Final Report | March 2024

Considering Social Factors in Pension Scheme Investments:

Case studies

Taskforce on Social Factors: Case studies

CASE STUDY 1

ENGAGING ON SOCIAL ISSUES IN 2023 PROXY VOTING SEASON

Objective:

Shareholder engagement and voting provides an important accountability mechanism for investors to support and challenge investee companies. Aegon expect our appointed asset managers to support greater transparency and progress by companies on human rights and diversity and inclusion when engaging and voting on our behalf.

Action:

For the 2023 AGM season, as part of our 'expression of wish' (EOW) approach, we called on our principal appointed asset managers to support select shareholder proposals on social topics, relevant to our most material company holdings and priority themes. The managers are assessed on their voting alignment, which becomes an input for our overall assessment of manager alignment and performance on responsible investment. We seek to engage with managers whose voting is inconsistent with our EOW.

Outcome:

The below presents examples of social-related shareholder resolutions we supported in 2023 proxy season:

Company	Resolution topic	EOW for principal asset managers
Amazon	Report on ethnicity and gender pay gaps	Vote For. We support the resolution's ask which promotes best practice pay equity reporting. While Amazon reports diversity data including statistically adjusted gaps, it does not provide unadjusted median pay gaps, which enables an assessment of equal opportunity to high paying roles, and therefore may hinder understanding of real progress on D&I.
CVS Health	Adopt paid sick leave (PSL) policy	Vote For. We generally support resolutions which encourage progress on human capital management critical to long-term company performance. We believe PSL may also help reduce inequality given the lack of comprehensive PSL benefit for all employees disproportionately affect low-income communities and communities of colour.

While neither resolution was passed, both received significant support (more than 20%).

CASE STUDY 2

TOBACCO EXCLUSION ON SOCIAL BASIS

Objective:

Scottish Widows, a large UK asset owner motioned to restrict tobacco investments in its mandated funds in response to negative social impacts imposed by the sector and subsequent investment risk. Research supports that risks inherently linked to the tobacco industry pose a great threat to the long-term health and stability of the planet and its people. Specifically, the tobacco industry faces growing social, reputational and regulatory risks through its supply chain and consumption which this asset owner deemed to negate its apparent resilience in turbulent market cycles. The use of tobacco is universally accepted as counter to the goals of the UN, particularly the right to health. Taking into account this fundamental misalignment, the UN Global Compact (UNGC) banned tobacco industries from participating in the initiative in 2017.

Action:

In 2022, Scottish Widows formally expanded the scope of its exclusion policy to restrict tobacco investments in its mandated funds. The update to the exclusions policy, which had been in effect since 2020, prohibits investment in tobacco companies generating more than 10% of its revenue from tobacco.

Outcome:

The 10% threshold would, in effect, eliminate all manufacturers and major distributors - where tobacco is its primary source of revenue. Companies that derive small amounts of revenue from tobacco, such as supermarkets or hotels would inevitably remain. By October 2022, the firm's appointed investment managers completed the sale of all tobacco holdings in the portfolio.

Divestment of the sector along with other revisions to the asset owner's exclusion policy made in 2022 amounted to £1.5bn.

CASE STUDY 3

MATERIALITY MATRIX – PRIORITISING AND CHOOSING THEMATIC STEWARDSHIP ISSUES

Objective:

Railpen's investment portfolio represents a slice of the global economy and is, therefore, exposed to system-wide environmental, social and governance risks; universal ownership. Using a materiality matrix helps ascertain which of the ever-growing number of ESG issues to prioritise in thematic stewardship work, assessing against (individually weighted) criteria:

- The materiality of the issue to the portfolio
- Alignment with the trustee's investment beliefs
- The potential impact on or importance to members
- Trustee ability to make a difference
- The expertise of the team (including trustees, in-house resource and advisers)

Discussion on the highest scoring issues helps the trustee to choose priority stewardship themes.

Action:

The below is an example of how this criterion is applied in the case of workforce treatment.

Criterion	Workforce treatment as a possible priority
Materiality of the issue to portfolio	Evidence shows labour issues material to every sector including sectors the portfolio has significant exposure to e.g. tech Workforce treatment more material than ever in light of pandemic
Alignment with the Trustee's investment beliefs and perspectives	Discussions with Trustee indicate workforce a high priority (especially workforce relations/voice) A proportion of the Trustee Board have trade union backgrounds
Potential impact on or importance to members	Highly material issue, so likely significant impact on member outcomes "Fair treatment of workforce" top ESG priority for members in survey "Fair pay" third most important ESG priority in member survey
Ability to make a difference	Opportunities for policy change in key jurisdictions in next 3-5 years (UK Corporate Governance Code review; ISSB next steps; SEC work on human capital disclosure) Key individuals in the internal team have expertise in engaging with companies on workforce issues; working to improve workforce disclosure Key gaps on workforce in industry work e.g. workforce disclosure of variable quality; use of paid medical leave at US firms; use of narrow range of worker voice mechanisms; diversity and inclusion initiatives still focused just on boardroom; remuneration discussions focused on top execs in isolation

Outcome:

After further discussion across the organisation and with the Trustee, four priority themes were ultimately chosen: The Climate Transition; Worth of the Workforce; Sustainable Financial Markets; and Responsible Technology. These overarching themes have since guided our thematic stewardship work (and will continue to do so over the next few years), in recognition that real change on system-wide issues takes time. Progress against our objectives for each theme is actively monitored and regularly reviewed by the Sustainable Ownership team, with key findings shared across the wider organisation and with the Trustee.

CASE STUDY 4

QUANTIFYING THE QUALITATIVE – ASSET MANAGER ESG ASSESSMENTS

Objective:

Where quantitative data are not available, qualitative assessments can be conducted on assets, companies or investors. For example, one investment consultancy (Isio Group Ltd) conducts ESG impact assessments on its clients' asset managers, to assess their broad ESG capabilities, and in 2022, began to trial a social score to understand the managers' social capabilities. The assessments have reviewed over 70 managers for their approach to social risks and opportunities.

Action:

The assessment covered some of the following example areas:

- Investment approach: social policy, with presence of social KPIs and/or social allocations
- Risk management: diversity & inclusion, and social metrics in in ESG assessments
- Stewardship: social stewardship priorities, social engagements and collaboration
- Reporting: reporting on social metrics to clients, as well as stewardship reporting

The managers are then categorised according to the following scale. This is used as a basis for identifying engagement priorities to improve their approach moving forward.

Above satisfactory	The manager scores highly on our scorecard and is in line with best practice in terms of social integration.
Satisfies requirements	The manager has scored strongly on some (but not all) of the assessed criteria and social integration is on par with the majority of investors.
Below satisfactory	The managers fails to meet most of the criteria on our scorecard and is significantly behind best practice in terms of social climate integration.

Source: Isio Group Limited

Outcome:

The ESG impact assessment results demonstrate that whilst the consideration of social risks and opportunities is more nascent than other assessed areas (e.g. climate change), a minority of managers already have an above satisfactory approach, In particular, social housing and social infrastructure funds had amongst the highest scores, in aiming to achieve a positive social impact by additional low-cost housing or new health and educational centres. Examples of social integration were however found across the spectrum of assets, including leading index providers who were developing passive indexing approaches, focused on companies demonstrating best practice approaches to social factors in the workplace and supply chain, such as equality, diversity and inclusion, or living wages.

Generally, the expectation is the consideration of social factors by managers will increase over time, across managers and asset classes, particularly in response to forces such as new regulation or rising voluntary disclosure trends. Engaging with managers today on their approach to social risk and opportunities could help to support this positive trend.

CASE STUDY 5

AN APPROACH TO DEALING WITH MODERN SLAVERY

Objective:

The trustees of Railpen consider the practice of employing modern slavery not only undermines fair market practice by unsustainably driving down production costs, but it may also incur corporate costs because of reputational damage, shareholder action, remediation, reduced supply chain resilience and trade sanctions. To manage these risks, the trustee has continued to integrate the theme of modern slavery within investment processes through screening, due diligence, engagement and voting.

Action and Outcome:

Screening

The trustee screens its listed equities portfolio annually to identify companies involved in severe governance and/or conduct controversies, including cases of modern slavery. The Sustainable Ownership team requests engagement with identified companies to discuss ongoing risks and areas for improvement.

Due diligence

The investor is working to incorporate modern slavery factors within due diligence processes for asset classes beyond listed equities. For example, an assessment of these risks was conducted prior to the acquisition of a solar farm asset: the investor noted that the supply chains of solar photovoltaic (PV) panels are highly concentrated and exposed to socio-environmental controversies, rendering them vulnerable to disruption and shortages. This risk had materialised in China, with approximately 54% of Chinese polysilicon processed in the Xinjiang region, where the Uyghur population has been subject to forced labour.

Due to the exposure to modern slavery, the investor engaged with the project's developer and the panel manufacturer to understand their approach to responsible procurement, and reviewed the policies and practices in place to ensure modern slavery risks were appropriately managed within the supply chain. Through dialogue, they gained further transparency around the manufacturer's approach, including auditing, whistleblowing, and employee engagement mechanisms.

Collective engagement and voting

The investor considers that combining expertise and voice with peer investors can enable more effective engagement with portfolio companies. Therefore, the investor joined two investor-led initiatives focused on modern slavery and will incorporate learnings from these initiatives into upcoming screening and engagement cycles.

CASE STUDY 6

COLLABORATIVE INVESTOR ACTION ON MODERN SLAVERY IN DIRECT INVESTMENT PORTFOLIOS

Objective:

Find it, Fix it, Prevent it is an investor-led, multi-stakeholder project. Developed by CCLA and supported by a coalition of investor bodies, academics and non-governmental organisations (NGOs), it is designed to harness the power of the investment community. The overarching aim is to make the corporate response to modern slavery more effective.

Action:

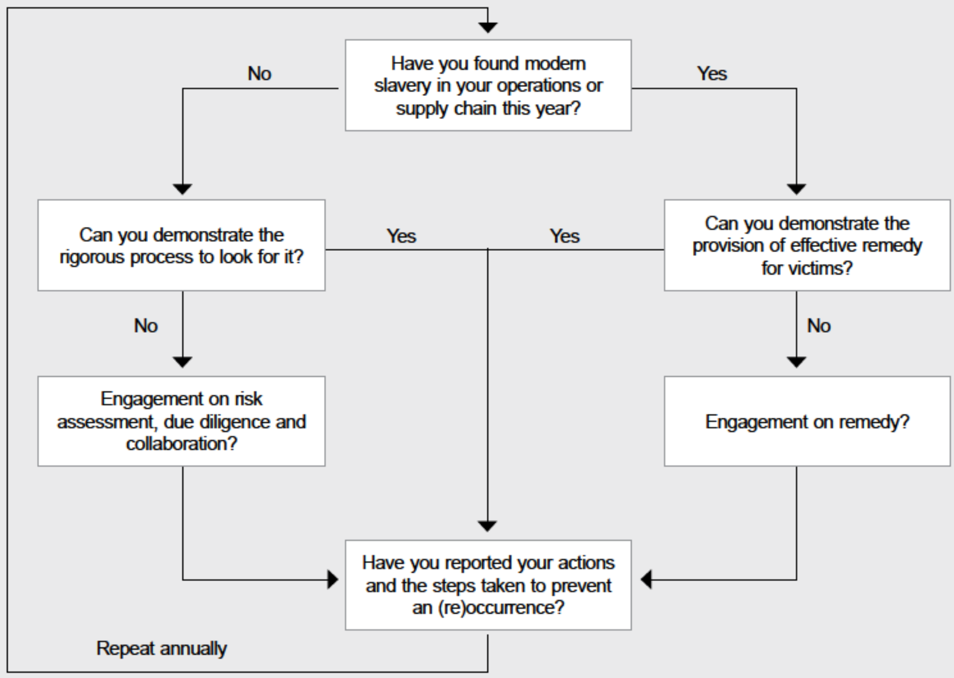
The initiative was launched at the London Stock Exchange in November 2019.

The programme has three complementary workstreams: corporate engagement, public policy and developing better modern slavery data.

Corporate engagement – aiding companies in developing and implementing better processes for finding, fixing and preventing modern slavery and asking companies to:

1. **Find it** – proactively search their supply chain for modern slavery, on the assumption that it exists.
2. **Fix it** – work towards and report on remedy for those affected.
3. **Prevent it** – take meaningful steps to ensure that the situation does not continue.

FIGURE 1: FIND IT, FIX IT, PREVENT IT ENGAGEMENT FRAMEWORK



1. **Public policy** – promoting a meaningful regulatory environment through work with the government, policymakers and regulators
2. **Developing better modern slavery data** – working with data providers, NGOs, and academia to identify and develop better data.

Outcome:

Since its launch, the initiative has grown in both scope and depth. There are currently 65 investors in Find it, Fix it, Prevent it, with a collective asset under management and advisory of £15 trillion.

CASE STUDY 7

ENGAGEMENT ON MODERN SLAVERY

Objective:

One of the key levers investment managers must use to tackle modern slavery is engagement with companies. An asset manager Alliance Bernstein, has five criteria to use as a collective benchmark for best practices in managing modern slavery risk, or risks to people:

Action:

1. **Governance Framework**

   What steps are the board and senior management taking—through policies and procedures, as well as company culture and values—to align the business with the goal of reducing modern slavery risk?

2. **Risk Identification**

   The criminal and covert nature of modern slavery practices makes this a difficult and delicate task. How well does the company understand the challenge, and how robust are the techniques and processes it uses to identify the risk?

3. **Action Plan to Reduce Risks**

   Is the plan a realistic solution to reduce risk to people within the company and its supply chains? Does the firm appropriately identify the risks and effectively train and empower employees and suppliers to engage with them and reduce them?

4. **Action Plan Effectiveness**

   To what extent have the company's actions reduced risk, and how are the board and senior executives measuring progress? What procedures are in place to ensure that follow-up actions are implemented and monitored?

5. **Future Improvement**

   For many companies, the road to reducing modern slavery risk will be long, through unfamiliar territory. The best companies will be able to evaluate their progress each step of the way and make changes with an eye to continuously improving their performance against each of the criteria.

Outcome:

This framework recognises that best practice is a process of continuous learning and improvement.

CASE STUDY 8

ASSET OWNER DIVERSITY CHARTER

Objective:

The Asset Owner Diversity Charter (Asset Owner Diversity Charter - Diversity Project) was launched in 2018 with an objective to formalise a set of actions that asset owners can deliver to improve diversity, in all forms, across the investment industry. The charter was developed by a group of UK asset owners who were concerned about the lack of progress on diversity, equity, and inclusion within the investment industry; despite it being known that more diverse teams make better decisions, the industry continued to lag behind its peers.

Action:

The charter is intended to break down the barriers created by a lack of reporting, standardisation and transparency, which created challenges for asset owners who wanted to engage with their appointed managers. The charter has asset owner, consultant and multi manager signatories, representing over £1.7T in AUM. Any organisation involved in manager selection is encouraged to sign up to the charter and contribute to building an investment industry which represents a more balanced and fair representation of diverse societies.

Signatories to the charter commit to:

- Incorporate diversity questions into manager selection, ensuring it forms part of the scored criteria
- Incorporate diversity into ongoing manager monitoring
- Lead and collaborate with others in the investment industry to identify diversity and inclusion best practice

The charter's key component is the ongoing manager monitoring by signatories. To support this a questionnaire was developed and launched alongside the charter. Asset owner signatories commit to send this in its entirety to their managers on an annual basis, in order to drive standardisation and transparency, and provide signatories with a greater insight into their managers' approach to advancing diversity and inclusion. The questionnaire has a quantitative and qualitative section that covers gender and ethnicity as well as questions across five key areas: industry, recruitment, culture, promotion, and board and leadership.

Outcome:

The questionnaire has been updated to incorporate the findings of the socio-economic taskforce. We have been encouraged to see that some of the charter's signatories have started to use the questionnaire as part of their manager selection process. A report covering the findings of 2022 and 2023 will be published in 2024.

CASE STUDY 9

FAIR REWARD FRAMEWORK

Objective:

The Fair Reward Framework (FRF: www.fairreward.org) has been developed by a steering committee of asset owners as a response to the long-standing concerns about executive pay, and what can be tensions on this issue between companies, shareholders and wider stakeholders about who and what contributes to creating value and how that is rewarded. Launching for its pilot year in Q1 2024, the FRF provides a 'dashboard' on different indicators of fair reward, robust pay setting processes and engagement with stakeholders, in order to enable the assessment of individual companies against each of these and drive better practice.

Action:

The FRF's development reflects a belief among the asset owners involved that, by considering reward distribution across multiple stakeholders and assessing the inputs a company applies to scrutiny of pay awards, it is possible to identify good practice and areas for improvement within industries and markets – something which can ultimately bring benefits to the company, economy and society. In seeking to pursue our responsibilities as universal owners who take a long-term view of investment returns, the asset owner group has partnered with the High Pay Centre to catalyse the FRF's pilot year, which in 2024 will focus on assessments of FTSE100 companies, with future expansion anticipated.

The FRF has been developed through a consultative process and is spearheaded by a core strategy group of the Church of England Pensions Board, Brunel Pensions Partnership and People's Partnership, who have each provided seed-funding ahead of seeking grant partners for its further development. These institutions are also part of the steering committee that is comprised of 11 asset owners involved in the FRF's instigation, which include Friends Provident Foundation, Local Pensions Partnership Investments, Nest, Pension Protection Fund, Railpen, Scottish Widows, and Universities Superannuation Scheme

Outcome:

Designed as a public good to generate greater insight among stakeholders and inform stewardship activities, stakeholders are encouraged to register via the website to receive updates on new assessments. The intended outcome is to elevate ambition within and in relation to companies regarding the contribution that corporate pay practices can make to addressing inequalities, as well as to securing an investee company's social license and future sustainability.

CASE STUDY 10

MINING 2030

Objective:

The Mining 2030 Commission recognises the mining industry's important role in society and aims to ensure the sector leaves a positive legacy by addressing key systemic risks holistically. The Mining sector provides critical minerals and metals that our society demands, and that are needed for the transition to a low carbon economy. Mining generates significant tax revenues, employment, and infrastructure where it operates.

Given the scale of some commercial mining operations and the areas in which extraction can occur, including on or adjacent to the land of Indigenous communities, there can be significant power imbalances with local populations. The sector has also seen contributions to conflict and corruption, and a legacy in some parts of the world of abandoned or orphaned mine waste sites. It is also facing two challenging transitions – one of automating potentially large parts of its operations, and the other requiring a just transition for affected workers and communities in instances where local resources will no longer be mined.

Action:

The Global Investor Commission on Mining 2030 was launched in 2023 and is a collaborative investor-led initiative, supported by 82 investors with over $11 trillion AUM. Its aim is to define a vision for a socially and environmentally responsible mining sector by 2030, and to develop a consensus about the role of finance in realising this. Advised by the United Nations Environment Programme, backed by the Principles for Responsible Investment, and chaired by the Church of England Pensions Board, the membership of the Mining 2030 Commission includes representatives from communities, intergovernmental organisations, civil society, academia, law, unions, the mining industry, banking, insurance and investors amongst others.

Outcome:

The Commission is in its early stages and has a wide focus, including progressing shared understanding and defining priorities on a number of themes related to communities (Indigenous and local), conflict and reconciliation, and labour practices. The Commission builds on the work of the investor mining and tailings safety initiative, which led to the publication of new disclosures across the mining sector, contributed to the creation of a Global Industry Standard on Tailings Management, and the establishment of an independent Global Tailings Management Institute to oversee its implementation and audit. The Mining 2030 Commission continues to be open to investor supporters in 2024: www.mining2030.org