term outcomes under our investment Preference 6.

Principles

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

Preferences

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

We fully incorporate ESG criteria within our research and require that the funds we recommend to our clients demonstrate an appropriate minimum level of ESG integration and stewardship – we will not recommend funds which fail to meet our minimum requirements on our ESG scoring system. Furthermore, we encourage clients to set high expectations of fund managers in this regard.

We believe ESG is a critical and fundamental component of investment decision making and that investor engagement should not be seen as optional for investors. Our proprietary ESG research framework has been developed using the UN PRI principles as a foundation and aims to assess the genuine commitment of managers to ESG and stewardship activity. We continue to evolve this framework to reflect best practice, as detailed in Principle 5.

We annually review ESG integration and in particular stewardship across all asset classes and provide feedback to managers – as described further under Principles 4 and 5. This feedback on ratings is fundamental to our engagement effort with managers and helps to raise the bar across the industry on ESG and sustainability. We consider this to be key in promoting effective stewardship across asset classes.

Helping our clients

We have a clear framework for helping our clients with their approach – rooted in establishing their own beliefs on ESG and climate change, including the importance of engagement with their managers and underlying holdings.

To support this we've invested in ensuring our people are constantly building their knowledge by conducting internal training and through ongoing engagement with investment managers to understand evolving best practice in this developing landscape.

We are committed to educating clients on ESG and stewardship-related topics through training programs, webinars and conferences.

We help our clients monitor and engage with their investment managers in respect of their ESG integration and stewardship practices.

We support our clients in meeting regulatory requirements such as preparing annual Implementation Statements that disclose voting and engagement activity over the accounting year.

Assessment of our effectiveness in serving our clients' best interests

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

Through ongoing feedback, for example through the Greenwich Associates survey where we received **10 evaluations** in the year, and evaluations by our clients to fulfil the CMA Order to review their Investment Consultant where **58 clients shared their assessments** with us, we gain insight into how effectively we are meeting our clients' needs. Our senior leadership review the results and we look to continually develop our approach to ensure we continue to serve their best interests. Our strong client feedback indicates that our clients feel their interests are served well.

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

We've also continued to focus our research on sustainable funds, and in 2023 formalised a **new Impact Designation** (see Principle 5 for more details). Funds with these labels allow our clients to express stronger beliefs and preferences around ESG and climate change in their investments and seek to support the direction of travel in the industry towards targeting sustainable outcomes alongside financial returns. We believe the work we have done in this area now provides our clients with a comprehensive range of solutions for them to express their preference with how their money is invested.

Looking forward, we recognise that the field of ESG and sustainability continues to evolve, with new areas of focus coming onto the agenda all the time. Last year we indicated that our priority for 2023 would be to revisit our sustainable funds to identify any areas where we could update our list to reflect best practice, or areas of emerging importance such as social impact and biodiversity.

Reflecting on the year, we increased our Sustainable fund list to include Sustainable investment grade credit. We also released a thought leadership piece on how schemes could take into account biodiversity and nature considerations, and we responded to the consultation from the Social Factors Taskforce. However, we are yet to see demand from schemes for strategies which directly address these issues.

However, we continue to encourage clients to consider these and build their knowledge and investing in our fund recommendations. In 2024 we intend to undertake further impact fund research across a range of asset classes, starting with fixed income, looking for funds that directly address climate change, natural capital and/or social issues.

Principle 2: Governance, resources and incentives

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

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

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

Investment Committee

The Committee is comprised of 16 people, the most senior members of the investment team and led by **Ben Gold, Head of Investment at XPS and a Director of XPS Investment Limited**. The Committee has oversight of the overall XPS Investment approach. This includes ensuring how ESG and stewardship are embedded in our advice to clients. All fund recommendations are ratified by our Investment Committee. This ensures consistent application of our approach.

ESG research team

The ESG research team, led by Alex Quant, is comprised of **15 individuals** (2022: 15 members) from across the team of all differing levels and locations, including three of our Investment Committee. It is focused on implementing and evolving our ESG research approach and framework to assess ESG and stewardship practices of investment managers, and producing client materials. Alex sits on the Investment Committee and the Group Sustainability Committee, ensuring alignment of direction of the research team with the broader interests of our clients and the business.

During the year we **formalised the role of deputy head of ESG research** to ensure the team continues to be well lead and resourced. This position is held by Rebecca Helme.

Our Investment Database 'ID'

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

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

We keep a central log of our clients' adherence to key regulatory requirements.

As described further under Principle 6, during the year we provided access to investment managers for XPS ID. Investment managers can log-in at any time to view XPS research information on their funds including overall rating and sub-ratings, ESG rating, sustainable designation and whether the fund is actively promoted to clients. This ensures we have a comprehensive and up to date set of information on funds which we are able to share with clients.

Asset class research teams

Specialist asset class teams which incorporate the ESG framework as an explicit stage within their respective investment manager research. This is tailored to the characteristics of the specific asset classes. The ESG research team will also always be involved to input their expertise in this area too.

In 2022 **Faye Clark joined as Head of Manager Research**, overseeing all research teams. This has ensured the consistency of application of our ESG framework across all asset classes.

Ensuring quality and accuracy of services

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

We ensure that our teams have the appropriate level of expertise to provide this reporting and advice in the following ways:

- Across XPS Investment we encourage everyone to take professional exams to help build their knowledge. We currently have **18 qualified actuaries and 14 CFA charterholders**. Additionally, we currently have **51** people actively studying for one of these qualifications. **Alex Quant** holds the **CFA Certificate in ESG Investing**.
- **Consultants providing client advice are certified under SMCR** and fulfil all necessary steps for certification as required. For those not yet certified, we undertook a gap analysis for each individual to identify areas of additional training need to ensure they are given the opportunity to build their consulting skills.
- All aspects of ESG form an integral part of our graduate training programme. During the year we held two **team-wide ESG training sessions**, one on ESG integration and climate change trends, and a specific sessions on enhancing the approach towards stewardship of our clients. We also encourage all consultants to attend seminars hosted by fund managers to raise awareness of the different approaches taken across the industry alongside achieving relevant professional qualifications.

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

Ensuring appropriateness of fees

One of our Principles is Cost control. We help clients understand the sources of cost within their portfolio in terms of both explicit costs, such as fund management charges and expenses, and implicit costs, such as turnover costs. During 2022 we rolled out a client-wide campaign to produce a report detailing the key sources of cost for our clients, including a comparison against peer pension schemes, in line with the Cost Transparency Initiative by working with an independent firm to supply this data.

We also follow a pricing matrix for our fees to ensure fairness and consistency across our clients. The appropriateness of this is reviewed in detail each year and on an ad-hoc basis as required by our dedicated Pricing Committee which consists of five members of our Investment Committee. Through participating in many tender processes and the associated feedback we receive, whether successful or not, we are confident our fees are fair and competitive versus our peers. Given client circumstances can be unique and complex, where pricing is to deviate from the pricing policy this needs to be agreed with our Pricing Committee to ensure it is appropriate.

Effectiveness of our governance structure and processes

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

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

Our proprietary database **ID** is a powerful tool in supporting our clients with the provision of robust information on all aspects of their investments including ESG, and also supports our internal recording of engagement with managers and progression of their approach. We are constantly upgrading the database capabilities to improve the usefulness of the data stored. ID has been effective in tracking 'campaigns' which ensures robust and consistent communication with clients on a range of issues, including ESG and stewardship.

We will continue to develop new propositions (e.g. in the year we rolled out advice to all clients on setting scheme-specific stewardship priorities) and services (e.g. expanding our lists of recommended sustainable-rated funds, and providing enhanced reporting on climate change risks using our new data provider – see Principle 5) to help our clients get greater sight of stewardship within their current investments and how they can incorporate even more effective stewardship.

We are clear on the need to continue to educate our staff on ESG and the importance of stewardship, and this will permeate through our advice to clients. Outside the ESG Research team we feel that ongoing training, including for example by continuing to offer the **CFA Certificate in ESG Investing** to our client facing consultants, will increase knowledge of the pertinent issues more broadly and therefore the quality of our advice, and we feel that the training we have provided has been effective.

We recognise the importance of the ESG research team in supporting all asset class teams and our consultants, and to improve its effectiveness we will continue to grow this team. In addition, the introduction of a **Head of Manager Research** has been effective in supporting our total research effort, recognising our growing client base and the importance of effectively resourcing robust research.

Principle 3: Conflicts of interest

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

How we identify and manage conflicts of interest

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

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

In our capacity as a service provider, XPS neither owns its own funds nor does it take the role of a fiduciary manager.

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

Our staff undergo regular training on managing conflicts of interest and our bribery and gifts policy, which is particularly relevant for our relationship with managers. We have a clear policy in relation to receiving gifts from managers to ensure our advice and recommendations to clients remain fully independent.

We have a policy on being fair to all clients. This is particularly relevant when communicating a rating downgrade to Red for a fund as it leads to sale of assets and potential for first mover advantage. We address this by coordinating in such a way that all clients are notified of the news at the same time, so no single client is advantaged or disadvantaged.

To demonstrate our approach we have set out a selection of examples of our identification and effective management of conflicts in the year:

(i) Impartial advice on governance model

As is good practice, one of our clients undertook a review to assess the ongoing suitability of their governance model, specifically whether Fiduciary Management may be preferred. The review determined that the Trustee had a preference to move to Fiduciary Management. We made it clear with all stakeholders that this issue represents a conflict for us, as it would impact our business if the client moved to Fiduciary Management, therefore we would not be able to provide advice on the matter. The client commissioned a piece of independent advice on the relative merits of the alternative governance models which they could utilise.

(ii) Remaining impartial in the advice we deliver to clients

Owing to the recent and significant improvements in funding positions across many of our clients, many trustees are looking ahead and trying to determine how best to manage schemes going forward. As part of this, trustees are considering the merits of buy-out vs run-on and which is the most applicable for their scheme. We identified this as a potential conflict when advising our clients and have taken action internally to clarify to our consultants how this conversation should be approached. It is vital that we remain impartial but inform clients of the viability of each option so that they can reach the most suitable decision for their scheme.

Assessment of our approach to managing conflicts

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

Through the decisions we've taken as to what we will and won't do, i.e. no Fiduciary Management, and no fund management, potential conflicts are quite limited.

Where we have identified conflicts, we believe these have been managed in a clear and robust way.

Principle 4: Promoting well-functioning markets

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

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

Market-wide risk management

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



Case study

Supporting clients through Credit Suisse's 2023 collapse

Background: Following the loss of market confidence in Credit Suisse in March 2023, and the subsequent acquisition of the bank by UBS, we set to provide clarity of the situation to our clients.

Action:

Specific actions that we took to help our clients through this period included:

- We uploaded information to XPS ID on the exposure of investment managers and their funds to Credit Suisse, thereby enabling consultants to update their clients on their exposure quickly.
- Held direct conversations with investment managers on the situation, to understand their planned response to the potential risks.
- Issuance of an Investment Briefing in March 2024 covering the issue. The Briefing explained the background to the situation and raised six key points for investors to consider.

Outcome: Clarity to our clients on a fast-moving situation on the possible risks and appropriate action to take as a result.

Risk modelling

We use proprietary software to design solutions that can be used to mitigate interest rate, inflation and longevity risk.

This is done alongside asset/liability modelling software with forward-looking views of investment returns, risk parameters and correlations to help our clients implement an investment strategy to help meet their target investment return and risk objectives. We also use scenario analysis and stress testing routinely as part of our modelling to ensure, as far as is possible, that the investment strategy is resilient against future market shocks. We have an embedded version of our user-friendly scenario modelling tool to our website, available to all clients and prospects free of charge together with our latest scenarios to help promote the importance of this analysis.

Our approach to advice is tailored and does not employ house views. This reduces the scope for central decisions and policies to have a systematic effect across all of our clients. We trust our consultants to apply the principles of our approach to each client's specific circumstances.

In addition, we have a dedicated risk modelling team who are responsible for development and upkeep of our internal modelling tools used within our Investment business.

Climate change

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

We have an internal **Climate and Environment solutions team** covering all aspects of our pension scheme advisory services. The team is focused on helping clients meet climate related regulatory requirements both from an investment, actuarial and covenant review perspective. The key activities undertaken in the year were:

- The team met regularly throughout the year to discuss research, latest developments and developing client advice;
- Continued to support client knowledge and understanding of climate risks through contributing XPS insights publications and client briefing notes
- Further developed liability modelling capabilities and provided expanded advice to clients on financial aspects of liability scenario analysis for DB schemes; while continuing to develop and expand our longevity modelling capabilities
- Further developed to XPS's client advisory capabilities on climate risk, by feeding into the development of new product lines to ensure climate aspects are considered, and feeding into discussions on the climate aspects of key pensions regulatory developments, and discussing client and consultant feedback on advice provided over the year
- Continued to develop our consultants' internal knowledge by providing ad hoc and formal training on the latest developments and thinking, regulatory requirements and strategic implications of climate modelling; producing internal technical bulletins on key developments, and providing a point of reference for client and consultant queries
- Fed into XPS's Professionalism Committee's work to ensure client advice complies with professional requirements, including assisting with compliance with new actuarial professional requirements to consider climate risks.

We have continued to utilise our **climate change risk dashboard**, which provides our clients with a clear insight into their climate change risk exposure. We have also appointed a **market leading climate change data provider**, to enhance the climate change risk analysis and reporting we are able to provide. More detail is provided under Principle 5.

Diversity and Inclusion

In 2023 we signed up to the Asset Owners Diversity Charter – this commits us to including diversity criteria in our manager selection and monitoring processes, as well as to share best practices and learn from others in the investment community. As such, we have embedded specific questions from the charter into our ESG and fund research process which will form part of our questionnaire in 2024 onwards.

In-depth manager research

We have a highly structured and disciplined approach to manager research at XPS. All members of our team have both research and client responsibilities and so are able to have informed conversations about our approach outlined below.

Our approach is deliberately designed to balance the broad and deep research our scale enables. Our process is focused on assessing investment managers against eight key factors, which we call the '7Ps and ESG', to ascertain their ability to manage market and systemic risk. These consist of:

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

Raising industry standards

A key aspect of our manager research is providing detailed bespoke feedback to managers on areas for improvement across the areas above, including ESG, so as to drive improvements in their processes and practices. This happens as part of new market searches but also on an ongoing basis during quarterly catchups with research teams. We are also asked to feed into discussions around development of new products, drawing on best practice we observe around the market. Our transparency and openness is often pinpointed as a differentiator to our peers by investment managers.

In 2023 we provided **bespoke feedback to 53 managers** involved in the ESG ratings review, and held face-to-face meetings with **6 managers** who either received a red rating or requested further detail in relation to this project.

The meetings help them understand our position and expectations with regards to the rating and provide a platform for future engagement to track progress.

In 2023, we published the results of our **fourth annual ESG fund rating review**. This transparency to the market is important for helping investment managers understand where their ratings sit relative to others as well as highlighting the broader market areas for improvement that they can act upon. Further detail on the results and comparison against 2022 is set out under Principle 5. A link to the full report can be found [here](#).



I think the feedback is outstanding, it has been sent to Brandywine's board to help improve our proposition. It could not be clearer, it is also fair and constructive. The process is also impressive and a leader in the ESG consultant research space.

Brandywine Global Investment Management – December 2023



Our detailed interactions with you over the last 12 months have demonstrated to us that you have a particularly well thought out approach to assessing ESG considerations for the clients that you advise. The technical knowledge demonstrated in our discussions has impressed us, while your annual ESG research exercise is distinctive and customised appropriately to get a real understanding of a manager's capabilities, recognising the important distinctions necessary in each specialist asset class that define where the bar should be set for best practice. In respect of your fund ESG ratings, the methodology that you employ to define priority areas for further research focuses your analysis where it really counts and is particularly comprehensive. In our experience, it sets a strong benchmark within the industry.

Insight Investment – December 2023

Engagement

In addition to providing direct feedback to managers regarding the outcome of our research view, we facilitate engagement between our clients and their investment managers in relation to ESG and stewardship.

For example, where the fund manager rating is not satisfactory, we will have a discussion with our clients regarding the next steps which may include; engagement/discussion with the manager, providing alternative fund recommendations or other appropriate steps which are all considered in the context of the wider scheme circumstances and objectives. Where an incumbent fund manager was assessed to be unsatisfactory in ESG terms, but good quality in other respects, we typically provided advice that engagement with the investment manager be the initial action, with a clear time period over which improvement be evidenced, typically 2 years. For those clients invested in funds rated Red on ESG we have been clear that this engagement with the manager is happening and will report back on progress observed through the 2024 ESG ratings exercise.



Case study

Improving an FM'S ESG rating through active engagement

Our **2023 annual ratings review for fiduciary managers**, which assessed how FM integrate ESG and sustainability considerations into their fiduciary management solutions, resulted in highlighting a **'red' rating** for one of the managers in our survey. This overall rating resulted from assessments of the FM'S **ESG Philosophy, Integration, Climate Change** and **Reporting**.

As part of XPS Investment's commitment to ESG, we do not recommend any manager with an overall red rating for ESG. However, rather than avoiding those managers who don't meet our criteria, we have engaged with them so we can facilitate improvements across the industry.

Through our feedback and subsequent discussions, we were able to identify areas where they could demonstrate improvements to the application of ESG within their FM solution. Subsequently, the FM made a number of changes linked to our Philosophy and Reporting criteria, resulting in a **revised overall rating of 'amber'**.



Always very transparent, the quality and transparency of the feedback we get from Andre and his team is far superior to other consultants. Always very fair, and always helpful – genuinely wanting to make improvements across the market for the benefit of clients. White papers and reports are frequent and comprehensive, always interesting and useful.

Fiduciary Manager



Case study

XPS engaging with managers on ESG Ratings

Background: As part of our 2023 ESG ratings exercise, we downgraded the ratings for a series of funds managed by an investment manager we have significant client exposure to. The reason for the downgrades was that the ESG RFI response did not provide sufficient detail as to how the firm collaborates with industry participants, their internal diversity and inclusion policies or how ESG integration and stewardship are conducted at the fund-level. This deterioration was surprising and the downgrades meant we could no longer recommend the funds to our clients and we also alerted current clients invested with the manager of the downgrade in rating.

Action: We provided extensive feedback to the investment manager explaining the reasons why a downgrade had been required and offered to work with the investment manager to clarify the practices they follow and work through any difficulties they had with responding to our questionnaire. The manager was keen to work with us and we hosted a call to work together on the issue, during this call it became clear a poorly completed submission was the likely reason for the Red rating, rather than a sub-standard approach. As an exception given the importance to our clients, we agreed to the investment manager re-submitting their RFI response and having it re marked.

Outcome: Following the call and re-submission, we gained a greater understanding of the processes the investment manager follows and were able to reassure our clients that the manager's initial response was an inaccurate representation of their capability. We explained why we acted with initial caution but that we were able to gain comfort that the prior Amber rating could be re-instated.

Avoiding speculative holdings

Given the long-term time horizon of our investors, we avoid advising schemes to take tactical asset allocation positions as we believe market timing is notoriously difficult to get right and getting it wrong can have significant financial implications for our clients. We do note some managers will take positions under their objectives, but we have full sight of these and assess their credibility to do so in our manager research.

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

Use of technology

We recognise that there may be situations which require swift action and using our proprietary software, Radar, we are able to provide our clients real time information on their scheme's funding position and risk based on market movements. This enables us to be proactive in helping our clients navigate periods of market stress and staying on track to achieve their long-term objectives. Some clients also have direct access to our database ID, which ensures they receive immediate notification of updates affecting their managers or funds.

Cost control

We avoid high turnover solutions and focus on providing cost transparency to our clients. This involves close scrutiny of fee arrangements of funds that we research, combined with a targeted approach of seeking justification for any and all fees charged by fund managers, as well as applying competitive tension into discussion around fund manager costs on behalf of our clients. We supplement this with assessment of turnover and transaction costs as an integral part of our research, as set out in Principle 2.

Thought leadership

Our investment team provide a breadth of research covering the key issues. We produce a series of bulletins and host seminars and conferences that capture the latest investment market developments and technical issues. In 2023 this included pieces on the finalised UK Sustainability Disclosure requirements and fund labelling regime, and an our second annual summary of TCFD reports of large pension schemes. Please see Principle 5 for further detail on our ESG thought pieces in the year.

Working with wider stakeholders and industry collaboration

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

Investment Consultants Sustainability Working Group

In our role as a member of the Investment Consultants Sustainability Working Group (ICSWG), our Head of ESG research attends the Steering Committee and is a member of the Asset Owners workstream. In 2022 we completed a self-assessment against the ICSWG climate change competency framework, which confirmed that we have the tools and capability to meet the criteria therein. We have communicated our credentials against the criteria to a number of clients as part of their governance framework to ensure climate change is appropriately considered by all their advisers.

In Feb 2023 a **sub-working group of the ICSWG** was set up to review and form a collective view on reporting carbon emissions for sovereign bonds, which our Head of ESG continues to lead.

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

Net Zero Investment Consultant Initiative

In 2023 we were confirmed as a member of the Net Zero Investment Consultant Initiative. This entails 9 Principles; 8 relating to our advisory service and 1 in relation to our Group operations. In 2024 we will provide our first self assessment report to the UN PRI as secretariat of the Initiative, and we will relay the key comments in our 2024 Stewardship Report.

We are confident that our Responsible Investment Policy and Firm level net zero strategy is consistent with the aims of the Initiative.

UN PRI

We are a signatory to the **UN PRI**, and our responsible investment policy and ESG research framework reflect the 6 principles.

Pensions for Purpose

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

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

We have published our thought leadership from 2023 on their dashboard:

- ESG Fund rating review 2023.
- Net Zero targets are common but many lack a clear strategy.

Impact Investing Institute

The Impact Investing Institute has developed principles to accelerate the growth and improve the effectiveness of the impact investing market. In July 2023 we completed our second self-assessment against their new framework. We did not receive individual feedback on our first self-assessment, however Pensions for Purpose produced a summary report, providing their views on the market taking into account all self-assessments, which we have reflected on when developing our approach. In summary, our self-assessment in 2023 covered the following:

- Our governance structure (described in Principle 1) ensures impact is routinely included as a key topic for consideration in our advice and research framework. Our framework for advising clients (including our beliefs survey) ensure schemes understand where impact investing sits on the spectrum of investment capital, and how schemes can have impact when investing. Our range of sustainable funds, including our new Impact funds in particular, offer solutions to those schemes looking to have impact (for example on climate change or against the SDGs).
- Our ESG and carbon dashboard reporting (described in detail in Principle 5) help clients review the ESG impacts of their portfolio, from a process and outcome perspective. We annually undertake ESG research in relation to over 300 clients, collecting data on carbon emissions and other sustainability indicators and provide this to clients in a cost effective way. We commented on the appointment of a specialist climate data provider to support those schemes looking to measure their impact on terms of improvement in climate metrics or contribution to low carbon solutions.
- The creation of our Impact Designation was a clear result of our intention to embed impact further into our advice and research, and our desire to be able to clearly define impact investing for our clients – where there is much debate in the industry around what actually constitutes impact investing.
- We also described the work done in the year to proactively take Net Zero to clients, in line with our new membership of the Net Zero Investment Consultant Initiative.

Promoting awareness of the UK Stewardship Code

As previously reported last year, following updates to the list of signatories to the Code we notify our clients to inform them whether their investment managers have successfully become signatories or not. We seek to do this as soon as possible after release of the updated signatory list to ensure our clients are as well informed as possible, and for the most recent update (February 2024) we issued notification on the same day as the FRC's release. As part of our Responsible Investment framework issued to all clients, we also raised the potential for clients to sign up to the Code themselves.

We contacted those managers who were not successful to understand why and reiterated the importance of being a signatory of the Code as part of our ESG ratings process. We have a threshold that those managers who are not signatories to the 2020 Code cannot be given our Sustainable Designation.

Consultations

We actively participate in consultations in the interest of supporting our clients and wider stakeholders. During the reporting period XPS actively participated in **27 consultations** in total, demonstrating our commitment to supporting well-functioning markets, including the **following focussing on ESG and stewardship**:

- FCA consultation on Sustainability Disclosure Requirements (SDR) and investment labels (CP22/20) – Jan 2023.
- TPT consultation on climate disclosure framework & implementation guidance – Feb 2023.
- FCA consultation on Discussion Paper DP23/1: Finance for Positive Sustainable Change – May 2023.
- HM Treasury consultation on future regulatory regime for ESG ratings providers – June 2023.
- Consultation by DWP's Taskforce on Social Factors on new guide for trustees on what social factors to consider when making pension scheme investments – Dec 2023.
- FCA consultation CP23/20 on Diversity and Inclusion in the financial sector – Dec 2023.

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

We are clear that our priority is to **encourage our clients to focus on longer term outcomes** rather than knee jerk reactions – this is suitable in the vast majority of cases.

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

Our **feedback process to managers** on their ratings, bolstered by our publication of a summary report of all ratings, seeks to drive an improvement in policies and practices across the market.

By evaluating the overall trend in ratings from year to year we can form a view on the effectiveness of our feedback to managers. From 2022 to 2023 we saw an **increase in overall Green ESG ratings, up from 24% to 36%. We also observed an increase in the proportion of our assets under advice rated Green for ESG increase from 36% in 2022 to 47% in 2023, with 18% of our clients are invested solely in funds Green rated for ESG compared to just 2% a year earlier.** We believe this is both a function of our work with investment managers to ensure our feedback is clear, helpful and pushing towards higher standards, and the work we do with our clients to educate them on the importance of ESG and how they can better reflect their beliefs across their portfolios

We continue to see **examples for specific managers of improvement in overall rating or sub-rating** – we are encouraged by this and believe that our ongoing efforts to assess managers and engage with feedback will drive further improvements across the board.

As explained further in Principle 5 we have received good feedback from managers on our research approach, including comments that our breadth and depth of granular feedback is ahead of the market – in this way we remain confident that our process adds value to the industry and ultimately our clients who benefit from the higher standards this generates.

Through being proactive with items such as our agenda items on setting stewardship priorities, we are being helpful in identifying where clients can improve their approach, with solutions on hand for those clients who wish to improve. We will continue to look for innovative, cost-effective and scalable ways of helping our clients like this.

We recognise the importance of wider industry collaboration as a means of driving improved outcomes across the industry, and continually look for appropriate ways we can engage.

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

Our overall client base totals approximately **£104bn of Assets Under Advice** as at 31 December 2023. All clients are institutional and are UK based.

Investment client base breakdown by service

Service	
UK DB Trustee	258
UK DB Corporate	20
UK DC	42
UK FM Oversight	47
Charities / Endowment	5

How our services best support clients' stewardship

Helping clients develop their approach

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

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

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

This has been well received by clients, help them better understand their collective views on ESG and sustainability and providing a powerful tool for aiding a productive discussion and unearthing views from the whole trustee board.

The table below sets out a summary of the results of the beliefs survey across 2021, 2022 and 2023. The number of respondents has naturally fallen as the majority of our client base had undertaken the review in 2021. However, the results continue to indicate that the vast majority believe ESG and climate change represent material financial risks, but that their current policies do not reflect this. By establishing ESG beliefs in this way clients are able to develop bespoke ESG and stewardship policies, covering their approach towards ESG integration, managing climate change risk, and stewardship.

	2021	2022	2023
Number of survey responses	299	43	39
Agree ESG and climate change represented material financial risks	84%	72%	90%
Agree current approach reflects beliefs	43%	30%	46%

We anticipate running this survey for each client every 2 or 3 years, aligned to wider investment strategy review discussions, at which point the results will present a true like for like comparison and we can assess whether more clients feel their approach is aligned to their beliefs.

In October 2023 we took an agenda item to all our clients specifically on stewardship, providing an assessment of their current stewardship approach (from minimum compliance through to market leading) and therefore indicating the various ways they could enhance their approach. We emphasised the importance of this even when investing through pooled fund arrangements, as part of contributing to collective weight of engagement through managers to underlying companies on sustainability issues. One of the specific recommendations was to adopt **scheme-specific stewardship priorities** – entailing a list of ESG topics which would be communicated to the clients' investment managers, with monitoring of whether suitable engagement had been undertaken.



Case study

Enhancing a client's stewardship approach

Background: A small pension scheme client wished go further with their stewardship approach and introduce bespoke engagement priorities to better manage ESG risks within their investment management process.

Action: We took a detailed piece of advice to the Trustee, setting out the long list of possible ESG topics which could constitute engagement priorities. We recommended a subset which were focused on systematic issues which would be relevant for all companies, and therefore be most appropriate to communicate with their pooled investment managers. The scheme concluded the following would be adopted as their engagement: climate change, natural resources (biodiversity and water), Human and Labour rights, Diversity and Inclusion, Executive Remuneration.

Outcome: The scheme has now set specific priorities for engagement and has communicated these with their managers, The Trustee will now monitor evidence of engagement on those issues annually to ensure that sufficient engagement is taking place on their behalf. This provides a useful mechanism for engagement with the managers and reinforces the importance of the managers undertaking effective engagement for their pooled fund clients.

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Thought leadership and webinars

Taking advantage of our scale and the commonality of issues across the pension industry, we routinely provide clients with ongoing tailored pieces of advice on topical matters at no extra charge. During 2023 we provided 8 pieces of such advice including a pack outlining why we think it's important for Trustees to obtain **reporting on their exposure to climate risks and opportunities and the merits of climate scenario analysis**, as well as another piece explaining **TPR best practice in relation to LDI post the gilts crisis** with a list of actions Trustees should ensure are fulfilled.

We issued **38 investment briefing notes and reports** to help pension scheme trustees and sponsors, over **27 more** than in 2022. Within this, we produced **8 thought leadership papers specifically on ESG** matters including:

- Biodiversity – implications for investment decision making (May 23)
- ESG assessment of XPS's client funds (Aug 2023)
- How well fiduciary managers are addressing pension schemes' ESG requirements (Sept 2023).
- Investment Fund ESG Ratings Review 2023 (Oct 2023)
- New TNFD framework for assessing biodiversity risks and opportunities (Oct 2023).
- FCA finalises UK Sustainability Disclosure Requirements and adds a fourth sustainability label (Dec 2023)
- Net zero targets are common, but many lack a clear strategy (Dec 2023) – research and summary of large scheme TCFD reports
- COP28 makes an historic first step in transitioning away from fossil fuels but avoids commitment to phase out (Dec 2023)

This was alongside our **12 monthly investment market updates** with corresponding videos. We issued many others on wider topics, all aimed at supporting our clients understand various issues affecting the security of their schemes.

We hosted **24 webinars and training events** during the year on a range of topics, with over **7,000 registrations** (an increase of over 15% on the previous year). Feedback was consistently very high.

In 2023 we developed our ESG module on XPSArena, our knowledge hub to keep pension scheme trustees and employers up to date with regulatory and governance developments. There were over 12,000 views of XPSArena pages in 2023, an increase of 19% on 2022.

In 2023 we participated in numerous external events specifically focused on sustainability, including the following:

- Roundtable between investment consultants and investment managers on ESG in fixed income with discussions in relation to the regulatory environment and the risk of greenwashing
- Roundtable on biodiversity within investment markets, discussing how investors particularly in listed markets can measure and manage key risks and take advantage of opportunities.
- Speaker at conference covering social housing and the role it can play in a pension scheme's portfolio
- Roundtable between investment consultants and investment managers to draw attention to the 'Social' element of ESG and how it is often underappreciated by stakeholders.

Research approach

We assess investment managers using detailed ESG questionnaires that comprises 77 targeted questions covering 5 key ESG aspects, alongside face-to-face meetings as required. The 5 key aspects are:

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

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

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

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

Our ESG monitoring process

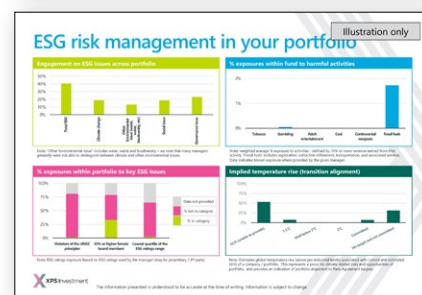
In addition to our established approach to researching new funds, which has been in place since 2018, we conduct a comprehensive review of our clients existing holdings from an ESG perspective each year. Investment managers' policies and practices are evolving rapidly in this space and this annual review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

We made several changes to the questions and scoring in 2022 and therefore in 2023 we issued a largely similar questionnaire to investment managers.

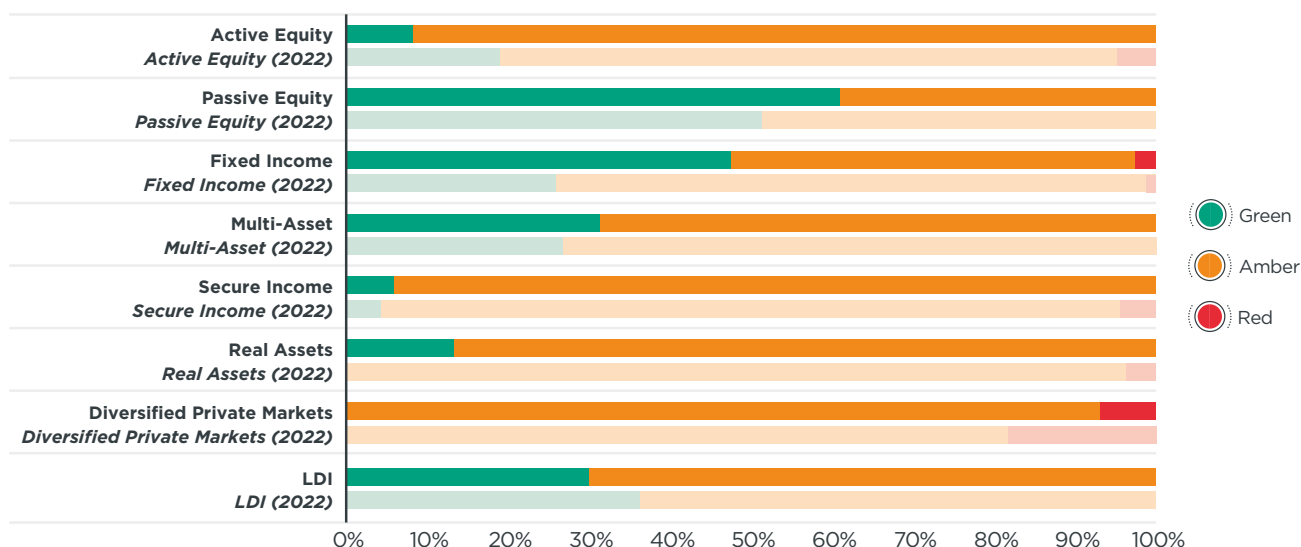
In 2023 we **assessed 227 individual funds** across **53 different investment managers** that our clients were invested with. Our analysis indicates an improvement in the ability of investment managers to incorporate ESG, climate change and stewardship as part of their processes compared to prior years' (**36% of funds achieved an Overall Green rating** vs 24% and 23% in 2022 and 2021, respectively). It remains the case that the majority of funds receive an Amber, which indicates acceptable integration of ESG but where more could be done across the sub-areas – we're clear that Green ratings should be reserved for only the most comprehensive and robust managers in this space.

For the first time we also conducted a review of our client base, finding that the **proportion of assets under advisement rated Green for ESG had increased from 36% to 47%.**

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



Overall XPS ESG ratings for 2023 by asset class (compared with 2022)



Source: XPS Investment

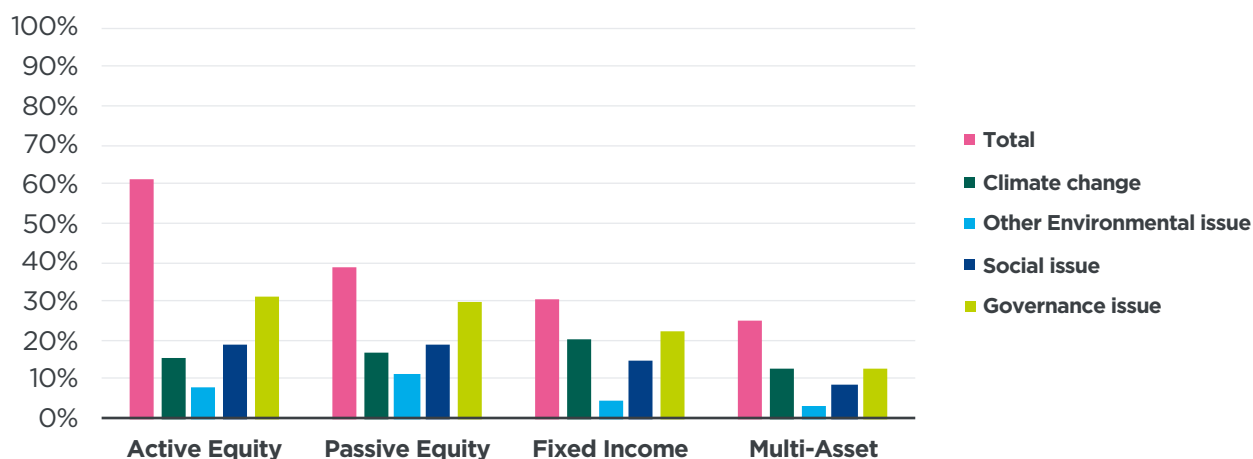
We believe the improvement in Overall Green ratings is a function of the ongoing dialogue we, and other investors / asset owners, are having with investment managers to reinforce the importance of embedding ESG.

In addition, as noted above, one of the five aspects of our review is stewardship and this sub-rating captures the quality of a fund's engagement and voting activity. The proportion of funds achieving a Green rating for stewardship increased to 27% (2022: 22%).

We found that active equity managers had the most prevalent engagement activity (61% of holdings had been engaged with on at least one ESG issue), whereas multi-asset funds reported the lowest level of engagement on ESG issues with only 25% of holdings having been engaged with. We continue to see that managers of alternative asset classes had the fewest engagement activity.

Of the engagements which are taking place, governance issues are being addressed more so than environmental or social issues. This is the case across each of the asset classes we have data available.

Average proportion of holdings engaged with on ESG issues



Source: XPS Investment. Please note, managers in real assets, secure income and diversified private markets provided weak responses, hence have not been included.

The full summary of our ESG ratings report for 2023 can be found [here](#).

Carbon footprint monitoring and developing climate strategy

We collect carbon data where it is available across the 227 funds analysed in our ESG ratings exercise and provide our **carbon dashboard** annually to clients along with our ESG ratings report. The dashboard provides a summary of exposure to climate change risk within the current investments vs peer group of funds and fund benchmarks. We have found this to be a useful tool in prompting discussion with investment managers around plans to reduce emissions or increase their investment in companies with well-defined climate transition plans.

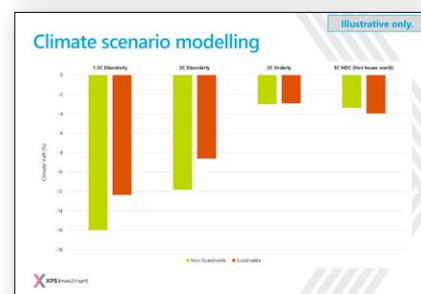
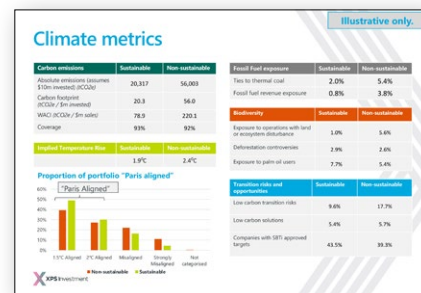
We continue to see the availability of carbon data vary significantly by asset class, with passive equity and fixed income indicating the highest ability to report at over 90%. We reported last year on the work needed to improve availability of carbon data across other asset classes and our results indicate that the industry has moved forwards - there was a 22% and 24% increase in the proportion of multi-asset funds and diversified private markets funds which could report carbon data, respectively. In addition, average coverage for such carbon data has also improved across unlisted asset classes with a 46% increase in coverage for real assets for example, although coverage fell slightly across listed equity and fixed income.

It remains critical that investment managers continue to invest their time into ensuring they can supply meaningful carbon data as such data plays a critical part in ensuring pension scheme trustees can assess their climate risk exposure and take necessary action. Full details of our analysis of climate risk reporting capability of fund managers can be found in our ESG Fund Rating Review 2023.

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

We reported last year on our appointment of a **market leading climate data provider to enhance our client reporting on climate change risks**. We have used this effectively this year to provide comprehensive reporting on carbon emissions, as well as forward looking climate transition alignment indicators such as implied temperature rise, exposure to physical risk, and green technology within a given portfolio. The tool also allows us to stress test portfolios to understand resilience to future climate scenarios. We are encouraging all our clients to undertake this sophisticated climate analysis. In particular we have used the tool to support those clients undertaking TCFD climate reporting. A key benefit of this analysis is providing our clients a platform to engage with their managers on key sources of risk and opportunity.

Linked to the growing work we are doing helping clients understand their climate risk exposure, we are helping a number of clients set climate policies, including carbon reduction targets aligned with Net Zero by 2050.



Case study

Developing a market leading climate strategy

Background: Last year we reported on a client with a significant UK profile and links to the UK government who was establishing a net zero strategy which better aligned with their ambitions. During the year since, XPS has been assisting the client with implementing their strategy.

Action: After designing a comprehensive framework for implementing the net zero strategy, we worked with the investment managers to embed the client's strategy into the investment guidelines. A specific requirement from the client was that the net zero target should not be abandoned if it becomes incompatible with the 'traditional' objectives of the mandates (i.e. the net zero target should not be surrendered in favour of other objectives) so XPS worked with the investment managers to agree wording to capture this as part of the guidelines. In addition, XPS wrote into the guidelines the carbon emissions reduction schedule which is to be targeted year-by-year.

Outcome: The client has now implemented their net zero strategy into their mandates and has a clear understanding of how the emissions profile should change over time. In addition, the client is clear how this will be managed alongside other objectives and how this new strategy is driving the investment managers', and the client's own, investment decisions.

XPS Sustainable and Impact Designation and promoting sustainability

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

- Involve portfolio construction tilted towards sustainable practices and/or away from unsustainable practices, which may include an explicit sustainable objective.
- High degree of ESG integration into decision making reflected in an XPS Green rating for ESG.
- Strong active ownership – including a minimum requirement to be a signatory of the 2020 UK Stewardship Code.
- UNPRI fund score of at least 4*.
- Exclude UN recognised unacceptable practices.

We have a central ambition to see take up of sustainable solutions increase. The key ways we look to achieve this are through ongoing training and education and by ensuring we have solutions available to deliver a client's broader objectives as well as providing positive sustainability outcomes.

In 2023 we continued with our whole-of-market searches on sustainable funds concluding our search for sustainable investment grade corporate bonds. Overall we increased the number of sustainable funds by 5 during the year and now have a total of **39 sustainable funds** across all major asset classes.

We are committed to taking these sustainable options to our clients when they undertake manager selection exercises. The table below indicates the extent to which we have taken sustainable funds to our clients in manager selection exercises, and the proportion where a sustainable fund was ultimately selected by the trustee.

	2021	2022	2023
% manager selection exercises where a sustainable fund was included	8%	25%	10%
% manager selection exercises where a sustainable fund was selected	8%	21%	10%

During 2023 we introduced a new **Impact designation**; this is a label we award to funds which meet the criteria of our Sustainable Designation above, but which go further and have explicit measurable targets non-financial metrics for each underlying investment. These metrics will often be aligned to delivering the UN Sustainability Goals. The label will help our clients who want to make a meaningful, tangible difference to the real world with their investments. **We have approved 3 funds for the Impact Designation**, and plan to go to market in 2024 to identify and rate more funds that meet the criteria.



Case study

Incorporating sustainability into a client's strategy

Background: A client whose Sponsor is a long-standing national charitable organisation had a strong belief that their assets should be invested in a manner which places upmost importance on ESG and sustainability. To ensure this was enacted, the client adopted a policy which required that all future investment manager appointments must be Green-rated for ESG and have been awarded XPS's Sustainable Designation.

Action: XPS conducted a full review of the client's investment manager appointments with the intention of establishing which asset classes there was scope to improve alignment with the client's beliefs. From this it was determined that the multi-asset allocation should be re-considered, with XPS then asked to conduct a full market search for sustainable multi-asset funds. This led to the client appointing a new investment manager to replace a portion of the multi-asset allocation. This manager had a strong focus on providing significant sustainable equity exposure within their multi-asset fund. The client appreciates the active approach this manager takes and actively engages with the case studies the investment manager shares. In addition, for the remaining portion of the multi-asset allocation, the client switched into a sustainable multi-asset fund offered by the same investment manager already running this remaining portion. The client had been pleased with how the manager and fund had served them to date but felt the additional sustainability characteristics of the alternative fund best met their objectives. XPS facilitated this transition and, through careful planning, reduced trading costs by crossing as many of the trades as possible.

Outcome: This client now invests the entirety of their growth assets in sustainable funds and has therefore taken a significant step in aligning their strategy with their beliefs, which the client is pleased with. Going forward the client is set to also consider whether sustainable funds could play a role in the remainder of their portfolio.



Case study

Proactivity with sustainable alternatives in manager selection

Background: In Q2 2023, a client was informed by one of their investment managers of the closure of the passive equity funds in which they were invested. This necessitated a review of the Scheme's passive equity allocation, and XPS suggested that this presented an opportunity to incorporate further sustainability into their investment strategy.

Action: We provided training and explanation that climate risks were risks that the scheme should increasingly look to mitigate. Using XPS's market wide search of passive equity funds which incorporate sustainability, we were able to explain the various options within sustainable passive that would be suitable for the Scheme to consider as possible replacements for the current equity funds. We were able to present the trustees with a number of solutions which took into account both tilting towards stronger ESG performers and those companies most aligned to the climate transition.

Outcome: The Trustees agreed with the XPS suggestion to incorporate sustainability and after completing the selection process, transitioned to a new climate aware world equity fund with their existing manager. The new fund looks to capture climate risk through mitigation and will increase or decrease exposure to companies based upon their expected contributions to climate change, as well as having strong climate focused voting engagement. The scheme subsequently now holds a significant proportion of its growth assets in climate aware sustainable world equity funds and the exercise has raised the profile of these considerations amongst the Trustees, prompting further discussions.

Methods and frequency of communication with clients

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

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

- **Quarterly investment meetings:** Our consultants meet with the majority of our trustee boards on a quarterly basis. Increasingly ESG is a standing agenda item, which may be to discuss the ESG ratings report, an ESG training session, deeper discussion on the development of a bespoke RI policy or implementation of a sustainable fund. We do recognise (in line with the feedback we have received from clients as described below) that clients have varying degrees of interest in these issues, and therefore the same approach cannot be taken for all schemes.

In this forum we increasingly include standard agenda items for all our clients on ESG matters, including the Responsible Investment Framework this year, as a prompt to all our clients for them to consider enhancing their approach.
- **ESG ratings reports and carbon dashboard:** Provided to trustee meetings usually on an annual basis in line with the annual review of fund ESG ratings. Ratings are then discussed through the year and of course any changes during the year will be flagged. We believe that communicating formal ratings on an annual basis is appropriate to reflect the pace of change in policies and practices.
- **Ad hoc meetings with investment managers:** As a matter of good stewardship we actively encourage trustees to speak to managers about ESG and other investment issues. These meetings are very effective and bring ESG and climate change issues to life for trustee groups – particularly as an opportunity to challenge managers on examples to substantiate the approaches they describe. For the most part this happens on an ad hoc basis at the moment, but we believe engagement will become more frequent and regular.

We have summarised how integral ESG and sustainability were to the conversations:

	2021	2022	2023
Total number of meetings held with asset managers	288	334	434
Meetings which directly noted a focus on ESG or sustainability	60 (21%)	62 (19%)	120 (28%)

- **XPS Arena:** An online portal launched in 2021 for any trustee to use anytime which provides access to training and other market updates. We have a standalone ESG section on the platform which was developed in 2023 and is an effective way of driving engagement in ESG and climate change issues outside of the above approaches. There were over 12,000 views of XPSArena pages in 2023, an increase of 19% on 2022.

Feedback from our clients

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

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

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

XPS Group also undertakes a periodic **Client Satisfaction Survey**, covering aspects such as timeliness, competence, clarity of communication, helpfulness and pro-activity. **Over 219 clients** responded to our most recent survey (completed in 2022) and overall the feedback was very positive. In particular we noted over **75% of clients** were '**very satisfied**' or better with our services, and 24% indicated they had in increased focus on 'responsible investing and ESG factors in decision making'. We will be running the survey again in April 2024.

We collate detailed feedback via the **Greenwich Associates survey**. This year we received evaluations from 10 clients and the assessment is given particular focus at the Investment Committee level. We proactively encourage clients to participate in this survey with a charitable donation offered in exchange for their participation.

Our clients are required by the Competition and Markets Authority to set us **investment adviser objectives** against which we will be assessed on an annual basis. Whilst not a strict requirement we actively encourage clients to assess us annually, which we support by providing a template scorecard based on the TPR guide which includes an evaluation on ESG and stewardship and how we have helped our clients achieve their wider objectives. 58 of our clients shared their assessments with us with clients scoring us 87/100 on average overall.

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

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

Based on direct feedback from the most recent Client Satisfaction Survey (24% wanting more focus on ESG) and also our view of the shifting sentiment from our clients on areas of focus for them, specific developments in the year included:

- As already noted, taking an agenda item to all our clients specifically on stewardship, providing an assessment of their current stewardship approach and therefore indicating the various ways they could enhance their approach.
- Increased functionality within our internal database XPS ID to allow us to undertake more of our ESG research on the platform, increasing our efficiency. This ensures clients can be provided with our research in a more timely manner and benefit from economies of scale.
- Following the appointment last year of a dedicated specialist climate data provider to ensure we can deliver market leading climate change resiliency risk analysis, took an agenda item to our clients highlighting how reporting on their exposure to climate risks and opportunities can be beneficial to them.

Effectiveness of how we have supported clients with stewardship

Our minimum ESG criteria within our fund ratings continues to ensure ESG integration and stewardship are embedded in all of our advice. We are clear with managers that we want to see evidence of engagement taking place within the mandate specifically (rather than at firm level), and hence had scored some managers poorly.

We believe the constant evolution we've shown in terms of enhancing our carbon dashboard over time, and the recent appointment of a specialist climate data provider demonstrates commitment to ensuring our clients have a good understanding of their investments from ESG and sustainability perspective. Furthermore, the proactivity we have demonstrated in terms of bringing advice on setting scheme specific stewardship priorities, and thought leadership on embedding biodiversity considerations into investment strategy, or on regulatory updates around COP 28 and SDR and the finalised fund labelling, helps our clients ensure robust stewardship of their investments.

We have continued to see sustainable funds included as part of manager selection exercises, and also see exercises which are solely focused on selecting a sustainable fund (as opposed to including such a fund against a line-up of 'non-sustainable' options). We continue to believe our focus going forward should be on educating and supporting our clients to bring solutions to them which enhance long term outcomes for their members.

We note a decrease in the proportion of fund selection exercises where a sustainable fund has been included. Our focus going forward will be on continued education and support for our clients to bring solutions to them which enhance long term outcomes for their members. The table below summarises the take-up of sustainable funds across our overall client holdings:

	31 March 2022	31 Dec 2022	31 Dec 2023
% Assets under Advice in sustainable funds (DB and DC Trustee only)	3%	6%	9%
Number of clients in sustainable funds	19	23	36
Average weighting of sustainable funds in portfolios (weighted by assets)	28%	34%	25%

Principle 6: Review and assurance

Internal and external review and assurance of our policies and activities

Internal assurance

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

Our research function is overseen by our **CIO**, our **Head of Manager Research** and **Investment Committee**, which comprises the most senior members of our investment practice.

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

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

In terms of assuring wider credibility of our people providing these and other services to clients, XPS Investment certifies 46 staff to carry out FCA regulated work covering **Investment**, **Group Risk**, and **Risk Transfer** work. As part of that certification XPS Investment carries out annual, comprehensive checks on staff fitness and propriety, staff competency, and provides training on the **Senior Management and Certification Regime (SMCR)**, including **Conduct Rules** and **non-financial misconduct**.

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

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

In terms of our advice and services, our Risk & Compliance team do spot checks from time to time of certain advice. Furthermore, various aspects of our Group policies and procedures are audited annually to ensure they're robust and represent best practice. In 2023 the audit was not related to investment matters. At a Group level, we retained our certification in relation to ISO27001 audits and Cyber Essential Plus; independent audits of our controls that protect the Group, our clients and end members.

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

Client feedback

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

3rd Party Feedback

Whilst we did not receive bespoke feedback from the FRC in respect of our submission in April 2023, we have considered the summary report of all submissions from the FRC outlining best practice indicators and sought to enhance our approach accordingly. The resulting actions and development of our approach in response is reflected in this submission, noting that we pursue continual improvement.

We have participated in numerous round table discussions and forums to promote improving market practices.

Our participation of the Investment Consultants Sustainable Working Group and now Net Zero Investment Consultants Initiative provides a peer group comparison of our activities to help us benchmark our offering.

We also support the Impact Institute Principles for Investment and consider our policies and practices against the 4 principles on an ongoing basis. We have not received specific feedback on self-assessment against the 4 principles in 2023, but a broader piece of feedback was provided by the institute to investment consultants generally. Our ambition to meet the principles in a more compelling way supported the decision to appoint and commission an expert climate change data provider.

As a signatory to the Net Zero Investment Consultant Initiative we will also complete our first reporting against the principles in 2024.

Fund Manager Feedback

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

We show a summary of the feedback in relation to our overall research and ESG below:

	Quality of our research	Technical understanding	Professionalism	Clarity of communication	ESG
Average (score out of 10)	8	9	10	9	8
Number of respondents	52	56	62	62	81

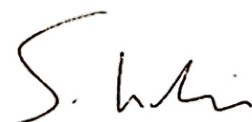
Additional detailed comments were provided by **25 respondents on ESG**. All feedback was reviewed by our **CIO** and **Head of Manager Research** who responded to all managers and collated a short list of actions in response.

Outside of our usual research agenda, we have scheduled **calls with all 67 respondents** to our survey. This call will be 30 minutes long and will be attended by our **CIO** and **Head of Manager Research**.

Driven by a desire to be more transparent, and building upon previous years where we securely emailed managers with information about XPS's ratings of their funds, this year we gave investment managers access to XPS ID. Investment managers can log-in at any time to view XPS research information on their funds including overall rating and sub-ratings, ESG rating, sustainable designation and whether the fund is actively promoted to clients. Access was given to around 500 fund manager contacts across all managers that are on our database.

How the feedback received ensures continuous progress

We believe this combination of internal and external review provides a comprehensive assessment of our policies and practices. Our client feedback indicated that clients are very satisfied with the services we provide, with clients scoring us **87/100 overall** as part of feedback following the Investment Consultant Objectives review and our feedback from managers (as above) is strong. Off the back of these results, we have conversations with our clients and managers, and use input from the industry groups we're part of in order to continue to enhance the approach we take. On balance, we believe our approach towards stewardship is fair, balanced and understandable.

Signed: 

Print name: Simeon Willis, Chief Investment Officer

Date: 30 April 2024



Appendix 1

Conflicts of Interest Policy

Conflicts of Interest

1. Background

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

2. Why is this important?

- 2.1 There are a number of reasons why we have a conflicts policy, including professional body requirements and regulatory expectations.
- 2.2 A conflict could impair our objectivity when providing services and also create an unfair competitive advantage. A client may also have a perception of a conflict that we need to recognise.

3. What's our policy on conflicts?

- 3.1 We will always act in the best interests of our clients and treat them fairly. Our values incorporate how we should act: **we do the right thing.**
- 3.2 That means we'll take all reasonable steps to prevent conflicts occurring or mitigate/manage any conflicts we identify.
- 3.3 All staff must follow our detailed conflicts policy and, if they become aware of situations which may give rise to a conflict, must report it to their line manager or the Lead Consultant who will then consider what action to take.

4. What's a conflict of interest?

- 4.1 Whilst it's not possible to list all types of conflict, they can be generally defined as where our responsibility to a client conflicts, or could be seen to conflict, with the interests of a staff member (**personal conflict**), XPS (**employer conflict**) or another XPS client's interests (**client conflict**).
- 4.2 There are many different types of conflict that can arise and our policy is regularly reviewed and updated for current types of conflicts and issues. These include where we are asked to work on projects for an existing client, working for a listed client, providing a range of services that could in themselves lead to a conflict and personal conflicts (for example when acting as an appointed Scheme Actuary).
- 4.3 Where conflicts cannot be managed in a proportionate manner even after discussion with our client we will consider ceasing to provide services. In this instance, support and guidance can be obtained from the Compliance team.

5. Conflict checks

- 5.1 Conflict checks are carried out either when a new business lead is received or as part of our client take on process.
- 5.2 We also carry out a fresh conflict check if something significant changes such as a material change in the services we provide, M&A activity or changes in corporate structures.
- 5.3 The process for carrying out a conflict check is detailed in our Compliance policy.

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6. Actuarial conflicts

- 6.1 Our conflicts policy also details the professional requirements for members of the Institute & Faculty of Actuaries (IFoA) and includes guidance on implementing a Conflicts Management Plan" (in line with the term used in the Actuarial Profession Standard (APS) P1. Guidance is also provided by our Professionalism Committee and our Compliance team.

7. Conflicts management

- 7.1 A conflict does not automatically mean we must cease to act. Our conflicts policy details examples of the actions that could be taken although these will depend on the nature and extent of the conflict.
- 7.2 We always disclose actual conflicts to conflicted clients in writing, together with details of the risks and the actions taken to manage the conflict. Our explanation is always in enough detail to allow clients to make an informed decision. Clients must consent in writing to our controls.
- 7.3 Any XPS staff working on conflicted clients should be made aware of the agreed measures in writing and should confirm they will comply with those measures.

8. Other instances where conflicts can arise

- 8.1 These are covered by other policies and hence not covered here but they are available to all staff on the intranet. These include:
- > Insider trading
 - > Financial crime
 - > Bribery and gifts
 - > Signing authorities

9. Records

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

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About us

XPS Pensions Group is a leading independent pensions consulting and administration business fully focused on UK pension schemes. XPS combines expertise, insight and technology to address the needs of over 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over one million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 81 with assets over £1bn.

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