April 2024

UK Stewardship Code

Table Contents

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

Better Decisions for a Better World

At Aon, helping our clients to manage risk and seize investment opportunities is at the core of what we do. Our commitment to investment stewardship plays a vital role in how we do this and provides opportunities to enhance our own impact and to deliver innovative and pragmatic solutions to clients and the wider market.

Our response to the UK Stewardship Code this year demonstrates our continued commitment, which we deliver through our delegated investment offerings — fiduciary management, OCIO and fund solutions — and our investment advisory services. In response to clients' increasing demand for stewardship insights and services, we are proud to have evolved these offerings in several key ways over the year:

Enhancing the data, analytics and insights available to support investment decisions

- We launched a reporting tool for investment stewardship called ST-360i, a supplement to RI-360i, both of which give clients greater insight into the ESG profile of their portfolios and supports them in driving improvements in ESG policies, practices and investments.
- We scaled our manager research capabilities, incorporating ESG data and insights for hundreds of liquid strategies. This year, we are expanding this capability to include more advanced metrics for implied temperature rise, SFDR's Principal Adverse Indicators (PAIs) and Diversity Equity and Inclusion (DE&I) factors.
- We worked with PRI on its analysis of data from PRIs, 2023 reporting framework to assess the development of practices in responsible investment globally, drawing on reports from over 2850 investor signatories. This culminated in the publication of a report: Identifying Trends in Responsible Investment Management Practices.

Embracing new opportunities for industry connectivity and innovation

- We worked with investment managers to develop and support the launch of new funds designed for decarbonisation strategies and to help manage climate-related risks. An example is the Global Emerging Markets Equity Climate Transition Fund constructed with UBS. This is now part of Aon's Managed Growth strategy for Defined Benefit ("DB") clients and within the default strategies for our Defined Contribution ("DC") clients.
- We collaborated with the Cambridge Institute of Sustainability Leadership to develop tools for clients seeking to integrate nature into existing engagements for climate. This included the Let's Discuss Nature with Climate: Engagement Guide, supporting investors and issuers to act on the opportunities, risks and compliance demands associated with nature and climate.

Many more examples are provided in this report, which also highlights areas where Aon as a global organisation is delivering impact and, ways in which we draw on our wider expertise in insurance and reinsurance to support our clients and the evolution of our industry.

Investors today are grappling with many complex challenges, not least those posed by the four important themes of trade, technology, weather and workforce, which we expect to influence and dominate investment decisions in the years ahead. This will call for more sophisticated and confident approaches to managing risk and embracing innovation to protect and grow investment portfolios in the future. Investment stewardship has an important and influential role in securing these approaches, driving greater clarity and bolder solutions. It is because of the progress that we have made — and continue to make — that we can deliver on Aon's commitment to help our clients, colleagues and communities make better decisions and, through them, help build a better world.

Maria Johannessen

Head of UK Investment
Aon Investments

[1] All data in this report is as at 31 December 2023 unless otherwise stated.

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

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Principle 1

Purpose, Strategy and Culture

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

For context behind Aon's corporate purpose, strategy and culture, in this section we guide you through:

- Purpose: of Aon generally, and of the Investment business specifically.
- Business model: a high-level view of the Investment business.
- Business strategy: an outline of the UK and Investment business, our strategy and the rationale that underpins it.
- Investment beliefs: our set of clear investment and responsible investment beliefs in the UK.
- Stewardship: how the above elements combine to frame our approach to the stewardship of our clients' assets.
- Culture and values: We describe the diverse and inclusive culture at Aon, which has been built from strong shared values and how we report our global impact as a company.

Purpose

Investment (Advisory and Fiduciary Services) is a core business for Aon in the UK, EMEA and indeed globally. In this report, we focus principally on our UK Investment business, though many of the processes we describe are global and where required, we explain the role of more regional functions. Our clients are institutional investors, typically pension funds but we also advise corporates, endowments and other asset owners.

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

Throughout this report, we demonstrate how we look after our clients' assets and how our approach aligns to responsible investment, with a focus on the creation of sustainable long-term value. For example, in Principle 2 of this Code, we show how our colleague experience is one of working together across teams, bringing our best insights forward. Also, in Principle 4, we illustrate some of the many ways our teams work together to promote well-functioning investment markets through the exchange of information, evaluating factors, educating clients on issues, guiding on risk management and engaging across the industry on critical issues. As a result, our clients are better informed and advised — to make better decisions.

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

Aon exists to shape decisions for the better — to protect and enrich the lives of people around the world.

We provide our clients with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

Aon is in the business of better decisions.

Aon Story

Why we do what we do

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

Proposition Aon is in the business of better decisions

What we deliver

Colleague Experience

- More relevant
- More connected
- More valued

Achieve their full professional potential

+

Client Experience

- Better informed
- Better advised
- Better decisions

Protect and grow their business

=

Create Impact

- Meaningful social influence
- Purposeful and rewarding work
- Sustainable financial performance

Position our firm to deliver our proposition and fulfill our purpose

How we make it happen

Accelerating Aon United

Our 3x3 Plan

1. Leverage Risk Capital and Human Capital
2. Embed the Aon Client Leadership model
3. Accelerate the Aon Business Services Plan

Operating as One Firm

Our Interdependent Operating Model

- Risk Capital and Human Capital creating content
- Enterprise Group delivering to multinational clients
- Regions delivering to large and middle market clients
- ABS and ASC as the catalyst that scales service

Better insights and capabilities available to colleagues, better solutions and service delivered to clients, more sustainable growth that allows for reinvestment in our firm

Who we are as colleagues

Values

Committed as one firm to our purpose

United through trust as one inclusive, diverse team

Passionate about making colleagues and clients successful

One firm with clear expectations about the mindset and behaviors we expect from one another everyday and everywhere around the world

Business Model

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

We are one of the world's largest Investment Advisory firms with over £3.4 trillion (31st December 2023) of global assets under advice. Alongside this we provide Fiduciary management services in 15 countries globally for 625 clients with around £138 billion in assets under management; around 20% of which is managed for UK and EMEA clients. The focus of this report is on behalf of those assets advised and managed in the UK (£19.5 billion).

Business Strategy

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

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

Investment Beliefs

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

At a High Level, our Global Investment Beliefs are:

1. **Investment strategy should be driven by long-term objectives and risk tolerance**
   Strategies should have a target return that is focused on the long-term target, over an agreed time horizon, and in line with an agreed risk tolerance.

2. **Diversification is a critical tool and needs to be used wisely**
   Naive diversification can lead to unnecessary loss of return and excess costs. We balance the risk reduction of diversification with the return dilution and cost to achieve an optimal outcome.

3. **Good governance improves return and risk management**
   Board members, trustees and their advisers / fiduciary providers must understand their investments and their associated risks. Decision making bodies should be diverse in their thinking and regularly review their effectiveness.

4. **Investment decisions should give ample weight to environmental, social and corporate governance factors**
   ESG factors have the potential for material adverse tail risks, introducing volatility that is often under-appreciated by financial markets. Stewardship and engagement provide opportunities to preserve and enhance the value of assets.

UK Responsible investment beliefs on behalf of our Advisory and Fiduciary businesses, are as follows:

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

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

5. **Investor skill adds value in both mitigating risks and accessing opportunities**
   Implementing decisions at the right time is an important factor in driving positive investment outcomes, so market dynamics should be considered when making decisions. Furthermore, thorough evaluation can identify skilled asset managers who are able to improve outcomes for investors.

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

7. **Illiquidity and complexity can create opportunities for skilled investors**
   Factors such as illiquidity and complexity are barriers to entry for some and therefore present attractive risk and reward opportunities for others. Where risks are not sufficiently compensated, these investments should be avoided.

8. **Markets evolve over time and solutions should adapt accordingly**
   At Aon, we innovate and will create new solutions where we see opportunities to improve outcomes.

Stewardship

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

We Have Made a Number of Public Statements and Commitments Over Recent Years, Including:

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

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

United Nations:

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

Human Rights and Opportunity:

- Aon supports the principles contained within the **Universal Declaration of Human Rights and the International Labour Organisation Core Conventions on Labour Standards**.
- **CEO Action for Diversity and Inclusion Pledge**. Aon has pledged to act on supporting more inclusive workplaces.
- **UN LGBTI Standards of Business**. Aon has committed to supporting five Standards of Conduct to support the business community in tackling discrimination against lesbian, gay, bi, trans and intersex (LGBTI) people. These Standards were developed by the United Nations Human Rights Office, in collaboration with the Institute for Human Rights and Business.
- Aon has signed aspiring colleagues for the **Partnership for New York City Pledge Apprenticeship Program**. Our programs in the U.S. and UK support high-potential colleagues from a large and diverse talent pool, all of whom help us shape better decisions for our clients. In the U.S., we have built a two-year full-time job and educational program that provides opportunities for those without a traditional four-year college degree. We provide apprentices with an entry point to a professional career at the company including salary and benefits as well as tuition and books as they pursue an associate degree at a partner community college. The program was piloted in the UK in 2012, launched in the U.S. in Chicago in 2017 and expanded significantly in 2021. We have committed $30 million to expand the program and are launching similar initiatives throughout the U.S..

Sustainability:

- **Value Reporting Foundation — SASB Reporting Standards**. Aon has long been a member of SASB and welcomed its recent merger to form The Value Foundation. SASB standards for financial materiality across sectors has global recognition and we expect the SASB standards to feature strongly in common reporting and accounting frameworks going forward.
- **The Institutional Investors Group on Climate Change (IIGCC)**. The IIGCC is a key European membership body for investor collaboration on climate change and by becoming a member of the IIGCC, Aon is able to help shape policies and industry standards that will govern aspects of our Fiduciary business' Net-Zero commitment.
- **Taskforce for Nature Related Financial Disclosures (TNFD)**. Aon joined the TNFD in 2021 as a forum member. The loss of biodiversity is an area of focus for Aon and a theme which we have collaborated on with the CISL, details of which are given in Principle 10.
- **ClimateWise**. ClimateWise supports the insurance industry to better communicate disclose and respond to the risks and opportunities associated with climate change and the global protection gap. Aon is a founding member of ClimateWise, and has chaired the Advisory Council for several years.

- **Vatican's Energy Transition Initiative**. This initiative provides support for carbon pricing that would encourage changes in business practices, consumer behaviour and the development of innovations that would advance the energy transition. The initiative also supports disclosures providing greater clarity for how companies are planning and investing for the energy transition.
- **Insurance Development Forum**. Aon's President, Eric Andersen, is a member of the Steering Committee of this insurance industry forum.
- **Task Force on Climate-Related Financial Disclosures (TCFD)**. Aon continues to actively support the TCFD, aligning our processes and advice with its recommendations. Aon promotes the application of the TCFD framework in its manager research and investment consulting work.
- **Impact Investing Adoptors Forum**. In 2022 Aon joined the Impact Investing Adoptors Forum, a member forum of pension funds, investment consultants and fiduciary managers acting at the forefront of sustainable finance. We also undertake to provide annual evidence of the progress that Aon and our clients have made in the adoption and implementation of the Principles and we give more detail in Principle 4 of the Code.
- **Terra Carta, in support of the Sustainable Markets Initiative (SMI)**. As part of our work with the SMI, Aon co-led two of the workstreams — one devoted to developing a Public-to-Private Solution Framework for a variety of catastrophe perils and economies and the other seeking to accelerate product innovation across the insurance industry.

Stewardship:

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

Diversity, Equity & Inclusion:

- **The Diversity Project**. This is a cross-company initiative championing a more inclusive culture within the savings and investment profession.
- **The 30% Club**. The 30% Club aims to develop a diverse pool of talent for all businesses through the efforts of its Chair and CEO members who are committed to better gender balance at all levels of their organisations. Aon is a member of the 30% Club and has engaged a number of colleagues in its mentoring scheme, which offers cross-company, cross-sector mentoring to women at every stage of their career.

Aon liaises with government and non- governmental organisations where we network and share ideas and provide information from our vantage point.

Typical examples would be interactions as needed with the **Pensions and Lifetime Savings Association (PLSA),** the **Association of Member-Nominated Trustees (AMNT), Share Action** and **Pensions for Purpose**. These interactions enable us to remain informed, exchange ideas as well as understand and further best practice. Aon is keen to work towards common standards such that the transparency around key issues enables us to give better guidance for our clients.

1

Culture and Values

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

Aon Client Leadership

One of the practical examples of our unique culture is our executive drive to for Aon Client Leadership, a key aspect of our client offering, which underpins a highly collaborative culture throughout the business. Exchange of ideas, across the business and externally, leads to results.

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

Inclusive People Leadership

Our people are the heartbeat of our firm, and our passion for clients is what unites and drives us. Aon has a strategy for 'Inclusive People Leadership' which ensures that all our colleagues are equipped and motivated to model our Aon United values and behaviours. We create a culture of opportunity for our colleagues, hoping to inspire collaboration and innovation, ultimately enabling colleagues to become more connected and valued, and achieve their full professional potential.

Below we highlight three areas of our culture and values which support our colleague experience:

1. Diversity and Inclusion (DE&I)

We are committed as one firm to our purpose, united through trust as one inclusive, diverse team and passionate about making our colleagues and our clients successful.

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

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

2. Aon in the Community

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

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

- Matched Funding
- Payroll Giving
- Mentoring and Volunteering
- Aon UK Charitable Foundation

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

In early 2021, we set up the Retirement & Investment Inclusion, Diversity and Equity ("RIIDE") Group, working with RIDS and supporting the BRGs and with a longer-term mission to:

- To help create a more genuinely diverse UK Retirement & Investment practice at all levels, reflective of the broader population.
- To help ensure all colleagues benefit from equitable treatment and access to opportunities, that is considerate of their individual circumstances, to achieve equitable outcomes.
- To create an environment where all colleagues feel valued and are comfortable to bring their whole authentic selves to work.
- To increase awareness of the importance of DE&I at Aon, and help colleagues improve their education and self-awareness in this area.

Since starting, RIIDE has helped create a more diverse team with improvements in the promotion process (with further diversity on promotion panels), setting up multi-faith rooms across our offices, and facilitating reverse mentoring groups to bridge the gap between senior leadership and junior colleagues.

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3. Bringing Sustainability to Corporate Aon

Aon's organisational purpose and culture drives our determination to support sustainable stewardship at a corporate level. Our colleagues want to be part of a business which itself supports sustainability through its own environmental and social goals. We recognise our role in contributing to a clean and healthy environment and through our Environmental Policy, we have established a range of controls to ensure our operations are responsibly managed and reduce the risk of adversely impacting the environment.

Our Aon Business Services (ABS) operating platform has been instrumental in helping us achieve our environmental goals. The leading infrastructure and technology capabilities of ABS has enabled Aon to reduce its physical office space, move on-premises data centres to the cloud, develop alternative communication solutions that allow us to limit air travel, and implemented tools which are delivering real results when it comes to cutting back on consuming natural resources. We report annually on Aon's corporate impact — please see below for our reporting for 2023.

> "Our impact is greatest when we help our clients address their environmental and social challenges
>
> **Greg Case, CEO Aon plc**
> **Impact Report 2023**

Aon's Environmental, Social and Governance Impact Report, 2023

At Aon, helping clients manage risk — including ESG risk — is at the core of what we do. We see significant opportunity in enhancing our impact and delivering innovative client solutions.

Environmental Impact

We're focused on three areas of environmental impact: our own decarbonization and sustainability efforts, working to accelerate clients' climate resiliency and response, and convening leaders and organisations to collaborate and scale our ambitions.

Social Impact

We continue to build on actions and programs that support inclusion, workforce wellbeing and civic outreach to build an equitable culture within our organisation and beyond.

Governance Impact

Strong governance is at the core of what we do as a firm. Our own model is built for transparency and trust, helping us bring our purpose to life and create value for our clients and colleagues.

Activity and Outcomes, 2023

Aon continues to build on the public statements and affiliations made above, consolidating our ambitions to be a leader for responsible investment, and we are proud to showcase awards won during the year below. The leadership we show on behalf of our fiduciary clients is purposeful and is mirrored in the investment stewardship we encourage all our clients to consider.

Awarded and Short Listed

'Fiduciary Manager of the Year' Award at the 2023 UK Pensions Awards

Aon was extremely proud to win this award and considered it a true achievement following the market turmoil at the time. It recognises the value we are adding for our clients, helping them manage the challenges that a volatile world is throwing at them. Our submission focused on 16 key accomplishments delivered for our clients over the previous year, including:

- Maintaining liability hedging and meeting all collateral calls across client portfolios.
- Adding outperformance to clients' portfolios via our Active Diversifiers and Core Diversifiers Funds respectively.
- Supporting and keeping clients informed through frequent, transparent communication.
- Improving liquidity, reducing fees and fully integrating ESG in our Active Diversifiers Fund.

'Fiduciary Management Award of 2023' at the European Pensions Awards

Subsequent to winning Fiduciary Manager of the Year, this was our second award win during the year for fiduciary management and a tangible testament to Aon's commitment to delivering results for our clients. Our submission focused on 14 key accomplishments which we delivered for our clients, including:

- Ranking top of the 'Perceived FM Leaders' in an independent, leading institutional investor research survey with 300+ responses.
- Launching Impact Equity and Sustainable MAC Funds to further enable clients to invest responsibly.
- Deepening ESG integration for all 120 Factor Service clients.
- Helping 1,250 trustees stay on top of their investments, bringing even more value to their members.

By way of illustration, we received some winning commentary from the judges: **'An impressive entry highlighting strong performance, trustee support, innovation and many achievements in a challenging year'.**

Pensions For Purpose (PFP), Annual Stakeholders & Awards Event

Aon was highly commended for PFP's Impact Investing Adoptor Award. This commendation supports Aon's continued efforts to bring impact to its clients through impact initiatives and fund offerings. This commendation was for an award promoting place-based impact, social impact, alignment with the Paris Agreement and impact investing adoption.

We work with a broad range of stakeholders such as regulators, non-governmental organisations and experts in the field to support trustees' stewardship of assets and meet regulatory requirements. We give some examples of collaborations in Principles 4 and 10 of this report and below we briefly touch on a selection of activities over the year, under the headings of Educating, Exchanging and Engaging, all in support of Aon's story — shaping decisions for the better.

Educating

Aon Podcasts — Desert Island Risks

We have launched a series of podcasts called 'Desert Island Risks' showcasing the results of Aon's 2023/2024 Global Pension Risk Survey of UK defined benefit (DB) pension schemes. The premise of this series is that our subject matter experts are stranded on a desert island with only the Global Pension Risk Survey results as reading material giving them endless time to think about their DB pension schemes and the latest risks that they face. The bite-sized interviews offer investors key insights into the survey findings and our subject matter experts finish each episode with a tip for trustees, sponsors and their pensions schemes. The episodes are also supplemented by articles covering the key themes observed in the survey findings.

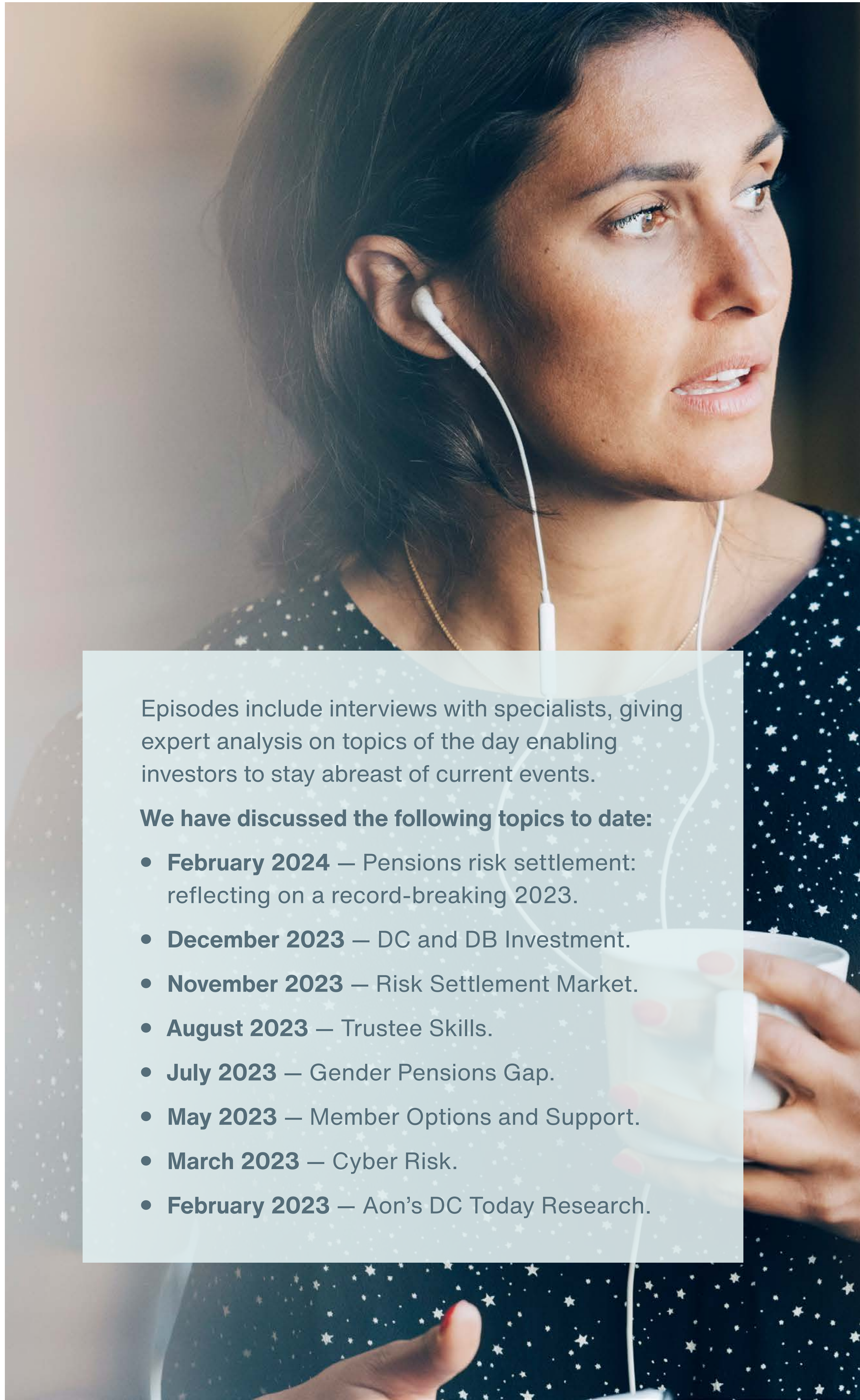
We have discussed the following topics to date:

- **Investment:** In this podcast we discussed how UK pension schemes have been impacted by rising interest rates and the subsequent impact on funding levels and deficits. Rupert Kotowski, an Associate Partner in our Investment business, discussed key insights on how UK schemes are reacting to this, the changes schemes are making to investment strategies and how they are dealing with ESG risk.
- **Long term targets:** In this podcast, Jennifer Michel spoke to Alastair McIntosh, Partner and co-author of the Global Pension Risk Survey, about the long-term targets of UK pension schemes including what schemes are aiming for as their long-term target and how they expect to reach their goals.
- **Highlights from the Global Pension Risk Survey — UK results:** In this podcast, Jennifer Michel spoke to Aon's Head of UK Retirement Policy, Matthew Arends, and Alastair McIntosh about the highlights of this year's survey. They discussed the main differentiator between this survey and the previous one, which is that respondents are now addressing pensions risks across a multitude of different topics, covering liability risks, investment risks and a range of governance and operational risks.

These podcasts are available here.

Aon Podcasts — Retirement Market Updates

The Aon retirement market update podcast is a monthly update, reviewing and summarising the latest developments in pensions, benefits and reward that have been making the month's headlines. These bite-sized reviews are designed to help investors navigate the UK retirement landscape and offer insights to investors looking at pensions, reward and benefits.



Episodes include interviews with specialists, giving expert analysis on topics of the day enabling investors to stay abreast of current events.

We have discussed the following topics to date:

- **February 2024** — Pensions risk settlement: reflecting on a record-breaking 2023.
- **December 2023** — DC and DB Investment.
- **November 2023** — Risk Settlement Market.
- **August 2023** — Trustee Skills.
- **July 2023** — Gender Pensions Gap.
- **May 2023** — Member Options and Support.
- **March 2023** — Cyber Risk.
- **February 2023** — Aon's DC Today Research.

Aon White Papers

Aon produced a number of whitepapers this year which covered a range of ESG related topics.
Our highlights included:

- Aon's ESG Ratings: This paper was written to deepen understanding about our ESG ratings. It informs about ESG integration as a part of responsible investing approaches, how it differs from impact investing and how to evaluate integration by asset managers.
- 5 Insights on Climate Change with Investment: There are many vocal market participants taking strong and unwavering stances on how investors should approach climate change risks and opportunities, yet they express widely different views. The paper aimed to get to the heart of five key insights investors should understand.
- Be Nature Positive as well as Carbon Negative: As we look to nature loss and the implications for investors, we wrote a white paper intended to introduce the relevance of nature loss and the need for biodiversity to investors. Investors can expect to hear more about the concepts of biodiversity loss and natural capital as awareness and expectations around ESG factors and sustainable investment grows, and nature rises up the agenda. Here, we considered these concepts and how they are fundamentally intertwined with climate change and our ability to reach net zero.
- Impact Investing is Hard: The landscape for impact investing is complex and evolving. Our Manager Research team wrote a paper giving insights on key considerations for impact investing, recommended questions and a practical framework for doing it well.

Aon Webinar — Biodiversity Training Series for Professional Trustees and Internal Colleagues

Biodiversity is under threat worldwide, and policymakers now consider biodiversity protection as urgent a priority as halting global warming. We describe in Principles 8 and 10 of the Code some of our activities as regards the investment stewardship we undertake with respect to the global systemic risk that biodiversity loss represents. As stewards of capital, investors are uniquely positioned to help build an economy that works with, rather than against, nature. Biodiversity loss and climate change are intimately linked, and these two global challenges should be tackled together.

Our in-house biodiversity experts developed a biodiversity training series for professional trustees and internal colleagues in response to the rapid escalation of biodiversity and nature related risks.

The training sessions covered:

- Nature-related risks, and the intersection with climate.
- Nature-related risks in investment portfolios.
- Stewardship and engagement on nature.
- Nature-based solutions and opportunities.
- The final TNFD recommendations.
- Looking ahead — what this means for pension funds and asset owners.

The training sessions helped investors and colleagues to further understand the steps that can be taken to start thinking about biodiversity as much as the risks posed by climate change. We illustrate in Principle 10 of the Code, an engagement guide for biodiversity loss which Aon supported, and CISL, published in December 2023.

Exchanging

Wealth Insights Investment Conferences and Manager Research Engagement Webinar Series

Aon is keen to engage with its investors and its asset managers. Bringing both sides together enables an exchange of understanding and the opportunity to network and voice ideas. Our Wealth Insights Conference series was held again this year across four key regions; each conference was warmly welcomed and we regarded it a great success in terms of bringing people and ideas together. We considered challenges, exchanged insights and ideas, and explored where future investment opportunities lie.

Asset Owners:

1. Heard from Aon's investment and business leaders and learned more about our business and investment priorities.
2. Engaged with their peers to gain insights into their investment challenges and objectives.
3. Connected with Aon's business leaders and experts from our manager research, consulting, and fiduciary investment teams to discuss new and developing investment ideas.
4. Shared perspectives with Asset Managers and Investment Service Providers.

Asset Managers & Investment Service Providers

- Connected with asset owners and Aon's investment and business leaders in four key markets.
- Had one-to-one in-person or virtual meetings with business leaders from across Aon Wealth, client relationship management and global investment manager research teams; these direct meetings served well in terms of getting pressing ideas across the table.

Many topics were presented across a wide range of topical issues, using a combination of main stage plenaries and more targeted breakout sessions. A key plenary was presented by our Head of Responsible Investment in the UK on the topic "Responsible Investment: What does it really mean to finance the climate transition?", where some of the drivers behind the topic and the dynamics between asset owners and managers on the subject were highlighted. A number of breakout workshops called "Engaging on Nature: The essential guide" followed; we report more on these in Principle 10 of the Code.

Aon Climate Team

Aon attends Climate Week NYC and COP28

In 2023, Aon attended the United Nations 28th annual Conference of the Parties (COP28) for climate change and Climate Week NYC last year. Both conventions are seen as key events for collaboration between public and private sector entities in the bid to galvanise global attention and action with respect to climate change and biodiversity loss.

We see ourselves as having a critical role to play and we are able to leverage our capabilities across solution lines; in particular investment, innovation, data and analytics teams. We see the need to be part of the conversations and Aon's President, Eric Andersen, attended COP28 alongside colleagues from our Climate Risk Advisory teams.

COP28 was an opportunity for us to deepen existing relationships and forge new connections on behalf of the firm, in particular reaching out to public sector clients. We give two highlights below.

African Development Bank and Amini Announcement (press release)

At COP28, Aon announced a first-of-its-kind collaboration with the African Development Bank and Artificial Intelligence (AI) startup Amini to catalyse regenerative agriculture practices In Africa.

The collaboration intends to leverage first-of-its-kind, farm-level data produced by Amini that is intended to enable Aon's support of the African Development Bank's Africa Climate Risk Insurance Facility for Adaptation to develop innovative de-risking solutions and build capacity to assess and monitor the changing risk environment across the continent. Farmers will be able to use the data to make better-informed decisions leading to greater resilience and yield improvements. Further, the collaboration is aimed at helping Aon clients with extensive supply chains or balance sheet exposure to the agricultural sector and better manage the multi-faceted impacts of climate risk. Additional anticipated benefits will include a reduction of supply chain risks for the food and beverage sector, as well as new opportunities for the expansion of global agricultural value chains.

> “
> Aon is at the forefront of transformational innovation, supporting our clients as they face increasing, interconnected climate risks... Risk capital is a vital component of the climate transition and insurance stakeholders need to innovate faster to address the world's rapidly changing needs. Our collaboration with the African Development Bank and Amini is a perfect example of a more holistic approach to risk.
>
> **Eric Andersen, President Aon**

International Federation of Red Cross and Red Crescent Societies (IFRC) working with Aon and Lloyd's Disaster Risk Facility and Centre for Disaster Protection (published article here)

At COP28, the International Federation of Red Cross and Red Crescent Societies (IFRC), in collaboration with Aon and Lloyd's Disaster Risk Facility and the Centre for Disaster Protection, announced the launch of a ground-breaking financial mechanism to transform disaster response.

This tool provides a backstop for the IFRC's Disaster Response Emergency Fund (DREF) which has proved to be the simplest, fastest, most transparent, and localised way for National Red Cross and Red Crescent Societies to access reliable international, short-term emergency funding. Aon and Lloyd's Disaster Risk Facility together developed the insurance mechanism and designed a unique structure drawing upon DREF's 40 years of experience in supporting IFRC's member National Societies across the world. Importantly, this has been achieved without forcing any changes to DREF's current operational process.

Engaging

Manager Engagement Webinar Series 2023

As part of our Aon Wealth Insights Conferences detailed above, we wanted to offer asset managers a series of webinars in 2023 to stay in touch with us between conferences. We wanted these educational webinars to help them understand how we operate and how we think about particular issues, enabling them to interact with us efficiently going forward.

The webinars were open to all delegates from our 2022 conferences, and in the UK we ran two webinars:

- The first webinar focused on sharing our manager research process and client insights. It started with an update on client trends we had been seeing from a Partner in our Investment Advisory client team. Then, there was a panel with members of the Equity, Fixed Income and Liquid Alternatives Manager Research teams, chaired by a Partner from Manager Research. Topics discussed are shown below, with time for questions and an engaging discussion was had.
- The second webinar focused on responsible investment. Topics discussed included: 'Trends in Responsible Investment'; 'Aon's Manager Engagement Program'; and 'How we research managers on ESG risk'. This was chaired by Aon's Head of Nordics & Ireland and Head of Retirement, EMEA, and included speakers from the Responsible Investment team and Manager Research.

We impress on asset managers the importance we attach to global systemic themes, such as those we are currently focus on below. In Principle 8 of the Code we give more detail around our Engagement Programme and our activities over the past year.

Both webinars were a success and positive feedback received.

Core Engagement Themes for Aon's Engagement Programme, 2023 and 2024:

Please see Principle 8 for more detail.

Evaluating

Evaluating all aspects of the investment guidance we give, goes to the heart of our business' purpose and Aon's story, to shape decisions for the better. One aspect which serves well to report within the Code, is the evaluation of our recommended investment strategies. This is key to recommending asset manager strategies whom we expect to produce superior risk adjusted investment returns over the medium to long term, in a way that is aligned to our clients' investment objectives alongside Aon's purpose, strategy and culture.

Our Manager Research team evaluate investment strategies through its manager research evaluation framework, focusing on investment performance and risk, resulting in an overall investment recommendation of 'Buy', 'Qualified' or 'Sell'. Integral to the overall investment ratings, is their evaluation of a strategy's integration of ESG risk — labelled as 'Advanced', 'Integrated' and 'Limited'. In this way, our view of the integration of ESG risk factors is taken into account and feeds into the overall rating as a view. Our fiduciary team has made the commitment that if an ESG rating falls below a given threshold, the strategy will be given a grace period for improvement before the decision will be taken to disinvest, irrespective of the strategy's overall investment rating.

The way our ESG ratings are evaluated is described in detail under Principle 7 of the Code with related aspects of engagement, issuer expectations and manager escalation given in Principles 8, 9 and 11 of the Code.

2

Principle 2

Governance, Resources and Incentives

Signatories' governance, resources and incentives support stewardship.

In this section we cover the following:

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

Business Structure

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

As outlined in Principle 1, our Investment business provides both Advisory and Fiduciary services and solutions for institutional clients. The structure chart on the right provides more detail in respect of each business stream.

Fiduciary

Some of our clients delegate to us the implementation of their investment strategy for all, or a portion, of their assets.

Importantly these clients still leverage the experience and expertise of our full investment expertise, including our specialist teams. This Fiduciary service is also delivered by AIL. The stewardship aspects of our Fiduciary service are covered comprehensively in Principles 5-12 of this report.

Advisory

Aon provides Investment Advisory services in the UK through Aon Investments Limited (AIL), which sits within the Wealth Solutions business. The ultimate parent company of AIL is Aon plc.

Risk Capital		Human Capital		
Commercial Risk Solutions	Reinsurance Solutions	Health Solutions	Wealth Solutions	Talent Solutions
Shifts in technology, economics and geopolitics are creating unprecedented volatility. We help clients identify, measure and manage their risk exposure.	Businesses, governments and communities need to become more resilient. Our industry knowledge and insight help (re)insurers navigate uncharted territories and create more relevant solutions.	Health is declining, costs are rising and talent have vastly different needs. We help companies improve employee health and wellbeing while managing costs.	Global business is becoming increasingly difficult to navigate. We help employers, fiduciaries and investment officers optimize results and provide a more secure future for their stakeholders.	Attracting and retaining talent while meeting growth targets is a challenge for many organizations today. We help organizations understand people risk and optimize people spend to build a talent strategy that empowers workforce agility and resilience — now and into the future.

Business Organisation and Governance Of Responsible Investment in the UK

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

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

One of Aon Wealth Solutions' key success factors is our ability to combine the broad perspective and practical experience of our client consultants with the deep expertise of our specialist teams. The overall structure of our UK Investment business with EMEA support is illustrated on the right.

UK Investment

Source: Aon as at 31 December 2023

Aon and Responsible Investment — governance structure

Senior oversight for Aon's UK Responsible Investment team sits with the Head of Investment, UK. We have increased the number of dedicated roles for responsible investment to support our global and regional leaders, in addition to which we draw appropriate personnel and resource from across our specialist teams, described on the left.

Pricing Committee and Pricing Guidance

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

Governance

Leaders from our UK Responsible Investment team meet on a monthly basis, with an escalation route to senior leadership. During such meetings, the group considers various agenda items, including: challenges/resolutions; questions to be raised with the group; new opportunities; and any new/non-standard workstreams recently undertaken. There is cross representation from the UK Responsible Investment team, and the US responsible investment working group and both regions align to our global responsible investment policy, initiate local responsible investment workstreams as appropriate and oversee approval processes for responsible investment activities from respective investment committees.

Aon has organised the governance of responsible investment along regional lines in order to accommodate differing needs. The UK in particular has been shaped by a stronger recognition of the broadening fiduciary role of the asset owner.

Delivering Responsible Investment and Stewardship

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

Cross-disciplinary 'Content Teams'

Responsible Investment Team

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

Aon's UK's Responsible Investment team has 19 full time employees and qualifications include:

- **12** Investment Management Certificates (IMC), further 1 in progress.
- **2** fully qualified Chartered Financial Analysts (CFA), further **6** in progress.
- **3** Fellow of the Institute and Faculty of Actuaries (IFoA).
- **1** Assoc. of International Accountants (AIA) member.
- **3** Certificate of ESG Investing (CFA).
- **1** Certificate of Climate and Investing (CFA).

Client facing

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

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

Risk and Modelling Team

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

Global Asset Allocation Team

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

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

Global Manager Research Team

Aon has a global Manager Research team of 59 full time employees with an additional 87 employees in our real estate team at The Townsend Group (31st December 2023). Manager researchers are tasked with identifying asset managers who are able to deliver the best possible performance, considering traditional and ESG risks with associated costs. This team has extensive practical experience and includes former asset managers, researchers, chartered surveyors, derivatives traders and economists. The team operates globally with experts based in most of the major markets across the world.

The team is responsible for awarding Aon's ESG ratings across all its recommended investment strategies. This process is described in Principle 7 of the report and some of the solutions the team recommends with respect to responsible investment, are described at the end of this Principle, under 'Aligning Our Investment Advice'.

ESG Reporting Teams

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

Supporting Resources

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

Ongoing Development

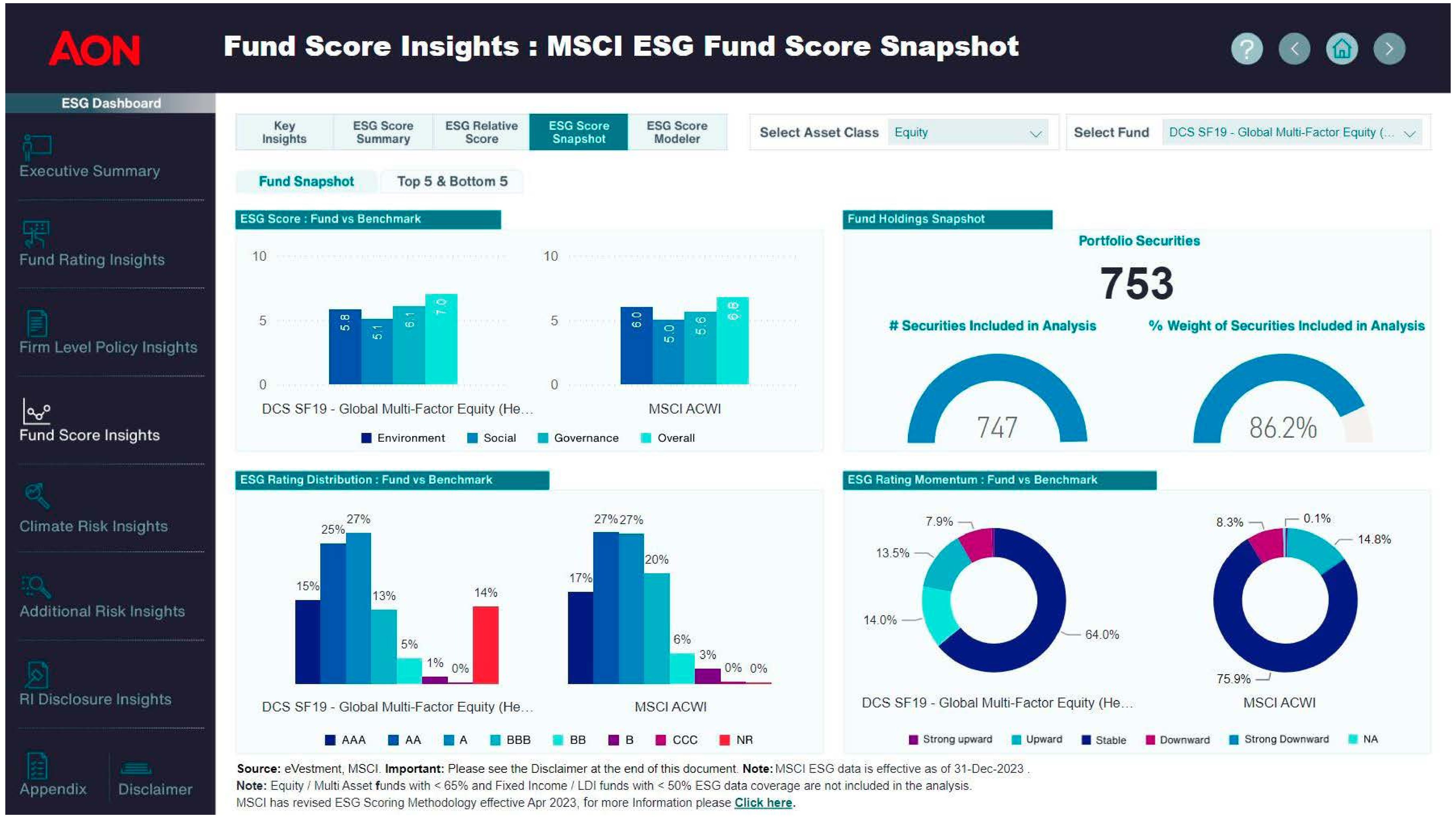
Aon continually updates its colleagues within the practice with training events, regulatory updates and training modules. With respect to responsible investment, we ensure that our colleagues and field consultants, who may not necessarily be directly involved with responsible investment on a day-to-day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

2 Activity and Outcomes 2023

Providing Clients with Better Insights Using our ESG Reporting Tool, 'RI-360i'

It is critical that investors have the transparency they need to assess the level of ESG integration and investment stewardship undertaken within investment portfolios. Over the course of 2023, we therefore delivered well over 100 sustainability reports to clients, using Aon's ESG reporting tool, Responsible Investment Insights ('RI-360i') over the year.

Our RI-360i report provides clients with better insights into the ESG-related risks of the strategies within their investment portfolios. The tool delivers insights on an asset managers' alignment with a clients' own responsible investment objectives, priorities and policies. These insights enable clients to make better informed decisions in support of active ownership by steering engagements and highlighting where there are more discussions to be had or alternatives sought.



RI-360i Solution

RI-360i has provided ESG oversight for a Defined Contribution pension scheme, which in turn has supported evolution of the scheme's investment strategy and ongoing manager engagement. The client had expressed an appetite to understand the entire ESG profile of the scheme's investments, including stewardship and issues beyond climate. The sponsoring employer also had a strong brand as a leader in responsible investment, therefore it was important for the client to align their beliefs with those of the sponsor.

RI-360i Solution, Key features included:

- Fund Rating Insights including — Qualitative and Quantitative proprietary ESG ratings.
- Fund ESG scores and top drivers.
- Manager & Fund Insights.
- Climate Risk Insights.
- Diversity & Inclusion Insights.

Providing insights on:

- Manager policies and processes.
- Manager voting.
- ESG profile of investments.
- Climate-related risks.
- Trends over time.

Importantly this was presented as an interactive online tool to help give a holistic view.

Outcome:

The client flagged areas for engagement with their asset managers. Through the top five Weighted Average Carbon Intensity contributors, those companies emitting the higher levels of carbon were identified and nominated for further review.

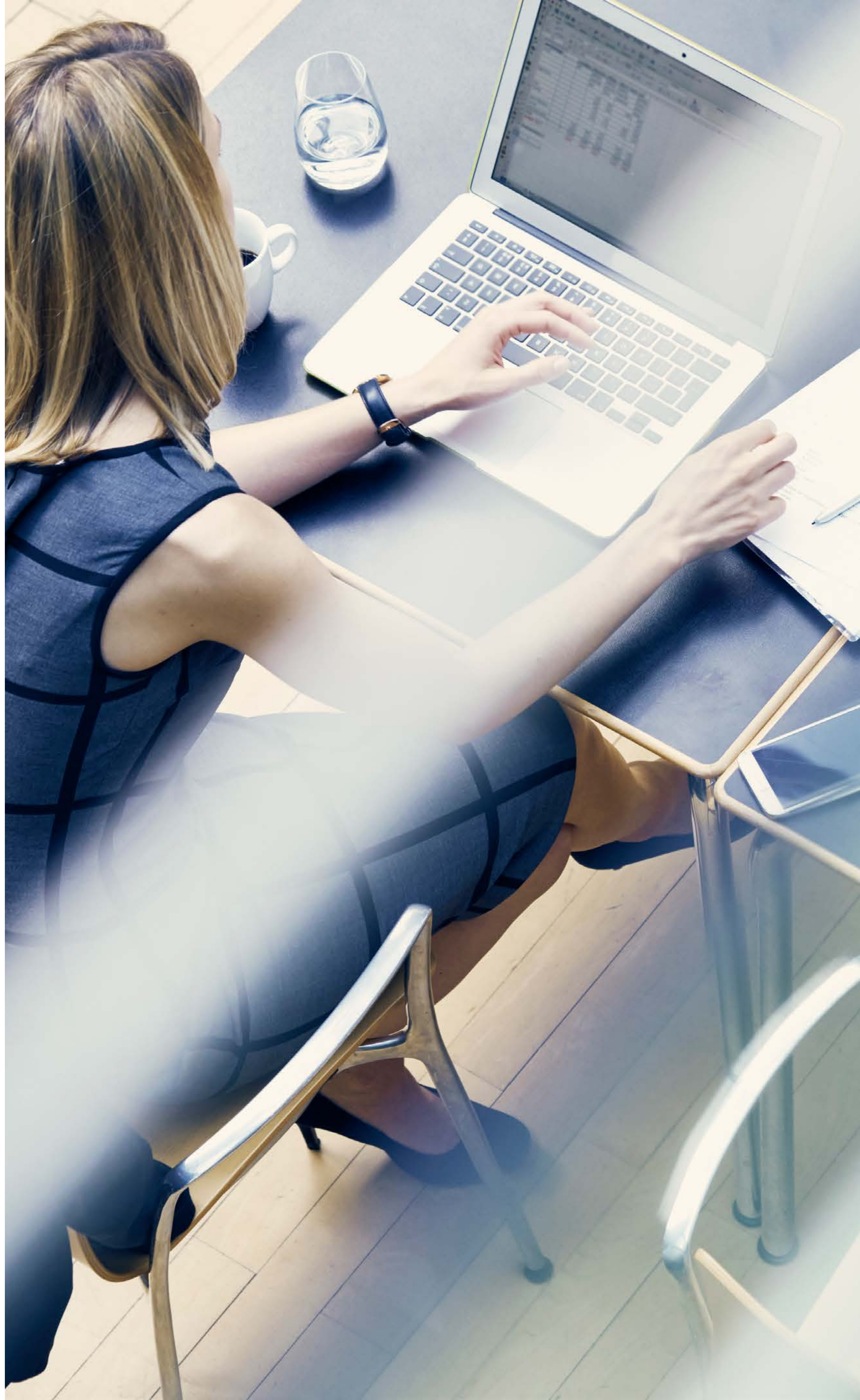
The client receives the RI360i reporting on annual basis and is able to monitor year-on-year progress. The insights and subsequent activities as a result of using RI-360i fed into the client's regulatory reporting and member communications.

"

The scheme isn't required to report under TCFD but equally is keen to be a leader in this space. RI-360i has been amazing and cost effective at giving them climate insights as well as broader ESG oversight at a fraction of the cost of an entire TCFD project.

Source: Lead Consultant

Continual innovation of our solutions provides better outcomes for our clients. We followed up the enhancements to RI-360i by launching an additional module, Stewardship Insights ('ST-360i'). ST-360i will help clients fulfil their fiduciary duty to be responsible stewards of their assets and we expect these new reports to be distributed over 2024.



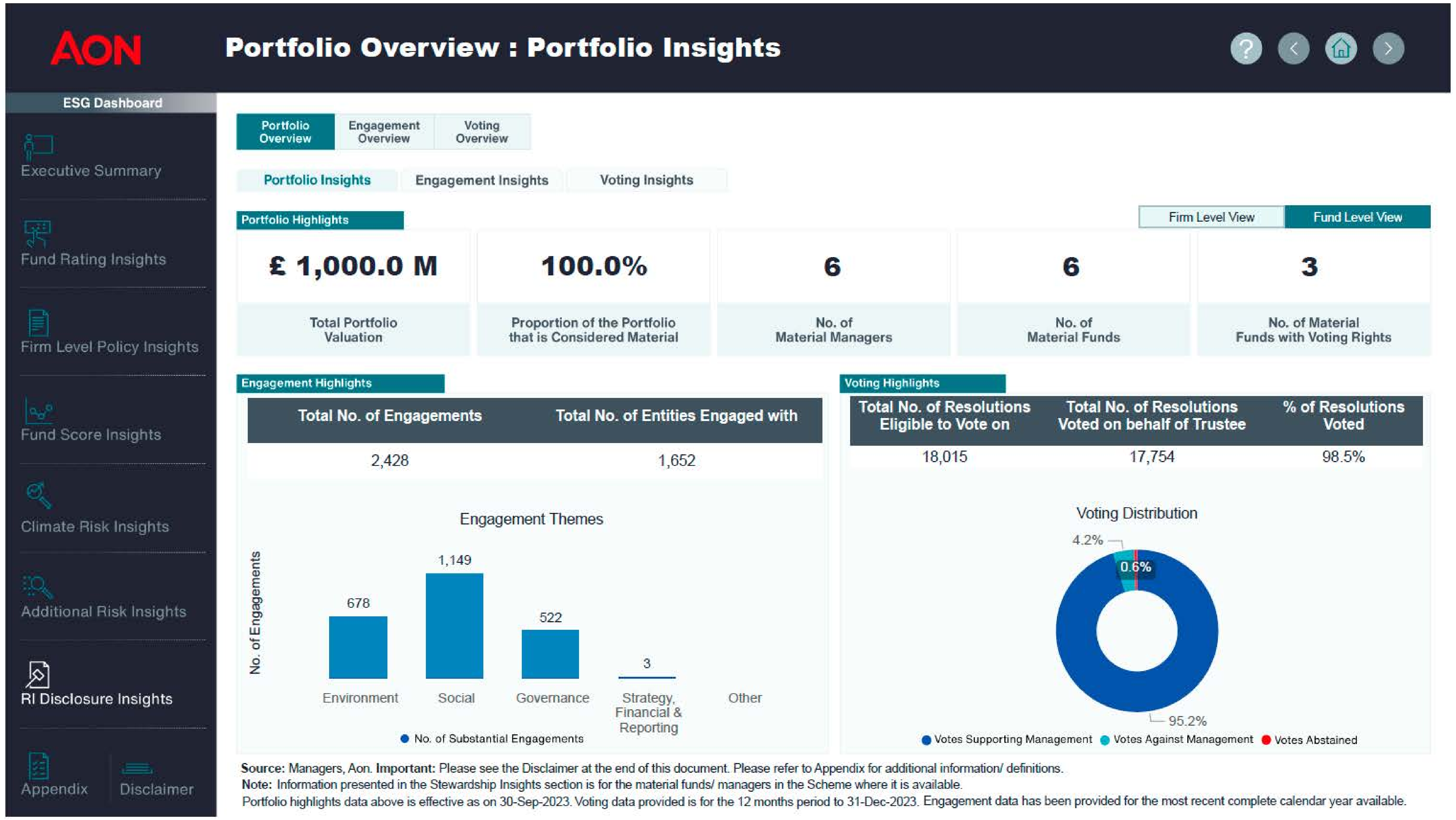
Key features include:

- Stewardship insights with voting and engagement information (manager sourced).
- Voting Policy information and managers' significant vote reporting.
- Engagement themes and case studies.

Better visibility of asset managers' stewardship processes and activities will enable clients to assess engagement points with an investor's asset managers achieving better alignment of responsible investment beliefs and values.

Summary

Developments in responsible investment, and in particular climate change and the loss of biodiversity, will continue apace. We are investing significant time and resources to stay ahead of these developments to ensure that our clients can address their questions, concerns and needs in the areas of responsible investment and stewardship. We will continue to build our team, our processes and our tools in order to best support the evolving needs of our clients in these important areas.



3

Principle 3

Conflicts of Interest

Signatories manage Conflicts of Interest to put the best interests of clients and beneficiaries first.

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

All our colleagues are required to:

- Recognise and address potential conflicts.
- Avoid anything that could create the appearance of failing to act in the best interest of our clients.
- Manage conflicts that arise.

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

Activities and Outcomes, 2023

Aon is often asked about potential conflicts of interest and how we work to identify and mitigate them. We have developed a number of FAQs covering the topics where conflicts could potentially arise given the nature of our business, and how we will work to mitigate the conflicts. All these examples relate to how we steward assets within our organisation in situations where conflicts of interest could arise. Clearly this list is not exhaustive and any other potential conflicts that arise will be evaluated and managed on a case-by-case basis. Aon will always be careful to ensure our clients' assets are never compromised due to a position Aon inadvertently finds itself in, through the normal course of business. We list below an update from last year of the illustrations we offer of actual or potential conflicts of interest which may be encountered by AIL, and our approach to mitigating them. This list is not exhaustive but aims to address issues that get raised.

Some of the most frequent issues

Potential Conflicts Between the Sponsoring Employer of an Occupational Pension Scheme and Scheme Trustees

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

Mitigation

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

"Churning" a Portfolio

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

Mitigation

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

Conflict in Respect of the Use of Manager Research Ratings

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

Mitigation

We treat all clients fairly. Following this principle, any change in ratings made by our Manager Research team will be notified to all our advisory consultants (to disseminate to their clients where appropriate) and portfolio managers simultaneously and will be held confidentially by our Manager Research team until that time.

Portfolio managers may only act on information obtained from Manager Research if it is contained in a formal notification of ratings change or in formal advice. This does not preclude portfolio managers from acting independently of Manager Research notifications, but it does preclude them from acting on information about a pending manager rating change based on an overheard conversation or similar. Exceptions where this approach is not possible will be reviewed on a case-by-case basis.

Conflict in Respect of Client Information Received

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

Mitigation

If we receive information directly and without a non-disclosure agreement (NDA), then we will use the information in any way we see fit. However, if we receive something indirectly, for example if we are copied in, or we have received information for the purposes of creating meeting packs, we will not use the information.

Performance-related Fees

Performance-related fees are intended to align AIL's interests with those of the client. Because of the nature of performance-related fees, there is the potential for conflict between AIL's and the client's best interests if incentives are, or become, misaligned.

Mitigation

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

For fiduciary clients, we are typically rewarded by taking a share of any outperformance over a given hurdle. Linking remuneration to long-term performance helps to ensure our interests are aligned with those of the client. We do not accept assignments where the entire fee is contingent on achieving a particular performance level.

Delegated Bundled Fee Structures

In a situation where a bundled fee is agreed between AIL and a fiduciary client, a potential conflict of interest can arise in relation to our selection of the underlying manager. The lower the fee of the underlying manager, the higher AIL's fee will be.

Mitigation

In general, we do not use bundled fee agreements for fiduciary services. Separating the payment of AIL's base fees from the fees of the underlying managers removes the potential conflict of interest by maintaining our fees at the level contractually agreed with the client and not being influenced by the fees of the underlying managers. In the rare situation where a bundled fee is agreed with the client, we shall disclose to the client that the net fee due to AIL is influenced by the underlying managers' fees — the lower the underlying managers' fees, the higher the share available to AIL (and vice versa). This conflict is managed by Aon's Manager Research team maintaining its normal policy of buy-rating managers who they believe can deliver the best return net of fees, and the fiduciary team does not ask Aon's Manager Research team to do anything different where the fee is bundled. i.e. the same underlying managers are used as for clients without a bundled fee agreement.

Capacity Issues

From time to time, we become aware of investment opportunities that are constrained by a manager's capacity for taking on assets. A conflict may arise if we offer to one client at the expense of another.

Mitigation

In these circumstances, the same opportunity will be notified to all clients for whom it is deemed appropriate, at the same time, and will be made available on a first come first served basis. Should more than one client (either advisory or fiduciary) be interested in an investment opportunity with limited capacity, where necessary the capacity will be shared fairly in accordance with an agreed process.
AIL's Order Execution Policy provides further information on how it allocates between clients and ensures fair treatment for all entities. It should also be noted that AIL does not deal as principal.

Recommending Investment Products

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

Mitigation

Aon does not receive any commission from investment product providers in relation to investing in certain investment products.

The research process within Aon's Manager Research is team based, and completely transparent to members of Aon's Manager Research. This mitigates the potential conflict of interest that any one, or a small group of individuals within the team, may have with a fund manager or other third party.

We abide by Aon's Event, Entertainment, Meals and Gifts Policy which enables management to monitor both the receiving of or offering of events, entertainment, meals or gifts. This supports our independence as an organisation that it is not inappropriately influenced by third parties such as clients, prospects, insurers, product providers, investment houses and suppliers of goods and services.

Asset Managers Who Are Also Aon Clients

There are some instances where asset management organisations are also clients of AIL, ASUKL or the wider Aon Group. This could potentially give rise to a conflict of interest where we recommend (advisory) or invest in (fiduciary) their products.

Mitigation

Where we provide services to asset managers, our work is governed by our conflict mitigation protocols. For asset managers that are Aon clients, the fees payable to Aon for services are based on assets under management for investors not advised by Aon. The manager research process is independent and separate from the provision of other services. Our Manager Research colleagues that rate managers' funds are not involved in providing services to asset managers or advising asset owner clients on products they have rated, which means such conflicts should not arise. We do not provide services to asset managers that manage a significant proportion of Aon's asset owner clients' assets (for clients based in the UK and globally). Where we recommend a fund to asset owner clients that is managed by a asset manager that is an Aon client, we disclose this information when we make the recommendation.

Conflict in Giving Clients Impartial Advice and Managing Funds on Behalf of Clients

We might not act in the clients' best interests when recommending (advisory) or investing in (fiduciary) Aon in-house funds ("Aon Fund Solutions").

Mitigation

We are client focused with respect to the level of delegation our clients wish to use. The starting point for our consultants is to build up a thorough understanding of our clients. Investment strategy and asset allocation advice is tailored to our clients' objectives and is not related to the Aon Fund Solutions currently available. We have a clearly articulated framework and process for building a detailed understanding of a client's situation and preferences, to advise on a suitable approach. Our solutions represent the best of Aon for a client in a relevant situation, since they use our best ideas and our highly rated asset managers. As such, if after discussing a client's situation, implementation preferences and governance budget with them, we believe that we have an Aon Fund Solution which is appropriate for and meets the client's needs, then that will be our recommendation and we will not carry out a wider search unless requested to do so by the client.

When a client decides to appoint AIL as their fiduciary manager, the implementation and management of the client's investment strategy will be delegated to AIL. AIL manages the investment strategies of the in-house funds and selects the underlying third-party funds to invest in.

- Aon Fund Solutions: Where we recommend that a client invests in an Aon Fund Solution, we will ensure that the client advice includes on its first page the following disclaimer: "This document contains marketing material about an Aon Fund Solution. This document does not represent impartial advice on this Fund Solution."
- Fiduciary Management: Where we provide marketing material in respect of fiduciary management services, we will separate into separate documents the marketing material from any advice in respect of investment consultancy services or fiduciary management services. The marketing document will include on its first page the following disclaimer: "This document contains marketing material about our fiduciary management service. This document does not represent impartial advice on this service. In certain cases, you are required to conduct a competitive tender process prior to appointing a fiduciary manager. Guidance on running a tender process is available from the Pensions Regulator."

Client Focus

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

Our Manager Research teams are responsible for researching and rating the fund managers underlying Aon Fund Solutions and fiduciary management services. Our Manager Research teams do not rate any Aon Fund Solutions and Aon will not carry out fiduciary manager selections for clients. This avoids any potential or actual conflict relating to any such rating or selection.
We are completely open to our advice, approach and processes being subject to inspection by regulators and third-party evaluators.

Asset Managers Creating Funds for AIL

Portfolio managers may sometimes ask asset managers to create a product for use in our fiduciary solutions which is then buy-rated by Aon's Manager Research team. Conflicts of interests can arise in two ways:

1. Portfolio managers know the product will be buy rated because the product has been created for our fiduciary solutions. Hence, advisory clients may receive information later than the portfolio managers.
2. Asset managers may ask for a certain level of commitment from AIL clients. We might not act in the clients' best interests when recommending (to advisory clients) or investing (on behalf of fiduciary clients) in these funds.

Mitigation

For 1) please refer to 3. Conflict in respect of the use of manager research ratings above.

For 2) we are client focused, our investment strategyand asset allocation advice is tailored to our clients' objectives and is not related to the Aon solutions currently available. We have a clearly articulated framework and process for building a detailed understanding of a client's situation and preferences, to advise on a suitable approach. Further, we do not agree a level of commitment from AIL clients with asset managers.

Taking Aon Fund Solutions to Clients

Aim: Ensuring a Client's Fund Solution is Aligned to Their Best Interests

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

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

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

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

The principal conflict that we make clear to all our clients from the outset is that Aon does earn fees on the Fund Solutions that we provide. We understand when some clients have reservations due to this conflict. If we believe that investing in an Aon Fund Solution is in a client's best interest, we engage with the client to discuss our proposals, taking into account the client's circumstances and preferences. Our clients are well informed about our Fund Solutions prior to investing and, when appropriate, understand why we believe they are the best option for them in their circumstances. Our clients can therefore be confident they are accessing the best solution for them (whether this is an Aon solution or otherwise) without worrying about any conflicts not being managed. Our role as the investment consultant is to provide our clients with the best solution for their individual circumstances and preferences and where there is a suitable Aon Fund Solution that meets a client's needs, to exclude that option could be detrimental to the client.

Summary

We regularly review our conflicts of interest policy, most recently in 2023. Our clear approach to handling conflicts of interest has enabled us to ensure that client business across the organisation is carried out effectively.

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Principle 4

Promoting Well-functioning Markets

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

As outlined in Principle 1, Aon has a broad range of investment offerings, advising on £3.4 trillionof global assets and investing £138 billion of assets globally (31 December 2023). This scale and reach mean that our market interface is at many levels, including, among others:

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

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

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

Working with the Financial Investment Community, Promoting Well-Functioning Markets

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

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

With the use of case studies below, we highlight below some areas from across the business, to show how we use our influence to promote well-functioning financial markets, which therefore provides a landscape in which our clients can make better decisions.

Activity and Outcomes 2023

Market Risk

We showcase below two examples where we have worked to highlight and mitigate market risk for clients.

Potential Pitfalls in IT Innovations and Investable Assets

The financial landscape is undergoing a profound transformation and information technology has become a pivotal force, shaping innovative investment assets and redefining some of the types of investment strategy employed in financial markets. This intersection of finance and technology opens new avenues for investors, as data-driven insights and advanced analytics will propel different and dynamic investment opportunities when compared to traditional asset classes. It is a reason to be all the more aware of potential pitfalls and unintended consequences given the current immaturity of these markets. We look to identify these, highlighting possible implications for investors which can include significant market risk in the form of asset bubbles, misinformation and at times, little intrinsic investment value given the lack of solid asset foundations. Below, we describe how we have highlighted some of these challenges to our clients.

Digital assets

We set up a Digital Assets Working Group drawing from expertise across the Asset Allocation, Manager Research, and the Operational Risk and Solutions teams. The working group runs a multi-faceted research effort aimed at forming a view on cryptocurrencies as an investable asset class, identifying investment solutions for clients, and assessing key operational and regulatory risk considerations. The recommendations from the working group are expected to inform our future advice to clients on investment opportunities and risks in digital assets.

Regulated and Voluntary Carbon Credit Markets

The carbon credit markets are rapidly expanding and can represent a significant opportunity, not only to drive climate transition, but also to help companies and asset managers to achieve a range of environmental and social objectives. When looking at carbon credits as an investable asset class, our Manager Research team has looked at both regulated and voluntary segments of the market and have highlighted to clients' differences between them in terms of market risk and hurdles to be aware of.

Regulatory markets are a more mature segment of carbon markets, and the one we have already seen some institutional investors allocating to. However, our initial findings on voluntary markets (i.e.: 'carbon offsets') point to a significantly smaller segment with higher fragmentation and a varying quality spectrum. The voluntary nature of the carbon offset market creates some key challenges including verifiability, security, and future-proofing the investment from a regulatory standpoint. Nevertheless, carbon offsets provide a channel for much-needed capital to support investment in emissions-reducing assets (both natural and technological) whilst targeting an attractive investment return that is expected to have a low correlation to other asset classes. For these reasons we actively support efforts to 'institutionalise' these markets and make them more accessible for clients, including exploring different investment structures that can mitigate some of the delivery risks currently inherent in the asset class.

We continue to research and monitor these markets and help our clients assess opportunities as they arise.

Using Artificial Intelligence (AI) in the Search for Additiona Investment Returns

At our last Wealth Insights Conference, (detailed in Principle 1) we featured a presentation on the huge opportunities and unappreciated risks which could arguably emerge when leveraging AI to find new sources of investment return. We touched on the plethora of ways that AI and adjacent technologies could be used to generate new avenues of investment return, whilst also warning of the risks around transparency, biases and regulatory issues. The talk concluded with the potential risk of herd behaviour and crowding, due to unquestioning adoption of technology from a small pool of providers, and how this has informed our approach to due diligence on the topic.

Given the traction AI tools, such as Chat GPT and other Large Language Models, have found across the investment community, our objective at the conference was to bring awareness of these issues to investors.

Tricky debates will follow increasing AI adoption

Transparency and Explainability

There could be governmental and societal pushback against “black-box” applications

Reducing Bias

Firms using artificial intelligence will be pressured to guard against reducing biases amidst widespread adoption

Power Hungry

The complex calculations required by Generative AI are highly power-intensive

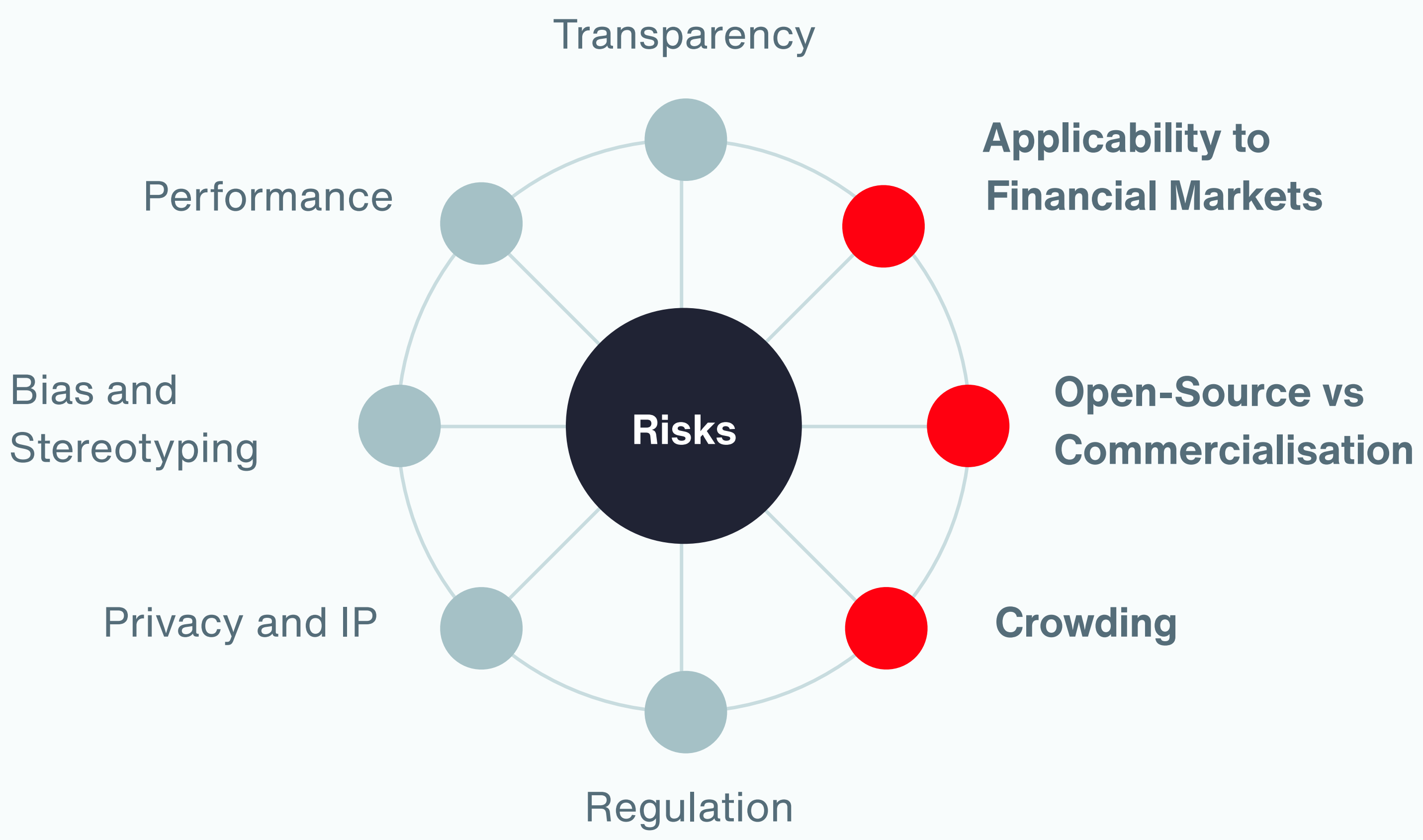
Stakeholders must carefully balance AI expansion wit Net Zero commitments

Ethical by Design

Resposible investors to encourage developing resposible designpractices

Responsible AI essential for long-term value creastion and permission for AI to operate

Risk and the Future of AI in Asset Management



Aon's Active Solution To Run On (ASTRO), Managing Equity Volatility Close to a Pension Scheme's Buyout, and Beyond

We have reported in the past on the many ways we help our clients to manage market volatility. For most investment strategies, market volatility can waylay the best of plans, especially when investment objectives are also sensitive to market timing. Last year we saw an extreme level of volatility in the UK gilt market and we reported on how we helped clients manage their investment exposures in the face of dramatic price volatility. This year, we feature two examples of work we have done to help manage potential volatility in global equity markets where a pension scheme is managing its approach to the 'buyout' of its liabilities.

We helped clients to:

- Manage equity volatility up until the point of buyout.
- Manage buyout position volatility beyond the point of buyout affordability under our new framework called ASTRO (Aon's Active Solution To Run On). This framework is a strategy for schemes to run on past the point they can afford to buyout and we featured the approach at our Wealth Insights Conference UK (detailed in Principle 1).

Using Protected Equities to Manage Equity Volatility for Schemes in the Last Few Years Until They Buyout

The trustees and sponsoring employer of a scheme had invested 20% in passive global equities and 80% in a 1.25x leveraged gilts (LDI) portfolio and were close to being able to afford an insured buyout of its pension liabilities. It had, however, a 5% shortfall. Buyout was to be met fully from scheme assets, with any existing shortfall to be funded largely by investment returns from existing global equity assets. To achieve this, retained equities needed to deliver high returns and the scheme was therefore exposed to global equity market volatility, especially given the relatively short timescale to the planned transfer.

How did we help?

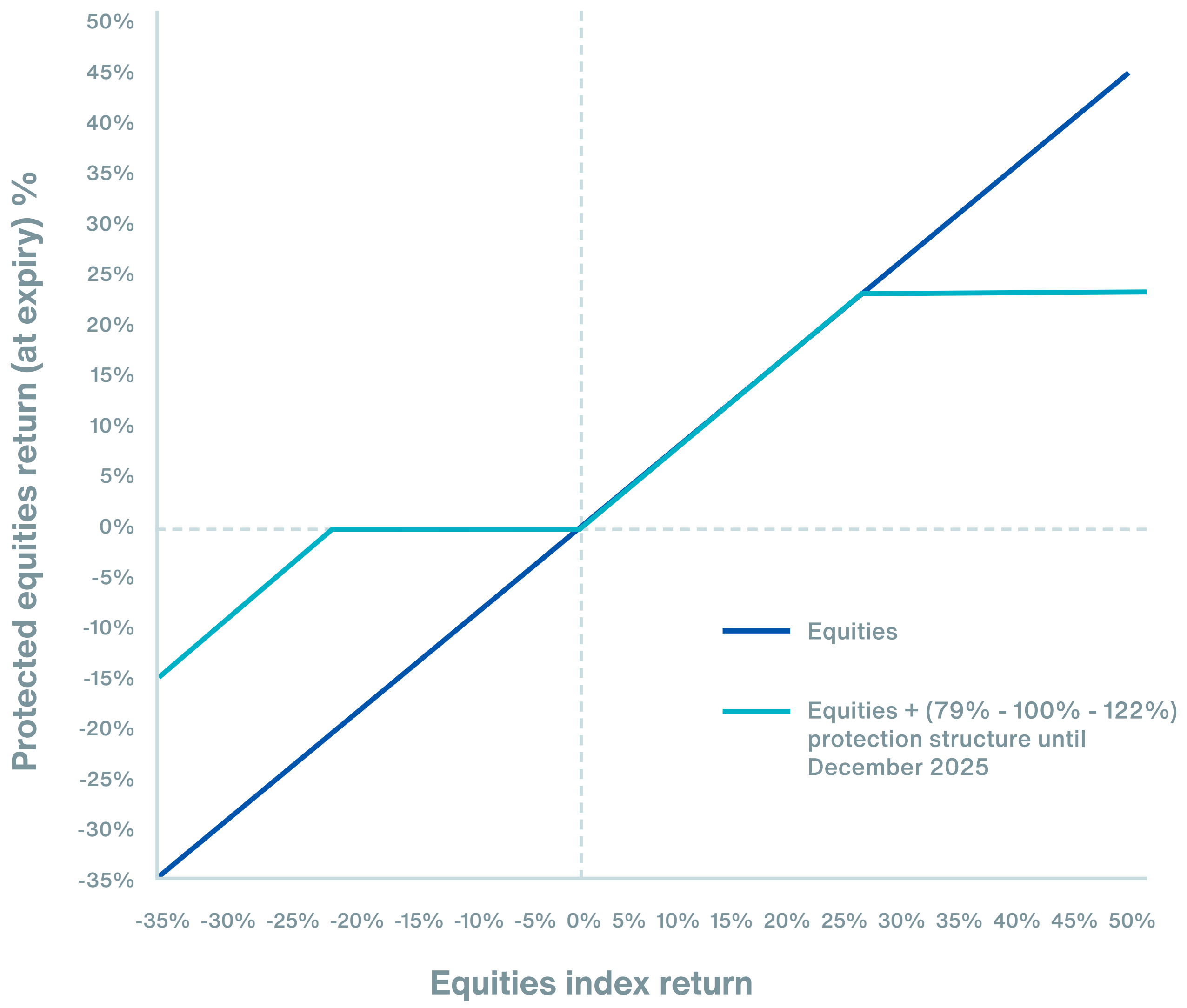
We modelled the client's required risk and return Allowing for an anticipated reduction in the estimated buyout cost at the time of negotiation with the insurer, we modelled cumulative total returns of around 22% that were needed, based on global equity returns over the period, up to December 2025. This had been projected (under certain deterministic assumptions) to be sufficient to achieve full estimated buyout cost funding.

The trustees agreed to retain global equities as the liquid growth asset class used to target the investment returns required, however, we noted the range of cumulative returns on global equities over two years could be very wide: c. +/- 50% returns had been seen over two-year periods since 2000.
As cumulative returns of -25% or -50% on the scheme's global equities could reduce the buyout funding level from 95% to around 90% or 85% respectively, potentially adding a further five years to the timescale to achieve 100%, the trustees wanted to reduce that risk.

Proposed solution: protected global equities

We proposed adding a protection structure to the global equity allocation. This did not require any upfront cash payment but capped positive cumulative global equity total returns over the period to December 2025 at the required 22%, and used the payment received from doing this to pay for a high amount of protection: the scheme would not expect any loss of global equity value until negative cumulative total returns, to December 2025 were lower than minus 21%.

This chart illustrates the expected payoff in December 2025, on the protected equity structure:



Illustrative pay off structure for a pension scheme given market returns

Residual risks

We also discussed other residual risks with the trustees, such as variability in the timing of the buyout, and identifying mitigating actions that the trustees could take either immediately or over time if those risks were to emerge.

Introducing Astro, a Strategyfor Schemes to Run on Past The Point They Can Afford to Buyout in a Highly Risk Managed Way

ASTRO is based on a collation of best practice and existing tried and tested solutions — solutions which we have already employed with many of our clients over many years. A couple of changes in the marketplace have provided the impetus to create ASTRO in its current form today, including the industry-wide improvement in average funding levels and the UK government’s increasing support for pension schemes running on beyond buyout.

With the ASTRO framework, we have drawn together the actuarial, investment and covenant expertise and tools, insight and modelling to build a run-on framework that delivers surplus and security for members.

A key investment tenet of ASTRO is that as risk is measured relative to the expected future cost of buying out the liabilities (so trustees retain the option to buyout should they wish to do so) then ASTRO asset portfolios share many of the characteristics of how insurers invest. The approach therefore includes allocations to gilts and swaps to hedge interest rate and inflation risks, as well as allocations to liquid credit to enhance return and hedge credit spread risk elements of buyout pricing bases.

These case studies explore how adding protection to a global equity portfolio helped trustees manage the risk in its liquid growth assets in the period to buyout whilst the remaining funding gap was met from returns on those equities; and how investing largely in credit based assets “like an insurer” can help well positioned schemes to elect to run on, beyond the point of buyout, and do so in a risk managed way; where risk is measured relative to the expected future cost of buying out.

Systemic Risk

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

Further Developments in Aon's Climate Scenario Analysis Tools

Each year of our reporting to the UK Stewardship Code, we have described how developments to our climate scenario analysis tools help to measure more effectively the impact of global warming across a portfolio of assets within prescribed temperature scenarios. For many clients, climate scenario analysis is an important aspect of the TCFD reporting recommendations and the analysis has become an important part of assessing climate risk at the strategic asset allocation level and making asset allocation decisions.

These scenarios are modelled to show the impact on assets and augment risk and return profiles, taking into account the liability side of the equation and mortiality impacts. They are designed to analyse the risk to economies and financial markets under different temperature paths, but importantly also consider actions — or lack of actions — of market participants and policy makers under each scenario, by the incorporation of discrete regime shifts beginning within the next ten years.

- **Sub case study 1: Putting Plans into Action, a client example**

The client had been a long-term advocate of sustainability and recognised the increasing importance of accounting for climate-related risks within their investment portfolio.

They had c.£3 billion of assets invested with 25 investment managers across a well-diversified range of asset classes and mandates, including public and private equities, infrastructure and property, a nd corporate and UK Government debt.

The client decided that its next steps would be to set a net-zero emissions target and to improve its climate-related disclosures.

What did we do?

We assisted the client by developing several alternative transition pathways so that it could consider and select and appropriate net-zero target date for their investments.

This innovative approach was broken down into three seperate stages:

- We undertook comprehensive climate risk analysis and scenario testing of the current investments, allowing the client to identify material climate-related risks and consider potential alternative portfolios that could reduce the risks exposure under various climate scenario pathways.
- We then developed a range of transition pathways with different end dates to allow comparison of the actions that would be required under each. We worked with the client to select one transition pathway that set out and emissions trahectory for their portfolios to 2040, recommendations for implementation and interim actions for 2025 and 2030.
- We engaged with the scheme's investment managers to gather carbon data and evaluate their responsible investment policies based on their transparency, net-zero alignment and engagement with underlying companies. The analysis identified which managers were the top emitters and suggested appropriate carbon footprint reduction milestones to reach net-zero by 2040.

- **Sub Case Study 2: Adding a Qualitative aspect to Climate Scenario Analysis**

There are many challenges with climate scenario modelling not least because it is difficult to create robust assumptions about future asset value of climate impacts when there are multiple layers of uncertainties. Scientists themselves are uncertain about the timing, location, or scale of the expected physical impacts of climate change; economists are uncertain about the societal and economic impact of those physical events; and there is then the added uncertainty over policy and asset responses to those economic impacts.

We therefore took a fresh look at industry wide climate scenario analysis — supplementing quantitative analysis with a qualitative assessment of climate-related risks and opportunities within each scheme's investments.

We advise our clients to treat climate scenarios with due caution and help our clients to understand the associated difficulties and uncertainties. It is important to bear in mind that quantitative climate change scenario analysis is just one element of a much wider toolkit of climate risk management and where appropriate we recommend taking a qualitative look in addition.

As the Institute and Faculty of Actuaries noted in a recent report on climate scenarios, "..time is too short to wait for models that are perfect", and out-of-model adjustments are a useful practical fix to mitigate the limitation of quantitative modelling. We agree, and whilst we leverage our industry-standard quantitative scenarios in our analyses, we have on several occasions decided to adopt a more 'damaging' outcome. In this regard, the analysis of different damage functions found in recent academic challenges, to softer carbon transition scenarios, was a useful 'cross check' for us and we were encouraged to find that our 4°C scenario was anticipating a greater erosion of GDP than even the most severe (exponential) damage function illustrated in those papers.

What did we do?

- For a number of well-funded and de-risked schemes, where it was reasonable to assume a good degree of climate resilience in respective portfolios, we added a qualitative view to their climate scenario modelling as reported in their TCFD reports. In these instances, underlying asset managers to a scheme were asked to complete a table identifying, across asset classes, their view of 'low' to 'high' physical and transition risk, with commentaries.
- We also took the decision to explore the impact of combining one or more of our 'bad case' climate scenarios with our existing Dark Skies economic scenario. The general economic malaise we illustrate in 'Dark Skies' (worsening geopolitical instability, disrupted supply chains, failures of smaller banks, widespread corporate bankruptcies, etc) is a plausible outcome of increased climate stress and therefore a reasonable scenario backdrop in the event of those worst-case climate outcomes unfolding. However currently our Dark Skies scenario unfolds over a shorter horizon than the climate scenarios and therefore some careful work is required before they can be combined.

We believe the market will ultimately start to focus on more sophisticated quantitative modelling, meanwhile however, qualitative and augmented analysis can be a more pragmatic alternative for some schemes to reflect more extreme near-term outcomes of global warming.

Encouraging Proactive Action to Mitigate Cyber Risk

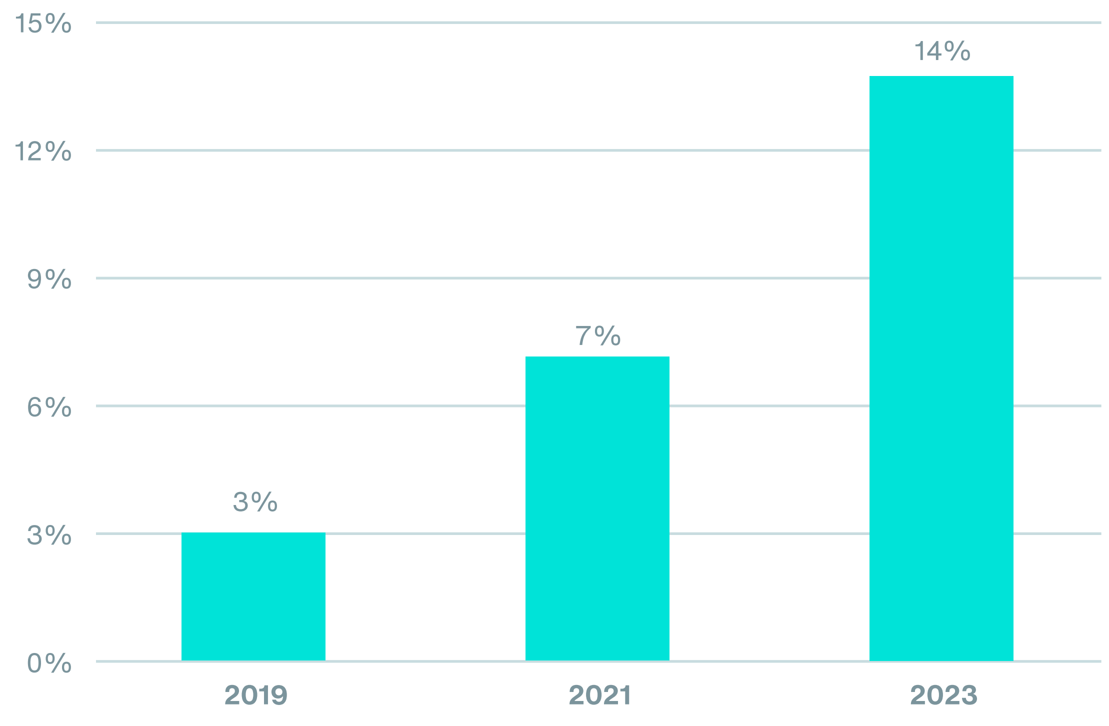
Many trustees are reviewing the levels of cyber risk in their scheme as a matter of urgency given the rising level and significant impact of attacks. In Principle 6 of the Code, we feature our biennial Global Pension Risk Survey, where we asked financial market players what their top ten concerns were. 68% of our 2023 survey respondents highlighted an increased focus on cyber risk, with many schemes looking more critically at the controls in place at their suppliers for the first time. In past years we have reported how we consult on the issues with a view to mitigating cyber risks.

Proportion of schemes impacted by cyber risk:

In our past two surveys (2019 and 2021), many of our clients were aware of, and had taken some steps to mitigate cyber risk. The number of respondents reporting that they had been impacted by cyber incidents has grown from an initial 3% to an alarming 14% in 2023. In fact, the number of schemes impacted by a cyber incident has doubled every two years.

The current recommendations from The Pensions Regulator (TPR) on managing cyber risk, published in 2018, is guidance only and many schemes have yet to take action in this area. In our 2021/22 Global Pension Risk Survey, we reported that larger schemes were starting to take a more considered approach to cyber risk — documenting actions, policies and procedures in a formal cyber policy and we see that this trend has continued, with many small and mid-sized schemes following suit. The most sophisticated schemes have now built an effective governance framework for managing cyber risk, with trustees regularly reviewing plans and policies, and possibly receiving regular reports from their providers. For them, this is established business-as-usual activity. Respondents in our latest survey were asked about various cyber risk-related actions; the graph below shows how many schemes have either taken these actions or plan to over the next 12 months.

Proportion of Schemes Impacted by Cyber Incident



Source: Aon's Global Pension Risk Survey 2023/24

These actions fit neatly into the cyber framework that we recommend to our clients — **'Seek, Shield and Solve'**:

Seek: understand the nature of the risk, which includes documenting those risks.

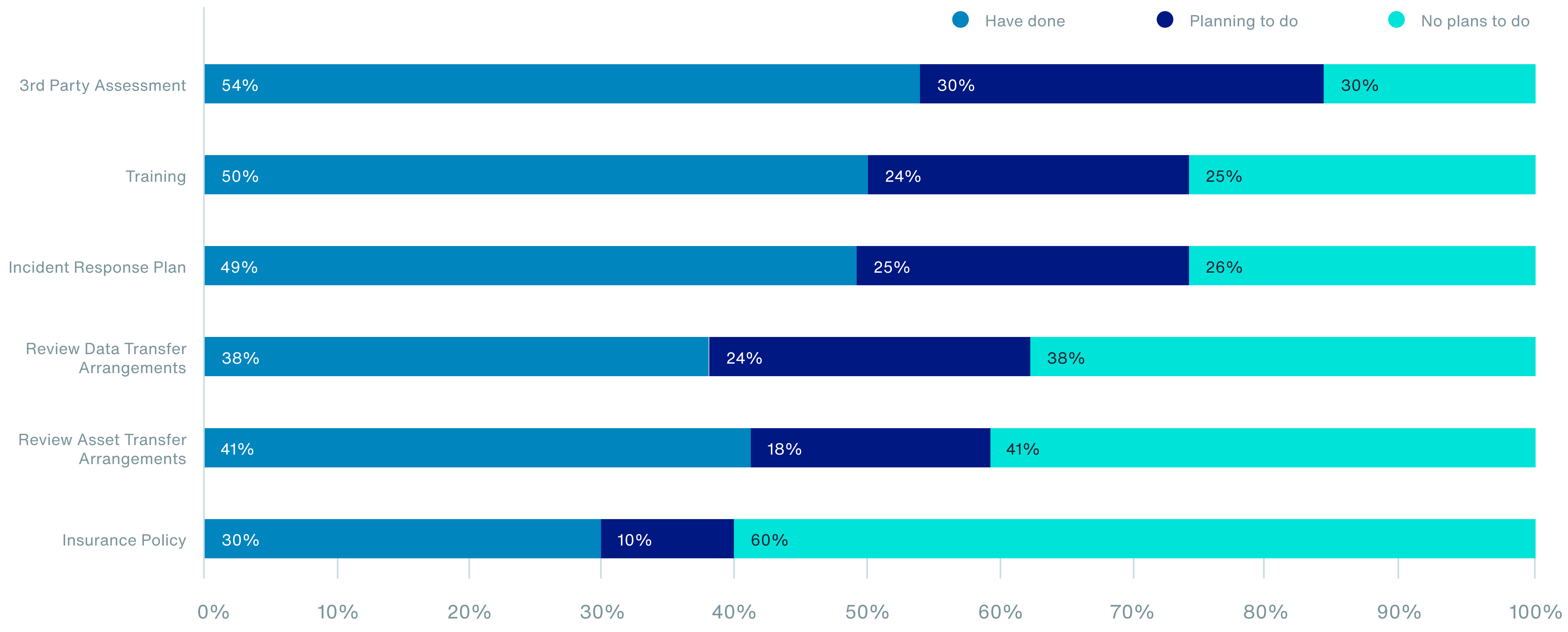
Shield: take actions to protect the scheme, which includes provider reviews and mitigations.

Solve: be able to deal with an incident, which includes preparation of an incident response plan.

Looking at specific areas, three common actions being taken by schemes (other than general cyber training) continue to be: reviewing data transfer agreements, assessing third-party providers and developing incident response plans.

With so much on the trustee agenda, it is understandable that there remain a significant number of schemes which have yet to take action and formulate insurance plans against the threat of a cyber incident. Aon encourages proactive action however, and the polarisation between large and small schemes is also an area for concern as cyber risk is common to all pension schemes. While not every action identified above will be appropriate for smaller schemes, some basic steps are still best practice — for example, the adoption of an incident response plan. Schemes which have yet to take action will have the benefit of seeing what others have done, what works well, and finding a solution that is appropriate to them.

Progress on Cyber-Related Actions in the Next 12 Months



Source: Aon Global Pension Risk Survey — UK, 2023

Managing Social Factors in Investments

Aon is a member of the Department for Work and Pensions (DWP) led Taskforce on Social Factors (TSF), and over the course of 2023 we helped to draft an industry-wide guide on how pension scheme trustees can consider social factors within their investment strategies. We were able to give our view of the present state of social risk integration given we have interacted with a wide range of asset managers on the topic. We believe that social factors are an integral part of the sustainable financial future for pension trustee clients and their members and have therefore been at the forefront of the development for an action-based guide. Clients can use the guide to consider and incorporate social factors into their investment and stewardship decision-making.

The guide elaborates on three main areas:

- Why material social factors are important from an investment perspective, and how taking these into consideration aligns with a pension trustees' fiduciary duties.
- Focus on data which clients can use to manage social factors in investment, along with a materiality assessment framework to help prioritise areas for action.
- How to address social factors in pension portfolios using a framework. The guide provides a baseline for best practice with a deep dive into the issue of modern slavery.

We recognise the importance of social factors for the financial performance of investments and were able to contribute extensively to the guidance around the incorporation of modern slavery as part of key social issues. Modern slavery is a topic we have engaged on with asset managers in recent years, encouraging them to seek out exploitative and discriminatory practices within financed assets.

The TSF guide was released for consultation in October 2023, which can be found here. Post the release of the guidance, we then provided further feedback to the TSF to assist with shaping robust frameworks around social factor considerations for pension scheme investment strategies. We await the final guidance and look to incorporate it within our day-to-day advice for pension trustees.

Identifying Trends in Responsible Investment Management Practices with the PRI

Aon has built information technology expertise to navigate and analyse the PRI's reporting database. In recent years, we have worked with the PRI to understand emerging trends in responsible investment markets, using the reported data in asset owner and asset manager transparency reports.

In last years' code submission, we highlighted two such reports and these can be found here:

- Inside PRI data: Investment manager practices | PRI reporting analysis | PRI (unpri.org)
- Inside PRI data: asset owner action | PRI reporting analysis | PRI (unpri.org)

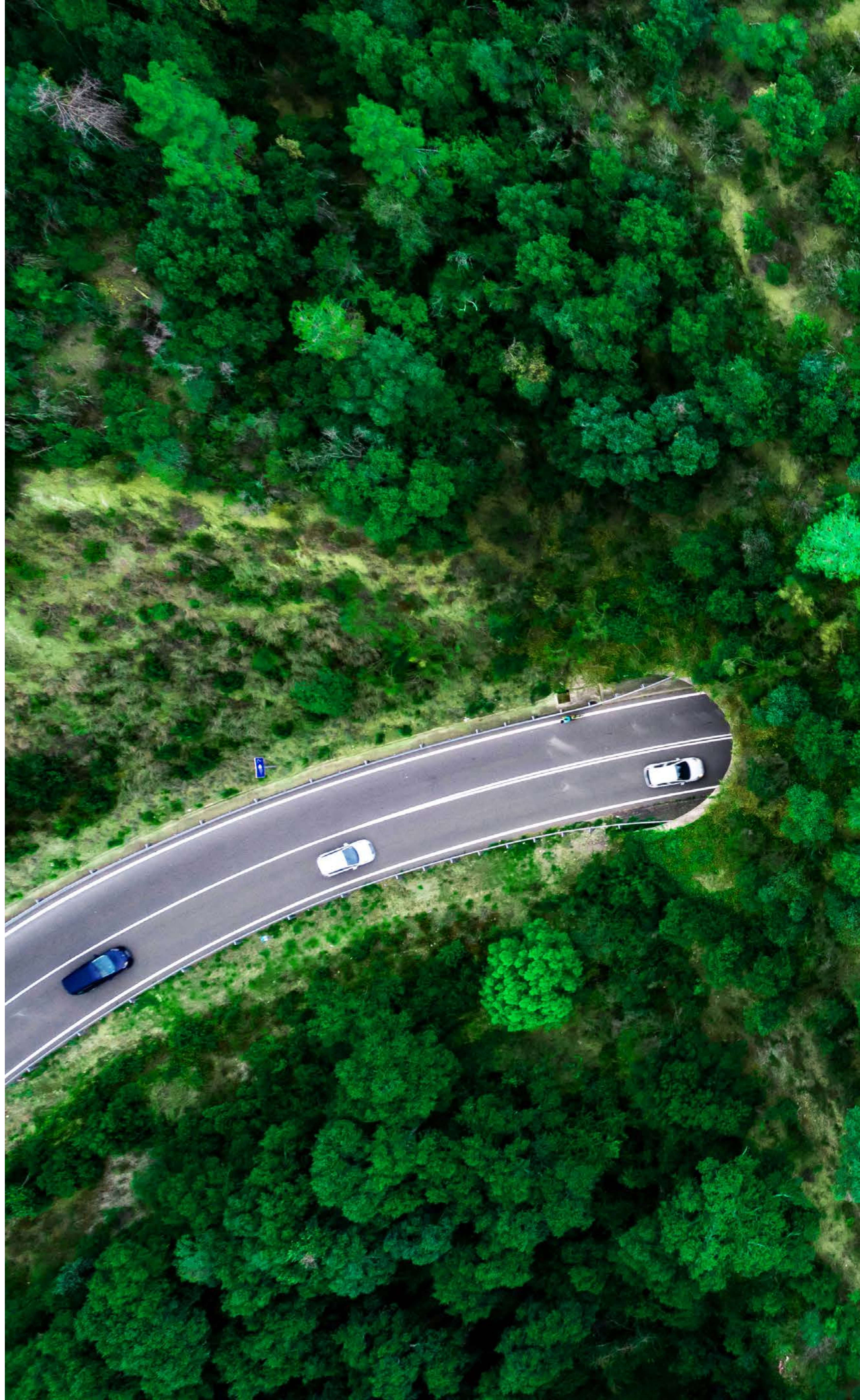
In 2023, a similar exercise was again undertaken with new selected indicators for us to map trends and developments in the responsible investment industry, highlighting areas where practices are advanced and others where they are less developed.

We produced an analysis of selected reporting data by segmenting data (by investor type, region, AUM size etc) highlighting trends and drawing comparisons to historical reported data. We fielded a team from Aon's Responsible Investment team and members of the Aon Center of Innovation & Analytics (ACIA). The work used both qualitative and quantitative analysis techniques to identify trends, for example natural language processing (NLP) techniques. This enabled us to interpret large sets of data in a meaningful way across distinct factors.

Some highlights include:

- More signatories are making elements of their formal responsible investment policies public. Analysis suggests that the PRI has extended its reach beyond seasoned responsible investment investors and is becoming more mainstream.
- A material percentage of signatories reported on their human rights commitments. There is positive momentum for this topic; this aligns to trends we have observed in our own client base.
- A stronger trend in asset managers and asset owners identifying climate-related risks and opportunities in their investments is apparent. Our experience of our client base is that this trend is largely driven by climate-related regulations and reporting in line with the TCFD recommendations.
- There is more work to be done with respect to conducting scenarios analysis. It is notable that an asset managers' size, scale and level of internal resource significantly influences their ability to conduct portfolio-specific scenario analysis.
- Prioritisation of biodiversity remains at low levels relative to related issues such as climate, but with the inextricable interlinkage of those issues, we expect to see further increases in the proportion of signatories identifying biodiversity as a focus.
- The evaluation of proxy voting approaches is much less prevalent than evaluating broader approaches to stewardship, and there is further work to be done on aligning managers' policies with their voting activities.

The report has recently been published on the PRI website here and offers needed transparency for market participants to see how approaches are evolving. The transparency enables market participants to manage ESG risk factors and strengthen responsible investment governance more effectively.



Aligning our Investments and Advice

There are many ways we align our investments and advice to our global beliefs and values. We offer a selection in the highlights below.

Sustainable Investment Solutions:

We believe that markets do not currently adequately price ESG risks to ensure the sustainability of assets over the longer term and therefore evaluating levels of ESG integration within strategies is needed. Encouraging capital towards managers that explicitly factor ESG considerations into their investment decision making processes will, over time, improve the pricing of ESG risk in markets more broadly.

Aon seeds two new net zero aligned funds

Our Manager Research team sought to partner with two asset managers to create strategies that helped alignment to the Paris Agreement, providing a credible pathway to net zero whilst maintaining investment objectives suitable for client needs. Our aim was to work collaboratively with the asset managers to ensure that the underlying investments of the strategy contributed positively to reducing carbon emissions of the portfolio over time. We look to measure continued reductions in carbon emissions, rather than simply committing to net zero by 2050, as the target.

Aon's Approaches to responsible investment strategy implementation

Manager assessment, selection and review	Responsible Investment Solutions	Impact Investment Team	ESG-integrated delegated solutions
ESG Ratings — these reflect our view of manager levels for the identification and mitigation of financial risks as pertains to ESG factors. **Engagement Programmes** — Monitoring active investment stewardship behaviours, taking account of ESG engagement, voting and collaboration to achieve best practice. See Principle 7 for more detail.	**Equity** — An established product set is offered with market innovation focused on index based and impact equity. **Fixed Income** — Broad based product development with heightened impact focus. **Liquid Alternatives** — Growing set of opportunities across the risk/return spectrum. **Real Estate** — Housing/Aged care specialty and diversified approaches. **Infrastructure/Private Equity** — Product innovation with current energy transition focus.	Launched early in 2022, our impact investing solutions across asset classes, bring solutions to clients designed to tackle specific environmental and social challenges. This is described in more detail in Principle 7 of the Code. We offer a global equity impact fund, a sustainable multi-asset credit fund, a global equity climate transition fund addressing climate meaning we have set a precedent for incorporating ESG into the private debt market.	Access to pooled funds that incorporate ESG factors into their investment processes.

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

- **Fixed Income: We seeded a Carbon Transition Global Short Duration Bond Fund**
  Our objectives for engagement with AXA IM were to discuss the opportunity of creating a net zero version of their existing Global Short Duration Strategy without material change to the volatility or return objective of the strategy. Our Manager Research team undertook a process of engagement through several meetings with AXA IM to create strategy guidelines that aligned to the needs of a high level of liquidity, low volatility, provision of steady yield while also achieving decarbonisation over the medium to long term. Additionally, we worked with AXA IM to agree a dual objective of achieving investment returns 1.5% above cash over a cycle, while maintaining a weighted average carbon intensity (WACI) below that of a carbon benchmark.

  Carbon benchmark: ICE 1-5yr Corporate Credit Index has a decreasing WACI of 7% YoY. It is initially calculated with a WACI 30% less than its sister index, the short-dated global corporate index (ICE BofA 1-5 Year Global Corporate Index).
  Furthermore, we undertook rigorous due diligence to ensure that AXA IM's climate framework was fully integrated to the investment process of the fund, such that underlying research into carbon intensity is undertaken at an issuer level and operating within a credible framework rather than the portfolio just being aligned to its stated carbon emissions objective.

  AXA's investment process: MSCI data and proprietary research is integral to their climate scoring framework, allowing issuers to be categorised as 'aligned', 'aligning', 'committed' or 'not aligned' using quantitative and qualitative inputs. AXA IM operate a colour coded climate framework that operates alongside fundamental credit scores, short term outlook and ESG considerations to give an overall view on the issuer thereby fully integrating carbon transition into portfolio construction decisions.
  In this way, issuers are fundamentally aligned to the net zero objective and 'laggards' are avoided. Two key challenges that we faced were the availability of carbon intensity data and the disparity between asset classes in accurately assessing carbon intensity.
  The availability of carbon intensity data is provided by external data sources. There is c. 10% of the portfolio which may not have coverage; however, this was deemed to be reasonable with the view that over time, industry data and carbon intensity metrics will improve. Moreover, by nature of the asset class it is sometimes more challenging to accurately assess the carbon intensity of sovereign issuers and some emerging market issuers. As a solution AXA IM proposed monitoring the sovereign carbon intensity through monthly ESG reporting and utilising existing sectoral policies around fossil fuels, ecosystem protection & deforestation, controversial weapons, as well as soft commodities.

- **Equity: Aon seeded an Emerging Market Climate Transition Fund**
  Similarly, our Equity Manager Research team worked with UBS Asset Management to create a fund aligned to net zero investment objectives. The fund has a 'rules-based investment strategy' investing in emerging market companies while helping clients aiming to decarbonise over time in line with the IPCC's 1.5°C scenarios within an asset allocation to emerging markets. The fund applies positive and negative 'tilts' when compared to a broad emerging market index, reducing the fund's weighted average carbon intensity and boosting exposure to companies aligned with the climate transition.

  The strategy will also seek exposure to companies that align with the UN Sustainable Development Goals relating to health, clean energy, decent work, responsible consumption and production, and climate action. This social characterisation meets many clients' desires to bring around decarbonisation alongside a 'just transition' — aligned with the ambitions of the Paris Agreement.

Responding to Regulatory Consultations:

Aon responded to numerous consultations in 2023 and we list a selection of those which were orientated towards investment stewardship below.

Mansion House 'Call For Evidence'

We illustrate our response below, in our role as pension scheme advisor, to a consultation led by the DWP. We work with the trustees and sponsors of around 1,000 UK pension schemes, and globally, we work with more than 2,300 clients with assets totalling $3.8 trillion. This makes Aon one of the largest pension advisory firms in the UK market and we have valued insights into the drivers behind the investment decisions which pension schemes make.

Consultation – our responses to	Date
FRC consultation on AS TM1 v5.1	04/12/2023
TSF consultation on Social Factors	28/11/2023
DWP consultation on general levy 2023	13/11/2023
PPF consultation on 2024-25 levy	27/10/2023
DLUHC's consultation on LGPS investments	02/10/2023
DWP HMT call for evidence on trustee skills	05/09/2023
DWP consultation on options for DB schemes	04/09/2023
DWP consultation on ending the proliferation of deferred small pots	31/08/2023
DWP consultation on helping savers understand their pension choices	31/08/2023
FRC consultation on TAS 300 and TAS 310	04/08/2023
HMT consultation on ESG ratings	19/07/2023
CMI consultation on S4 mortality tables in WP174	30/06/2023
DLHC consultation on McCloud remedy in the LGPS	27/06/2023
WPC inquiry on the future of DB pensions	27/04/2023
IFoA proposals for regulatory requirements on DEI	20/04/2023
DWP consultation on extending CDC opportunities	27/03/2023
DWP call for evidence on deferred small pots	27/03/2023
TPR consultations on DB funding Code and Fast Track	24/03/2023
DWP, FCA, TPR consultation on Value for Money — A framework on metrics, standards and disclosures	22/03/2023
CMI Working Paper 168	03/03/2023
FCA consultation on Sustainability Disclosure Requirements	27/02/2023
TPR consultation on dashboards compliance and enforcement policy	20/02/2023
PPF consultation on valuation assumptions	20/02/2023

We were pleased to submit our response to the DWP's Call For Evidence, responding on behalf of our clients, promoting their needs with respect to changes in perceived best practice and changes to legislation.

- **'Options for DB pension schemes', investing in Productive Finance**
  In our response, we were supportive of the UK Government's objectives in this call for evidence; namely facilitating more flexibility for pension scheme management, whilst maintaining appropriate security for members' benefits and not undermining trustees' fiduciary duties. In a recent survey of 330 trustee and sponsor clients, 30% said they would consider running on a pension scheme to target surplus and 17% suggested they would be interested in a public consolidator. This proves that there is interest from the market in some of the areas being investigated by this call for evidence.

  Many of the options under consideration had the potential to lead to better outcomes for members, sponsoring employers and the economy. Equally many of the options, if not implemented appropriately, could potentially increase risk significantly for all. Our view was supportive of the Government consulting on the matters and considering them in a careful and evidence-based way and our response gave perspectives to the UK Governments' questions from our point of view and reflected the issues that could arise on behalf of our clients.

- **'Pension trustee skills, capability and culture'**
  Our response here, was a reflection of our client base and our experience of working with trustee boards both in trustee effectiveness and board governance, and as investment advisers to both DB and DC schemes.
  Our overall views of the key questions raised in the call for evidence were:
  - Trustee knowledge and skills are not necessarily barriers to effective decision making (investment or otherwise).
  - Trustee boards make decisions as a group not as individuals. The collective skills and expertise on the board is supplemented by adviser resource to fill the knowledge gaps.
  - Professional trustees can be beneficial in supporting effective decision making on trustee boards: they often bring specific expertise, which is not necessarily investment expertise.
  - Any pension trustee accreditation framework should be meaningful and reflect broad skills, experience and diversity characteristics as well as the traditional factors.

There are multiple competing matters for trustee boards to consider when deciding on appropriate investments including: required return, liquidity, risk, net zero targets, investment governance requirements and costs. We welcome a TPR refresh of the training toolkit and believe it should reflect the role of the 21st century trustee.

Joining the Mansion House Global Compact

The Mansion House Summit was held late in the year and hosted by the City of London Corporation. Attended by the UK Chancellor of the Exchequer who framed the Mansion House Compact which we are pleased to announce that we have joined. The Mansion House Compact is a voluntary commitment by the UK's largest pension providers to invest at least 5% of their default assets into unlisted equity by 2030. It aims to deliver on the dual aim of securing better returns for savers and ensuring fast-growing businesses in sectors like fintech and biotech can stay and grow in the UK. In joining the Compact, our commitment encompasses both The Aon MasterTrust and BigBlue Touch (Aon's Group Personal Pension), as well as our trust-based solutions.

In our view, investing in private assets, including unlisted equities, is expected to deliver improved outcomes for members through better expected returns (net of charges) and increased diversification over the long term. Reflecting this, we are already looking at the potential to incorporate an allocation to private assets within our default strategies and researching potential funds and asset managers.

The Mansion House Compact also aligns with the move by the UK Government in recent years to facilitate investment by DC pension schemes in private assets and helps opens up access to these markets. While there remain some operational and practical challenges, we are already seeing significant innovation in this market and based on the summit at Mansion House, it is clear there is very strong and broad commitment across the DC market to resolve the challenges.

"Our focus continues to be on member outcomes and delivering the best value possible for members through the investment strategy. Investing in unlisted equities and other private ass ets brings the potential to deliver improved outcomes for our members over the long term. We believe the Mansion House Compact will add momentum and support the move by DC pension schemes to invest in private assets and open up new areas for investment.

Jo Sharples, CIO Aon DC Solutions

Furthermore, given our commitment to achieve net zero emissions within our default investment strategies by 2050, investing in unlisted equities provides us with opportunities to invest in more businesses that are innovating and developing solutions to tackle some of the most significant challenges we face, including climate change. Investing in such businesses will not only help us achieve our net zero ambitions but also make a positive impact on our economy and society.

Reflecting our Sustainable Impacts Through our FIrst Year's Reporting to the Impact Investing Adopters Forum Membership

Aon recently joined the Impact Investing Adopters Forum and 2023 was our first year of reporting. As a member of the Forum, we are required to report annually evidencing the progress that we and our clients have made in the adoption and implementation of the Principles.

Aon was highly commended for Purpose For Pension's Impact Investing Adoptor Award 2023, promoting place based impact, social impact and alignment with the Paris Agreement (see Principle 1).

There are four Impact Investing Principles, which we set out below with a summary of our reporting points:

- **Set impactful objectives.**
  We reported how we use our framework 'ViewPoints' (see Principle 6) to ensure a client's objectives are clear and based on their beliefs, enabling them to monitor their progress against a plan, remain aligned to their responsible investment policy and incorporating their sustainability and impact investing goals.
- **Appoint investment consultants and managers with impact integrity.**
  We reported how we utilise our Manager Research's ESG ratings framework to evaluate the level of ESG integration with an investment strategy and further, encourage a shift in the level of importance being placed on these factors by our asset managers.
- **Use your voice to make change.**
  We reported our provision of responsible investment training to educate all clients so they can consider the different approaches to responsible investing; impact investing being one of our core pillars. We have recommended a number of investment solutions where impact investing is a portfolio objective and through our manager engagements, we can influence change by highlighting areas for improvement or gaps that can be addressed.
- **Manage and review your impact.**
  We detailed our responsible investment reporting through our RI-360i tool (see Principle 2). This tool gives transparency around ESG risk incorporation into a scheme's capital allocation, including allocations to impact funds. For our key global impact investment offering, invested clients receive an annual report which reports on the fund's investment impact and contributions to the UN Sustainable Development Goals over the year.

Better Aligning an ESG Questionnaire for Bulk Annuity Providers

We helped our risk settlement team to gain a better understanding of insurers' understanding and preparedness for the risks and opportunities associated with climate change, by better aligning our ESG questionnaire to specified issues. Before the ESG questionnaire was enhanced, we were less able to efficiently compare insurers' risks in respect of climate change with other asset classes, in as much detail as recommended within the TCFD recommendations. Now, with new questions that align with TCFD reporting, we can deepen our analysis of insurers, improving our ability to communicate to clients the comparable insurer approaches and more readily respond to associated risks.

What did we do?

- Undertook thematic research to enhance the previous questionnaire, introducing more specific questions regarding risks & opportunities.
- We added questions regarding bulk annuity portfolios that have net zero targets. This filled a gap, helping bulk annuity providers to plan annuity profiles towards a 1.5-to-2-degree global warming target.
- We addressed participation in industry initiatives, for example: 'Do you play a leading role in progressive public policy initiatives on E, S or G issues?' Such questions uncover insurers' awareness and attitudes towards ESG, allowing us to appropriately assess the contribution and effectiveness of bulk annuity providers within the scheme.
- We incorporated a quantitative analysis of climate risks into the questionnaire, giving opportunity for bulk annuity providers to enhance how their climate-related physical and transition risks are considered across the portfolio in a way that is comparable with other asset classes.

How did this better align our investment advice?

- Our assessment of the climate risks associated with bulk annuity portfolios can be better aligned with recommendations of TCFD reporting.
- We can better critically analyse awareness and preparedness of insurers both from a quantitative (using a RAG analysis alongside smaller adjustments such as requesting metrics to be aligned with methodology set out in the Investment Associations' Carbon Emissions Template) and qualitative analysis.
- Clients can now directly compare their bulk annuity portfolios with other asset classes in their schemes.
- This gives way to enhanced reporting, with more detail around insurers climate-related risk exposure and awareness of the climate-related opportunities.

Ultimately this has led to enhanced proactive reporting in respect of the insurer selection process during prospective buy-ins.

Summary

We recognise that we have a strong role to play in the promotion of well-functioning investment markets as our day-to-day business is always focused on risk mitigation in all its forms. We have shown that we are good at rising to the challenges, coordinating teams, working together as one firm in order to navigate new forms of volatility, rethinking access to capital, and maintaining market integrity.

All the activities and case studies above have outcomes which help to guide clients, shaping better investment decisions over the year and demonstrably reducing risk.

Principles 5–12

Investment Approach

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

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

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

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

5

Principle 5

Review and Assurance

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

As set out under Principle 2 of the report, our responsible investment governance structures ensure effective senior oversight, locally and globally, over our responsible investment activities. Additionally, we have regulatory and legislative obligations for review and assurance. Our clients and their advisors (e.g., lawyers) also review, assure and assess our policies, processes and practices from different perspectives. This leads to a continuous process of checking and improvement. We list examples below of some standard internal governance processes which permeate our business with respect to responsible investment and investment stewardship.

Compliance Assurance Team – Overall Assurance

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

Aon UK has a monitoring programme which focuses solely on its Wealth related business. The programme is executed annually and includes activities that focus on and address key regulatory risks. The programme measures the business against the FCA's regulatory Principles for the conduct of business which aligns to the view that the Principles are the foundations of good conduct and should be used as a way of overseeing and assessing whether a firm's conduct remains appropriate. The business effectiveness against each Principle is measured on a half yearly basis as a combination of weighted outcomes from a series of monitoring topics and activities. By weighting topics and reporting on the outcomes, the programme produces a dashboard of management information to the leadership team which diagrammatically identifies any areas of weakness and under scrutiny can evidence where issues have arisen to assist decision making on improvements where needed. The programme is reviewed and re-calibrated with the leadership team annually, building on the previous year's experiences, revised risk appetite, and compliance monitoring outcomes. The method also allows flexibility for the leadership team to direct compliance where risk appetite determines an enhanced focus.

Investment Manager Due Diligence

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

ORSA has shifted its approach to ODD, which has traditionally been a qualitative approach to include analytical insights via the Aon Operational Risk IQ platform. The platform brings efficiencies and enables ODD benchmarking and manager comparisons across a variety of operational factors. During the global pandemic, with nearly all diligence being conducted remotely, it became apparent that access to quality ODD data was critical. The platform provides Aon and its clients with the ability to profile potential operational risks within an asset manager's business through ODD IQ reporting. Results of these reports help the ORSA team to monitor managers periodically and also prioritise managers for full re-underwriting.

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

Policy Review

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

AIL ESG Reporting Committee and Policy, 2023

AIL's ESG reporting policy governs the fiduciary team's approach to ESG reporting and is overseen by the AIL ESG Committee. The policy aims to provide a clear ESG reporting governance framework to successfully meet ESG reporting obligations and mitigate business risks stemming from ESG disclosures. We give elements of the policy below:

Role, accountability and composition of the AIL ESG reporting committee — 3 defined aims and responsibilities:

1. Ensure AIL meets its regulatory obligations, and the regulatory obligations of the funds it provides investment management services to on ESG-related reporting and disclosure.
2. Set a clear division of responsibilities and accountabilities to implement ESG reporting.
3. Act in an advisory capacity to the Investment Business Risk Committee ("IBRC") and AIL Operating Committee ("OpCo").

Accountability:

- The Committee will report into the IBRC and OpCo. These two groups will retain ultimate accountability for AIL's ESG reporting but delegate the day-to-day decision making to the Committee.
- The legal and compliance team and Chair of the Committee retain a veto on the reporting decisions made by the Committee.
- The Committee will seek sign-off on new regulatory ESG reporting from the IBRC and OpCo.

Composition: The following teams are represented within the Committee:

- Legal
- Compliance
- Risk
- Defined Benefit and Defined Contribution investment teams (e.g., Portfolio Specialists and Portfolio Managers)
- AIL Operations
- Responsible Investment

ESG Reporting Principles:

1. Provide reporting that is transparent, verifiable and decision-useful.
2. Support our clients in meeting their own regulatory disclosure requirements within a clear framework to ensure AIL does not assume responsibility or risk for clients meeting their own regulatory requirements.
3. As much as possible, align with guidelines and recommendations published by widely recognised global (and regionally-relevant) bodies and internal working groups, e.g. Task Force on Climate Related Financial Disclosures (TCFD), Principles for Carbon Accounting Financials (PCAF), Principles for Responsible Investment (PRI), Financial Reporting Council (FRC), International Sustainability Standards

Board (ISSB), Financial Conduct Authority (FCA), Pension and Lifetime Savings Association (PLSA), Task Force on Nature Related Financial Disclosures (TNFD), Central Bank of Ireland (CBI) and Aon Climate Standards Working Group (CSWG).

4. Strive to reflect best practice.

5. Review and re-evaluate processes and third-party providers to hold ourselves and third parties to high quality reporting standards.

Framework for Implementing ESG Reporting:

This policy document defines the responsibilities that key teams are accountable for within the ESG reporting process. We have split each team's core roles into 3 pillars to ensure the Committee delivers on its objectives:

- Expertise — Each member of the Committee has subject matter expertise that is applied in the context of ESG reporting.
- Accountability — Each team represented within the Committee has specific deliverables within the reporting process that relate to their expertise.
- Assurance — Different teams review the reporting for different purposes, such as technical accuracy, ease of understanding and regulatory/legal compliance.

This policy document also sets out a clear framework for developing and implementing ESG reporting for regulatory compliance, marketing purposes, as well as additional client and third-party reporting. Together, both the Committee and our ESG Reporting Policy provides the business with a framework to meet AIL and the fund's regulatory requirements, support clients in meeting their own regulatory requirements and deliver on the principles set out above.

The ESG Reporting Committee for our Fiduciary business also has the support of our Carbon Standards Working Group, established to ensure consistency across our carbon reporting.

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

Fiduciary Controls

External and Internal Audits of our Fiduciary Management Busines

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

Approach to Responsible Investment for our Fiduciary Solutions

Our fiduciary portfolio management process aims to integrate ESG risk factors and opportunities into our fiduciary portfolios using various methods, including strategic asset allocation, portfolio construction and our net zero commitment. Steps we have taken to incorporate ESG into our processes include:

- AIL formalising its ESG integration framework to ensure ESG risks and opportunities are monitored effectively.
- Our Delegated Portfolio Committee approving a minimum ESG rating threshold for portfolio inclusion.
- Increasing the level of manager engagement with respect to ESG integration and stewardship undertaken within underlying strategies.
- Increasing ESG specific engagements within underlying asset managers for our fiduciary portfolios.
- Producing net-zero implementation plans outlining actions to be taken to progress each of our strategies towards net-zero.
- Improving our transparency through the production of an AIL annual stewardship report and a TCFD report.

Our approach to responsible investment is reviewed on an ongoing basis to ensure our processes remain in line with industry developments and align to the Principles for Responsible Investment (PRI) framework, the UK Stewardship Code and the latest regulations issued by the Department for Work and Pensions. Our approach ensures our portfolios and underlying managers take account of financially material ESG risks and opportunities and provide everything necessary for AIL and our clients to comply with regulatory obligations.

Reviewing our Investment Approach:

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

Internal Controls for Updated Regulations:

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

ESG Data Collection Services:

AIL has appointed State Street Global Services for ESG data collection services with a view to producing consistent data and metrics and in support of AIL's TCFD and SFDR regulatory ESG reporting requirements, on behalf of fiduciary clients. The data provided by State Street's truView application will feed into Aon's RI-360i ESG reporting for fiduciary clients as described in Principle 2 of the report.

Activity and Outcomes, 2023

Evolving our Carbon Calculation Model

We developed our carbon metrics and calculations model to incorporate the latest Aon methodology and Scope 3 emissions.

Our carbon calculation model was updated to incorporate both Scope 3 emissions and the latest agreed methodologies. This ensures that the approved methodologies and beliefs are correctly specified and the introduction of Scope 3 emissions is streamlined.

Aon's Responsible Investment team continually check and review methodologies and processes for improvements and to keep our approach current. This year, the team developed a new model to calculate the carbon metrics aligned to the updated methodology that had been agreed and approved by Aon's Enterprise Risk Committee. It enabled the standardisation in the reporting of metrics that both Defined Benefit (DB) and Defined Contribution (DC) clients could use.

The redevelopment of the model also allowed for the integration of Scope 3 emissions, a requirement for clients completing the second year of their TCFD reporting requirements.

Overall, through the continued assessment of processes to monitor for enhancements, it was established that there were improvements that could be made to the existing carbon calculation model. The redevelopment of the model allowed the team to incorporate the updated methodology, report on Scope 3 emissions and standardise the way in which metrics are reported for both DB and DC clients.

Aon's Audit of its Manager Research's ESG Ratings

During the year, we undertook an exercise on behalf of the Risk and Compliance Committee, to look at our ESG ratings. While our Manager Research team reviews their ESG ratings at least annually, we also wanted to look at our overall ESG processes and associated framework. We looked at how we document ESG due diligence in terms of our ability to track manager meeting notes, ESG DDQs and other manager supplied documents — all of which we use in our ESG ratings analysis. Where a formal debrief has occurred, each individual voter ratings and rationale on the ESG component is recorded, as well as the final consensus view. We checked our approach here and how the process is executed. As of 2022, ESG ratings have been required for 'Buy' rated strategies across all asset classes, where applicable (more detail on our ESG ratings process is given in Principle 7) and our ESG ratings process is documented in our manager research process manual.

Following our review, we note that:

- Our ESG ratings are qualitative, subjective judgements made in a similar fashion to business, staff, process, performance, terms & conditions using a variety of inputs.
- Rating views on sub-components such as staff, process and risk play into the wider effort to identify financial risks from ESG.
- Our process is clear on its objectives regarding the integration of financially material ESG risk factors into the investment decision-making process.
- Where appropriate, we give feedback regarding key drivers of our ESG rating views to our asset manager partners as part of our own stewardship efforts to encourage ongoing improvement.
- We will continue to give training on our processes and have identified where risks and potential mitigation could lie with respect to our ESG ratings process.

Aon concluded that our ESG Ratings processes are robustly executed and at scale and our ESG rating comments are shared in our InBrief' and 'InTotal' documents.

We recently added sections within our process manual describing our approach to integrating impact and DE&I factors into manager evaluation and selection processes as follows:

1. **Diversity, Equity, and Inclusion — Assessment, process and description.**
   See Principle 8 where we illustrate our approach to manager engagement on the topic in a case study.

2. **Impact Assessment, Process and description.**
   We give an illustration in Principle 7 as to how we are evolving the way we regard investment 'impact', and we have further developed a template, used to assess and assure on impact per se, along the following lines:
   - Intentions — What is the real-world problem that the strategy is seeking to address?
   - Objective- What is the impact objective of the strategy?
   - Resources and incentives.
   - Impact mechanisms.
   - Measurement.
   - Regulatory alignment and reporting.

AIL's First TCFD Report

Our fiduciary team is working towards completing its first annual TCFD aligned climate disclosures report which will be published in June 2024. The report sets out the four TCFD pillars, summarising AIL's approach to climate risk management and mitigation processes. The report describes our fiduciary governance structure around climate risks and how we analyse climate-related risk and opportunities in our portfolios, summarising risk management processes and reporting carbon metrics. The reporting of carbon metrics for the AIL portfolios allows us to measure progress against our fiduciary team's net zero target and will enable us to build up a picture of the progress year on year.

The fiduciary team believes the integration of ESG considerations into its investment portfolios remains as critical as ever to deliver better risk-adjusted returns over the long term; and wanting to do so in a way that promotes full transparency and drives positive change. Our TCFD disclosures reflect our fiduciary climate beliefs and summarises how it will integrate climate considerations into its fiduciary management business.

Summary

Over the year, we focused on standards and strengthening our approach. Keeping abreast of changes within the responsible investment world is critical to us and behind the scenes a great deal of work in terms of our operations has been undertaken. While we illustrate the evolution of our carbon modelling above, we have also enhanced our operations which generate our client Engagement Policy Implementation Statements. To produce these, we gather data from our managers and have made our data collection systematic such that we ease the reporting burden for all and collate data as efficiently as possible. We have used industry templates as much as possible and are keen to relieve the reporting burden across all financial market players and promote the need for both consistency and standardisation in responsible investment reporting.

We believe our processes are robust and we take care to ensure the reporting we produce is accurate and aligned to best practice.

6

Principle 6

Client and Beneficiary Needs

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

We are one of the world's largest Investment Advisory firms with over £3.4 trillion of global assets under advice. Alongside this we provide fiduciary management services in 15 countries globally for 625 clients with around £138 billion (31st December 2023) in assets under management; of which approximately 20% is managed for UK and EMEA clients. The focus of this report is on behalf of those assets advised and managed in the UK (£19.5 billion).

Assets under advice	Number of UK DB full mandates No. of clients	Number of UK DB partial mandates No. of clients
>£1Bn	0	1
£500M–£1Bn	1	1
£250M–£500M	4	5
£100M–£250M	14	4
£50M–£100M	21	6
Less than £50M	74	42
Total	**114**	**59**

Source: Aon, as of 31 December 2023

Assets under advice	Number of UK DB investment advisory clients
>£1Bn	33
£1Bn–£500M	20
£500M–£100M	69
£100M–£50M	31
Less than £50M	98
Total	**251**

Source: Aon, as of 30 June 2023

Assets under advice	Number of UK client advised by DC consulting team
>£1BN	4
£500M–£1Bn	6
£100M–£500M	61
Less than £100M	50
Total	**121**

Source: Aon, as of 31 December 2021

In the UK, our client base is predominantly long-term investors, more specifically pension funds, and the following tables show a breakdown of the size and type of our Advisory and Fiduciary management clients in the UK.

Our UK DC Consulting team focuses primarily on advising larger trust based Occupational Pension Schemes. We currently provide DC investment advice to around 120 clients. We split this by size of DC assets as per the table above.

The total DC AUM that we provide DC investment advice for is c. £20 billion.

Understanding Client Needs

Seeking client views is an essential part of our consulting process where we look to discover and develop views as we guide clients in the advice we give. Both our Advisory and Fiduciary processes seek client views in order to provide those frameworks and solutions best suited to the individual client objectives. We do this in a variety of ways and throughout this report our approaches are described. The work is primarily led by our client leaders, and we illustrate below some of the more specific ways we seek client views and look to optimise the value we provide.

We start with our Global Pension Risk Survey 2023 and then follow with some of the tools used to further understand how our clients can better define and implement their desired investment approaches.

Articulating Value

We aim to build long-term partnerships with clients since these foster deeper mutual understanding and better decisions. This means we have a strong focus on client satisfaction. From a value perspective, ensuring the services we provide in each case are appropriate for that client's circumstances and focused on the areas that deliver value to them is integral to our approach. To support this, we have a robust structure in place to help client leaders with these discussions. This structure includes:

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

Activity and Outcomes 2023

We outline various approaches below, all with a view to identifying and giving shape to a client's stewardship needs, and how best we communicate back to them how their approach needs to evolve.

Global Pension Risk Survey 2023 – UK Findings

Every two years we undertake this survey of our UK defined benefit (DB) pension scheme clients, and our findings are a key source of information for Aon Wealth to assess key concerns of our clients and ways in which we believe markets and our client needs may evolve.

It came as no surprise that respondents said they are addressing pension risks across a multitude of different topics, covering liability risks, investment risks, governance and operational risks. What was surprising was the overwhelming theme of the 'freeform' question which we asked at the end of the survey. This question asked about other risks that we had not covered directly.

Although there was a wide variety of responses, by far the biggest concern among respondents was regulatory change, both in terms of the volume of regulatory change that pension schemes have already been asked to make and the pipeline of changes on the way — and all responses were gathered before the announcement of the wide-reaching Mansion House pension reforms of July 2023.

A significant proportion of respondents were also concerned about the potential for political uncertainty to lead to further change. Taking this into account, nearly half of respondents to this question raised regulatory change and regulatory risk as a concern.

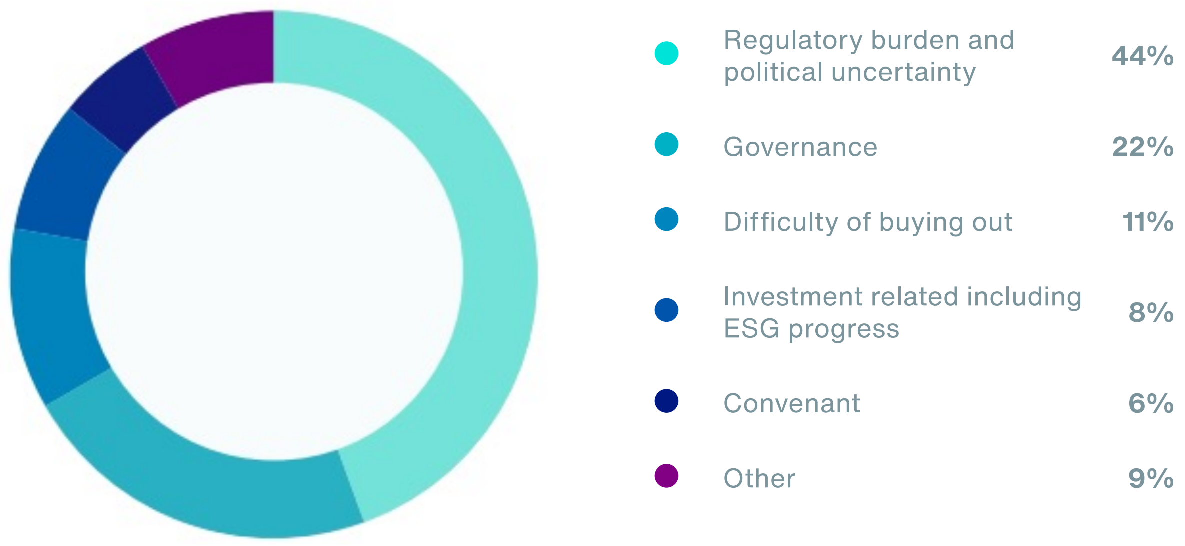
Recent years have been difficult for UK DB pension schemes. There has been persistent high inflation, testing of governance procedures during the UK gilt crisis, a raft of new regulatory requirements, and notable cyber incidents that have affected some pension schemes. In addition, there is The Pensions Regulator's General Code and new Funding Code placing even greater emphasis on pension scheme risk management.

Over the years, risks faced by schemes have become more varied and more complex. Prioritising and managing these risks need careful management. In a new question for this year's Global Pension Risk Survey, we asked respondents to rank seven key risks which could threaten the ability of their scheme to pay member benefits as they fall due. While we saw some different attitudes between trustees and sponsors, investment risk was the number one priority for both groups. Trustees' other main concerns related to interest rate and inflation risks and longevity, whereas sponsors ranked longevity as their second highest risk and regulatory risk third.

We share the concerns of respondents over the volume of change. We see many schemes having to prioritise carefully which actions they will address and when, while also navigating the risk of non-compliance as well as the time and cost of action. Schemes must also do all of this while trying to focus on scheme members and act in their best interests. This is not an easy balancing act and we expect it to be a key area of focus for those managing pension schemes in future. Consequently, the theme of our survey is the risk prioritisation challenge.

This survey is shared and published, enabling the wider investment community to also see how attitudes to investment risks are increasing and evolving. Our report is here: "Global Pension Risk Survey — UK Findings 2023/24".

Freeform Resposnes on Other Risks



Source: Aon Global Pension Risk Survey 2023/24

Aon's Consulting Framework — Discover, Develop, Deliver, Review

Our consulting framework is generally applicable to the many areas of discovery our clients undergo while striving to achieve objectives and we often refer to this approach in terms of how we frame our consulting. We give some example themes below which we have refreshed over the year and where the cycle of discovery, development, delivery and review are natural discussion and action points.

Developing Aon's Viewpoints Survey

A key element to helping investors understand how to align their investment beliefs and values to an investment approach, is to work through our ViewPoints survey which is an interactive 'questions &answers' beliefs survey, which serves to bring out differentiating characterisations of an investors' beliefs and values set. With a range of different questions, it formalises investment beliefs by seeking agreement across survey participants and can then help to formalise consensus views on an investment approach. This tool is used for a variety of investment topics and constitutes part of our 'Discover, Develop, Deliver and Review' consulting framework.

We recap below what the tool is in terms of our consulting framework and then describe how over 2023 the tool was developed.

Discover

The 'Discover' phase directly seeks to improve our understanding of a client's beliefs. Through the questionnaire, we can understand investors' understanding of responsible investment, and their priorities when considering an aligned investment approach. Areas of consensus versus differences in opinion can be resolved in order to form collective new beliefs upon which to base an approach. Investors can more easily engage with their asset managers on issues central to their newly formed beliefs, holding them to account as appropriate.

Discovery of all key stakeholders' beliefs, can further align responsible investment goals of all parties and develop further shared goals.

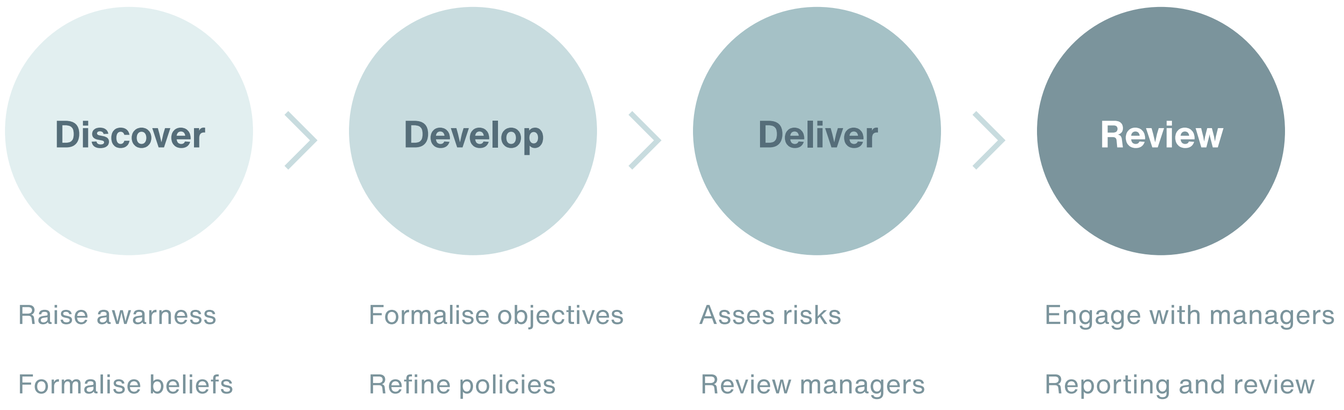
Develop

The 'Develop' phase would use the Viewpoints tool across four stages of this phase:

- The need for further information and understanding of current approaches.
- An investor's responsible investment beliefs, values and motivations.
- The extent to which investors believe markets already price in ESG risk.
- The potential implementation of different solutions aligning to their chosen approach.

> "
>
> Regulatory updates can be a drag on time resources... It sometimes feel as if initiatives are being forced with no real benefit.
>
> Resourcing additional regulatory obligation is a challenge.
>
> Generally legislated risk. The amount or regulation is a burden.
>
> Squeeze on pensions resoruce and burden of regulation.
>
> Over regulation, excessive reporting requirements.

Aon's Discover, Develop, Deliver, Review framework



Following the Viewpoints survey, we share and discuss any significant results and notable divergent views across participants. We look to reach a broad consensus across the group on their collective responsible investment beliefs so that these can incorporated within their responsible investment policies and progress their approach.

Deliver and Review

Through Viewpoints, investors can agree their ongoing requirements for the delivery of their responsible investment approach. Viewpoints will present to investors a range of statements and test responses highlighting areas of significance. We communicate our views to clients at each stage allowing for iterations. The Review phase follows and allows for robust feedback on the performance and efficacy of the finalised approach.

What did we do in 2023?

Over the year, our Responsible Investment team developed Viewpoints further to align responsible investment beliefs to our ABC impact investment framework (see Principle 7 for more detail). Marrying up investor beliefs and values with investment solutions helps to formalise and put into action investment approaches. Investors can see where they reside on a scale of intended outcomes and how they can choose across investment solutions.

Aon's ABC Investment Platform

- **Act to avoid harm** — typically exclude companies which are viewed as having a negative impact.
- **Benefit stakeholders** — allocated to companies viewed as beneficial, often described as "sustainable themed investments". A common approach that is implemented in both public and private markets.
- **Contribute to solutions** — where the investor would see a direct link between the their actions and changing behaviours of the companies concerned. This would suggest the investor is suited to strategies that place a high value on impact.

Aon has rolled this new version of Viewpoints to a sample of pilot clients with the plan to launch to the wider client base later in 2024, both in the UK and North America. The ABC framework also aligns to our Global Responsible Investment Policy identifying different investment approaches for responsible investment; Screening, Integration, Impact and Stewardship.

Outcome

Having undertaken Viewpoints, investors can expect to understand their approach to the following questions:

- How do our beliefs on responsible investment impact the performance of our assets?
- How do we differ in our investment approach with our managers, should we consider engaging with them to see how views can be reconciled?
- Does our current asset allocation reflect our responsible investment ambitions?
- Is a net zero policy the next step in our responsible investment journey?
- Should we discuss an impact allocation in our investments?
- Do our responsible investment beliefs align with our sponsor's beliefs?

We plan to report further on our new ViewPoints module in next year's Code submission.

The General Code and Implications for Climate Change Risk Management

Over the year The Pensions Regulator (TPR) in the UK published the new 'General Code' which aims to provide trustees with one set of clear, consistent expectations on scheme governance and administration. The new format was designed to make it easier for governing bodies to understand TPR's expectations and consider whether they are meeting them. Importantly, a new climate change module was introduced which set out expectations for trustees in terms of risk mitigation and management on the issue.

Key Climate Change Governance requirement of the General Code:

- The draft Code outlines TPR's expectation of governing bodies to consider the effects of climate change on scheme objectives, as well as ensure climate change risks are integrated into the investment decision-making process.
- To understand that the short, medium and long-term impacts of climate related risks and opportunities on an investment strategy will help trustees to identify, assess and monitor the scheme's resilience under the Effective System of Governance ("ESoG") requirements.
- An ESoG is a collection of processes and policies that a scheme should have in place to operate effectively and efficiently. An ESoG should cover management of activities, organisational structure, investment matters, communications and disclosure, and internal controls. An ESoG should also be proportionate to the size, nature, scale and complexity of the activities of the scheme.

We set about to ensure trustees are aware of the new code, what is expected of them when it comes into play and how they can incorporate the Code's expectations into their activities. Our Discover-Develop-Deliver-Review consulting framework provides the overall approach and Aon will continue to deliver training to trustees, highlighting key areas of investigation under each stage of the process and putting pieces of the jigsaw into place, helping trustees progress towards best practice in the current environment. We encouraged trustees to:

- **Discover**: Understand your current portfolio and discuss your climate-related ambitions.
- **Develop**: Set your climate-related targets and an implementation plan.
- **Deliver**: Implement the plan — i.e. engage with your managers, consider new mandates etc.
- **Review**: Monitor progress and escalate where progress is not being made.

The new General Code and a new climate change module

Net Zero Toolkit

As the conversation on climate change advances, investors are increasingly identifying alignment to a net zero pathway as an investment objective.

There is no single pathway to net zero and we work with our investors to discover which approach best suits their needs. In 2023, Aon developed its 'net zero toolkit', to help investors define their net zero ambitions and develop a transition pathway. It includes everything investors need to understand net zero, set a target and create an implementable action plan tailored to their ambitions.

Aon helps define net zero ambitions in terms of an investor's own beliefs and values, developing transition pathways which suit them. Developing a net zero pathway takes time and we look to consult with investors to best guide them through the process. Our Discover-Develop-Deliver-Review framework is a stepwise implementation approach, and supports investors to explore net zero transition pathways as follows:

How does Aon seek to help define an investors' approach?

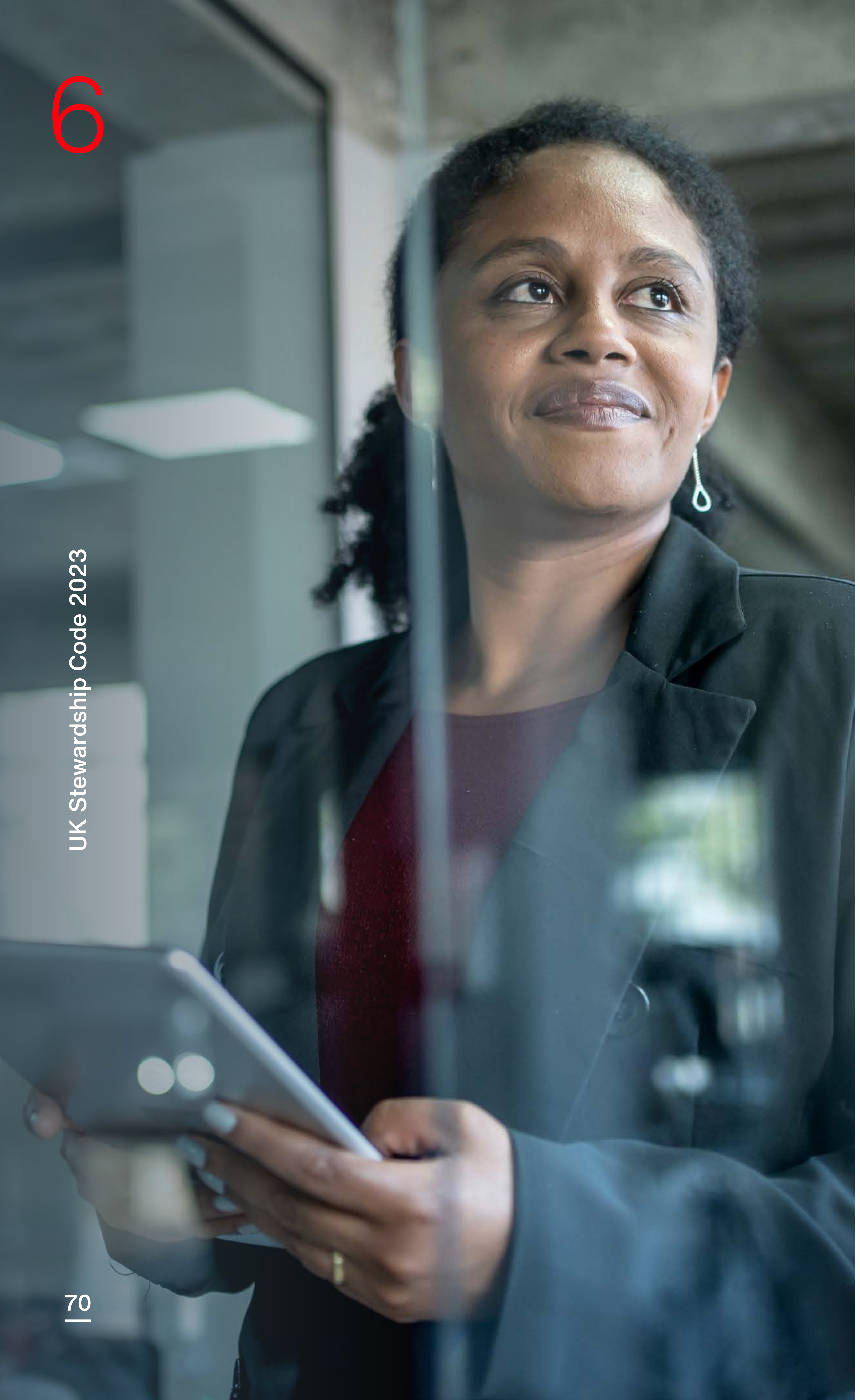
- **Discover** — understand current portfolio and discuss net zero ambitions.
- **Develop** — set a net zero target and an implementation plan.
- **Deliver** — implement the plan e.g. engage with managers, consider new mandates etc.
- **Review** – monitor progress and escalate where progress is not being made.

We support this process by:

- Training and knowledge-building.
- Conducting comprehensive asset portfolio analysis.
- Defining and communicating investor commitment.
- Identifying explorable transition pathways through strategy reviews and manager engagement.
- Developing a transition implementation plan and conducting routine monitoring.

We consult with investors in a variety of ways to set a path forwards, for example:

- **Where an investor already has a net zero commitment. What then?**
  Setting a net zero commitment is just the first step of a net zero journey, there follows developing a transition implementation plan, helping them to engage with their managers and evaluate their progress towards their net zero target. Investors may also want to think through current risk exposures within their investment portfolios and consider alternative strategies that align better with their target and their intended impact on the transition to lower carbon.
- **How can the net zero tool kit add to TCFD-aligned reporting?**
  Over the past few years, many investors have recorded some progress against initially adopted targets such as data quality which can be seen as precursory to more stretching targets such as net zero. Investors are therefore now better positioned to set net zero targets as part of TCFD-aligned reporting.
- **De-risking and whether net zero plans still count?**
  Net zero considerations and climate transition plans are still important. For example, when considering buy-ins these should be factored into the insurer due diligence process as much as possible if such plans are imminent.
- **A portfolio largely invested in alternatives with poor data quality. How can they meaningfully align on their net zero journey?**
  Aon can provide insights that do not rely solely on data quality by exploring qualitative approaches to gather decision-useful data so that investors can still meaningfully engage with their managers and develop forward-looking climate action plans.



Client Reporting and Planning of Responsible Investment Activities and Ambitions

Planning and reporting is an important part of the investment process which enables our investors to analyse how well their investment objectives have been met. We consult with our clients in many different ways across a vast range of topics. Here, we highlight some examples this year of how we have helped clients formalise plans and progress their responsible investment ambitions.

What did we do in 2023?

Impact Investing and Bespoke Reporting

In 2023, Aon created an annual investment report for an institutional client invested in a portfolio of six listed equity impact funds. This was the client's second annual report, and this year, we expanded on the investment stewardship section of the report. This allowed the client to scrutinise our recommended impact managers on issues beyond performance attribution. The investor had been very close to creating impact in its portfolio of listed equities, and Aon was therefore keen to highlight what was being done to create 'additionality' in the portfolio.

In the investment stewardship section of the report, we included examples of ESG engagements and significant votes undertaken, as well as a summary table for engagement activity and voting activity over the year for each manager. The client was pleased with the level of detail provided on stewardship, and this level of analysis will continue to be a feature in annual reports going forward.

Reporting to the Principles for Responsible Investment (PRI): helping clients to report to the PRI

- One client had already reported to the PRI but this year was the first time its report would be made public. This client became a signatory to the PRI as it wanted to ensure strong alignment with its sponsoring employer which had strong responsible investment ambitions.
- Another client become a signatory to the PRI as a way of publicly displaying its strong responsible investment commitments and showcasing its responsible investment practices to scheme members and other key stakeholders.

Our Responsible Investment team conducted various deep dive analyses into these clients' responsible investment practices to complete detailed reports reflecting alignment to the six PRI principles over the reporting year. This process involved our subject matter experts conducting research and communicating across different stakeholders. Together, we illustrated how our clients undertook responsible investment activities and showcased highlights.

We remain close to the PRI reporting framework and in Principle 4 we describe the analytical work we have undertaken working with the PRI to identify gaps and trends in signatory responsible investment activities and approaches. Our understanding of the requirements and analysis of client activity, provides a good base for clients to track their progress year-on-year and strive for best practice.

Our Responsible Investment team has ensured that the drafted reports delivered strong precedents to facilitate these clients' future reporting requirements and ensured that their responsible investment activities were well documented and did not go unnoticed.

Helping a Client Plan for Net Zero Alignment

We worked with a hybrid scheme to set a carbon emissions reduction target that would result in 'real world impact'. A university was under pressure from students and its University Board to decarbonise its investment holdings. Our challenge was to identify opportunities to achieve carbon reduction targets while managing risk within the investment assets so that it still generated a 5% real return per annum.

To help the university develop and implement a decarbonization plan that balanced investment goals while reducing carbon emissions, we:

- Worked with the Investment Committee on new approaches to decarbonisation, policy responses and pledges to support their climate change aspirations.
- Implemented a phased approach to a raft of initiatives with staff, the Investment Committee and the Board that would reduce carbon emissions.
- Used proprietary models to monitor weighted average carbon intensity on a quarterly basis and target investments within the portfolio for carbon reduction.
- Worked collaboratively with the Investment Committee and Board to set decarbonisation goals for 2025 and 2030.

Measurement and Impact

The scheme has now set decarbonisation goals for 2025 and 2030 which have been approved by the Board and the university is equipped with recommended investment/implementation strategies for carbon emissions reduction. This is a gradual 'step by step' change for the strategy and underlying portfolios and at each stage, a comprehensive analysis of the impact to the return/risk of the overall portfolio is carried out.

The university has now reduced their financed investment emissions by almost 75% against their 2018 baseline.

Department for Work and Pensions and The Pensions Regulator and Increased Focus on Investment Stewardship for Trustees

The Department for Work and Pensions issued updated guidance regarding how it expects trustees to approach stewardship; consideration of financially material ESG factors and non-financial factors; and how they report on these matters through the Statement of Investment Principles (SIP) and the annual Implementation Statement (IS)/Engagement Policy Implementation Statement (EPIS). The update clearly set out the DWP's expectations on what trustees "must", "should" and "could" do with regards to their stewardship policies and approach, and what should be disclosed in the SIP and the IS/EPIS.

The guidance was published because the DWP believed existing policies, approaches and reporting in the area were generally weak, and there was a risk that disclosures (including SIPs, ISs and EPISs) that did not meet the new expectations could result in enforcement action by TPR including a monetary penalty.

We prepared a guidance document and checklist which would enable both DB and DC pension schemes to review their current stewardship and ESG-related disclosures and reports and ensure they were at least compliant with the 'must' and 'should' do requirements set out by DWP.

Aon's guidance document also went further to set out information on how pension schemes could align with the 'could' do's set out by DWP which reflected current best practice. Ultimately this led to a number of schemes adopting bespoke stewardship priorities (such as climate change, biodiversity and modern slavery), setting the foundations for more targeted engagement both with managers and underlying portfolio companies in the future.

TCFD Lessons Learned

We continue to update our 'lessons learned' of TCFD reporting which is now well underway, with most of the initial first and second wave of pension scheme reporting having been published. We have analysed these waves and industry feedback published, engaged with The Pensions Regulator, provided feedback to our clients and updated our key lessons learned based on the observations and analysis.

Areas we focus on:

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

We formulated a table giving Aon's views on the pros and cons of TCFD recommended carbon emissions metrics. This was shared with clients during the consulting process and it helped our clients to navigate TCFD reporting in a way that best suits them.

Summary

Aon works to understand evolving client investment needs and has market leading expertise and solutions, tailored to their needs and values.

In Principle 1 of the Code, we describe the many ways we communicate with clients generally; informing, guiding and advising, through thought leadership papers, webinars, blogs, speaker events, etc. Our UK Stewardship Code submission also represents part of that communication process and Aon is keen to invite dialogue and an exchange of views with our clients; in this way we can ensure that we bring them value.

For example, it is clear to us that managing climate change risks is a key concern for clients, this was the outcome of a global responsible investment survey which we ran and interest has not diminished. Examples of how we address this are given throughout the report, it has been an area of focus for us and one we plan to continue to develop.

7

Principle 7

Stewardship, Investment and ESG Integration

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

We incorporate ESG considerations into fiduciary portfolios through a combination of bottom-up and top-down processes. ESG integration is fundamental to sustainable value creation in the longer term, and we describe our processes to integrate ESG risk into our portfolios below.

ESG integration is practiced at each stage of our fiduciary approach, including strategic asset allocation, portfolio construction. In the following pages we give context to how we integrate ESG risk factors into our investment processes, and in activities we illustrate developments over the year.

Evaluating ESG Integration in the Underlying Strategies

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

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

Our expectation is that ESG factors are highly likely to impact the return and risk profile of an investment. Therefore, to ensure all ESG risks and opportunities are considered in investment processes as robustly as other more traditional financial factors, we have set a lower limit for ESG ratings, of 'Integrated', for invested strategies in our fiduciary solution (as defined in the table below). Where we have strategies with a lower ESG rating of 'Limited', we engage with these managers over a 12-month period.

If, after this period improvement has not led to a rating of 'Integrated', we will disinvest from the strategy. Careful consideration of a strategy's level of ESG integration, is integral to our overall investment recommendations. Our Fiduciary business has made considerable progress in developing its ESG integration approach and has screened out funds with a low ESG rating.

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

Our ESG Product Ratings:
High Level Definitions

Advanced

The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.

Integrated

The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.

Limited

The fund management team has taken limited steps to address ESG considerations in the portfolio.

Not Rated

An evaluation of ESG risks is not available for this strategy.

In determining our ESG ratings our Manager Research team evaluates five key considerations which are summarised in the chart below. This framework aligns with the PRI principles and reflects best practice.

Policies
- Scope
- Granularity
- Disclosure

Staff
- Resources
- Accountability
- Incentives

Process
- Data resources
- Breadth of integration
- Depth of integration

Outcomes
- Analysis vs. decision-making
- Does ESG and stewardship make a difference?

Stewardship
- Voting record
- Engagement process and outcomes
- Industry initiative involvement

Our ESG Ratings, 'Five Factor' Assessment

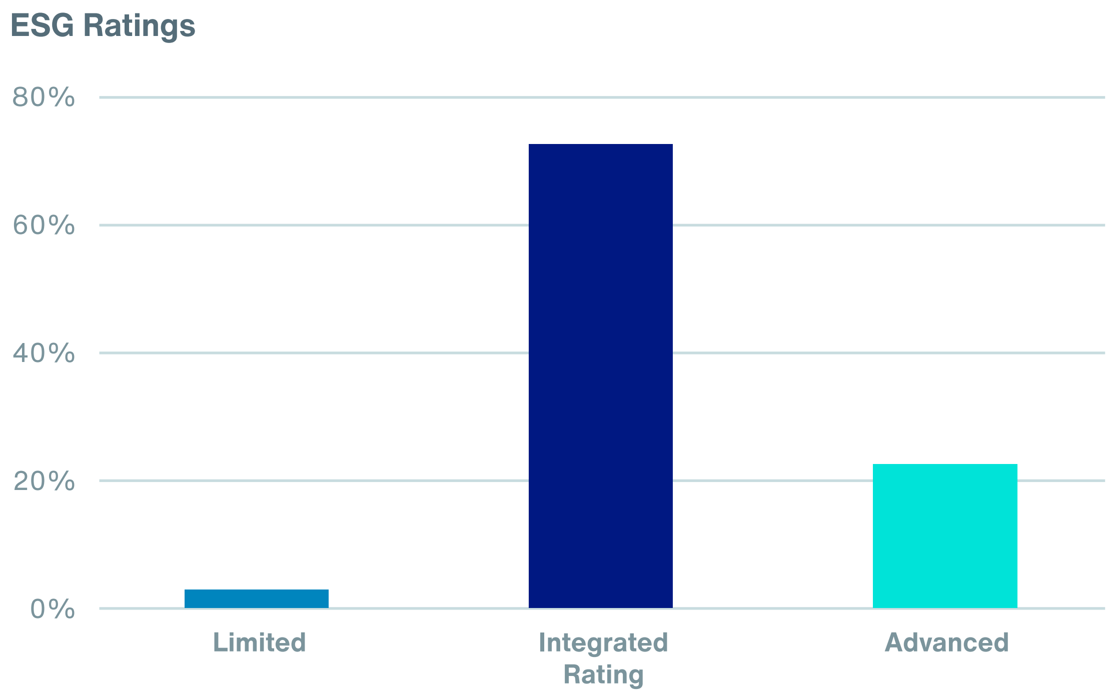
Inputs
- Checklists
- Due Diligence Meetings
- Ongoing Dialogue
- DDQ Responses
- Quarterly Updates

Our expectations for achieving each ESG rating is set out in our core ESG Ratings Aid below. Within the Manager Research team, each asset class has a customised version of this core ratings aid in order to reflect important characteristics of the asset class.

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

ESG Integration: Our Core Ratings Aid

Below we give the current distribution of ratings for those strategies rated Advanced, Integrated or Limited. It is important to emphasise that the range shown below, represents all the products which our portfolio managers in the fiduciary management team have to select from. These are the strategies that we feel exhibit strong investment research and processes, therefore it is unsurprising that most of the strategies also exhibit appropriate ESG integration.



Source: Aon, December 2023

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

Key monitoring points for ESG integration are:

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

- **ESG ratings reviews**
- **ESG deep dive meetings**
- **Ongoing dialogue**
- **Due diligence questionnaires**
- **Manager voting and engagement data**
- **Carbon emissions**

Evaluating Investment Stewardship of the Underlying Managers at Firm and Strategy Level

We consider active ownership to be a key part of the overall integration of responsible investment into portfolio management and our role as an Advisor and Fiduciary Manager is to:

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

Engagement

Manager engagement primarily happens in two ways: through the business-as-usual (BAU) manager research processes; and through our Engagement Programme (described in Principle 8).

As part of the BAU manager research process, ESG matters are frequently discussed and are part of the ongoing dialogue between the Manager Research team and their recommended asset managers. If opportunities for improvement with respect to investment stewardship are identified, manager researchers and our Engagement Programme will undertake to engage with the manager.

Where our portfolio managers identify an issue that is not best addressed through the manager research process or the Engagement Programme, we may engage directly with the manager. This tends to be on issues specific to the fiduciary team and our fiduciary portfolios.

The specific activities of our Engagement Programmes are given in Principle 8 of the Code. It takes a top-down approach, assessing firm governance and activities around themes set out in our Investment Stewardship and Expectations document.

As described in Principle 11, we may escalate engagements where we feel that the manager is not responding well to our concerns. Ultimately, we reserve the right to remove a manager from our fiduciary fund solutions if we feel that their approach is exposing our clients to unrecognised and unmanaged ESG risk.

Voting

We will always vote on issues that are raised at the fund level (e.g., whether to extend the life of a closed-ended fund). These voting decisions are made by the relevant responsible researchers in the Manager Research team and communicated to the portfolio managers for implementation. As an indirect investor, the way in which we monitor the rights and responsibilities of asset owners and how they are exercised, is described in Principle 12 of the Code, and carried out by the Engagement Programme. The Manager Research team will also review voting actions as appropriate.

Integrating ESG into the Construction of Fiduciary Portfolios

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

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

Creating Innovative Strategies with a Strong ESG Focus

In addition to this, we develop innovative strategies that have an explicit sustainability or impact focus. We proactively look to use these strategies within our portfolios where we can do so without compromising on risk and return outcomes. Please see Principle 4 — Aligning our Investment Advice, where we show the type of recent ESG focused funds, brought to our clients over 2023 and activities below, where we illustrate an evolving investment lens to incorporate more investment impact into strategies.

'Top-down' ESG Considerations

Many of our clients have delegated to us the responsibility for managing their overall asset allocation in line with specified targets and controls. For these clients, responsible investment considerations (specifically in the area of climate) are incorporated from the top-down aspect, through governance, strategic asset allocation, climate scenario analysis, and the fiduciary team's net zero commitment, as follows:

- **Governance and Stewardship**

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

- **Strategic Asset Sllocation (SAA)**

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

- **Climate Scenario Analysis**

  We have developed and use scenario analysis to assess the impact of different climate scenarios on both assets and liabilities, and stress test our asset allocation over the relevant investment time horizons. Recent developments to our scenarios are described as a case study in Principle 4.

- **Net Zero**

  In Principle 1 we describe the commitment across our fiduciary portfolios and master trust platform to reach net zero carbon emissions and this year we reported on manager engagement around the theme of decarbonisation — highlights from this engagement programme are given in Principle 8.

Activities and outcomes, 2023

Progressing Net Zero Objectives — Our Fiduciary Strategies and Decarbonisation

Since making a commitment to net zero (referenced in Principle 1), our UK fiduciary business has continued to progress towards this goal and built out its process for doing so. Over the year, we formalised our process for aligning portfolios towards net zero pathways and set a way forward for achieving these goals.

By way of recap, we have committed to a 50% reduction by 2030 (compared to a 2019 baseline) in the carbon emissions profile for Aon's UK fiduciary portfolios, and default strategies offered through the Aon MasterTrust and Bigblue Touch (our Group Personal Pension Plan). The UK Fiduciary business has further committed that by 2050 UK fiduciary portfolios and default strategies will have a net zero carbon emissions profile. All our portfolio managers have a goal in their annual objectives relating to achieving the net zero commitment and linked to portfolio trajectories towards net zero implementation, over the next 18-36 months.

Significant factors	Not aligned	Not aligned but takes carbon into account	Committed to aligning	Aligning to a net zero pathway	Aligned to a net zero pathway
Factors — carbon measurement	🔴	🔴	🟠	🟢	🟢
Factors — net zero ambition		🟠	🟠	🟢	🟢
Factors — engagement and voting with respect to climate risk management		🟠	🟢	🟢	🟢
Factors — decarbonisation				🟠	🟢
Alignment					🟢

An initial assessment of the alignment with net zero across all strategies was undertaken so that determined actions could be taken to progress each fund towards net zero. The assessment involved:

- using a RAG status heat map, a qualitative assessment of net zero pathway alignment was determined. Each strategy has been categorised as per the factor requirements set out in the table below.
- A quantitative assessment of the carbon profile of each of the strategies. To assist with the quantification of net zero progress, we have worked closely with a third-party platform provider to gather MSCI carbon emissions data at portfolio level.

  These assessments will enable our portfolio managers to quantify progress at strategy level, monitor progress and determine overall actions needed to achieve closer net zero alignment. The assessment will be revisited annually to determine progress and possible courses of action. These courses of action include:

  Divestment — this is generally reserved for cases where:

  - Engagement with respect to alignment has failed, or we strongly believe that any attempt to engage would be unsuccessful.
  - Where we believe we can replace an existing strategy with a net zero aligned strategy with a negligible impact on risk and return outcomes.

Enhanced engagement:

- To obtain a stronger commitment from the manager to align the strategy to net zero, and to see meaningful steps to demonstrate this commitment through evolving its investment process.
- Prioritising strategies within our Engagement Programme with a focus on progressing net zero. In Principle 9, we outline the carbon expectations which we expect our managers to engage on, with their investees. These expectations promote the need to measure carbon and disclose. This is the first step in a decarbonisation pathway and is applicable to all companies.

BAU monitoring and engagement: Continue with standard monitoring and engagement activities. This is generally most appropriate where:

- The strategy is already demonstrating a move to embed alignment of net zero within the investment process for the strategy.
- The manager has the ability to align and there are currently no appropriate alternative or substitute strategies. Disinvesting would result in an unacceptable deterioration in risk-reward outcomes.

We continue to work with the investment community towards these goals and we have detailed in our first TCFD report for 2023, in principle 5.

Net Zero Engagement highlights:

Over the year, our Manager Research team conducted a questionnaire exercise focusing on net zero across strategies deployed in our fiduciary solution to assess our managers' approaches taken and progress to date. After the questionnaire process, we analysed the responses using our internal net zero alignment framework and in comparison, with relevant peers.

As part of this analysis process, we identified areas for improvement for an asset manager. We proposed some changes over a series of engagement meetings in 2023, for example:

- The manager could measure a forward-looking carbon emissions trajectory alongside existing scopes 1-3 emission measurements.
- The manager could clarify its climate-related voting and engagement policy with clear escalation measures aligned towards an overall net zero decarbonisation framework.

As a consequence of the discussions:

- The manager proposed a target to have 75% of underlying companies committed to Science-Based Target Initiative (SBTi) net zero targets approved by 2030.
- The manager highlighted priority companies for their voting and engagement strategy alongside clear escalation measures to be deployed. This included explicit support for 'Say-on-Climate' proposals (shareholder proposals which encourage companies to disclose climate risk management strategies) and support for proposals consistent with achieving net zero emissions by 2050 or sooner.
- Escalation measures were formulated which included voting against appropriate members of the Board of Directors, alongside the executive compensation committee, if constructive progress had not been made. There is also the additional option of divestment, which we typically only look to employ as a last resort.

Throughout this collaborative process, we delivered constructive feedback on the proposals and our views on market trends before the manager finalised its framework and approach. Ultimately, as a key anchor client for the strategy our role in initiating this engagement led to a meaningful impact on the outcomes described above.

Manager Research Impact MeasurementFramework — an Evolving Lens

Last year, we reported on how we were evolving our lens for impact across selected investments and how our platform could help investors progress their responsible investment journey. Last year, we reported on the launch of our Impact Research platform within the Manager Research team, bringing greater definition and measurement to our impact solutions. This generates a deeper focus on integrating ESG risk factors into portfolios (see below: 'Structural drivers for impact investing').

In 2023, the framework was developed, assessing critical aspects such as intentionality, team and firm resources, theory of change, and measurement approaches, all of which complement our existing ESG rating process. The framework was formally added to the asset manager team's due diligence processes in Q4 2023.

Impact investing is a type of investing that aims to achieve positive social or environmental outcomes in addition to financial returns. It goes beyond integrating traditional environmental, social, and governance factors by seeking to generate measurable impact alongside financial performance. For clients seeking impact investing opportunities, assessing a potential managers' impact measurement and management approach is critically important.

However, in the context of a fast-moving marketplace with increasing regulatory scrutiny, in an evolving market with differing types of investors, strategies, sectors, and geographies seeking to achieve different types of 'impact', the needs of an investor can be more complex. Institutional allocators need to have a comprehensive understanding of the market and be able to identify suitable impact opportunities, meaningful to their approach. Ensuring integrity is critical because impact investing is subject to the risk of 'impact washing'. Impact washing is the practice of overstating or misrepresenting the impact of an investment. This undermines the credibility and trust of the impact investing market and may lead to a regulatory or reputational backlash. Therefore, proper scrutiny of asset managers for their impact measurement and management approach helps to define and ensure delivery of real-world impact alongside financial objectives.

Structural Drivers for Impact Investing Include:

- Climate change risk — as the impacts of climate change intensify, there is a growing risk to companies and assets that are not transitioning to lower carbon business models. Sustainable and impact investing allows investors to manage this risk.
- Resource scarcity — population growth and development pressure natural resources like water, minerals, and land. Companies focused on efficiency and renewable energy will be better positioned.
- Policy and regulation — governments globally are enacting more policies and regulations to address climate change and sustainability issues. This is driving a shift away from unsustainable practices.
- Changing consumer preferences — younger demographics especially prefer sustainability-marketed products and services. Brands catering to these changing preferences can benefit.

Sustainability factors like these are becoming material to long-term financial performance and risk. With a multi-year view, impact investing along these lines represents an opportunity to make significant progress in strong ESG integration of what are, ultimately, ESG risks.

We note that the PRI is also evolving its approach, recognising the need to help investors better demonstrate their responsible investment progress in terms more relevant to them. The PRI launched a co-design process with signatories in late 2023, following the consultation 'PRI in a Changing World'. The PRI are assessing two concepts, one based on investor purpose (where one pillar is impact investment as a critical approach), and the other based on specific issues — such as climate change and nature loss (among others). Our impact framework sits comfortably with the need for a greater definition of investor purpose and outcome, helping investors find solutions aligned to a more purposeful, responsible investment approach.

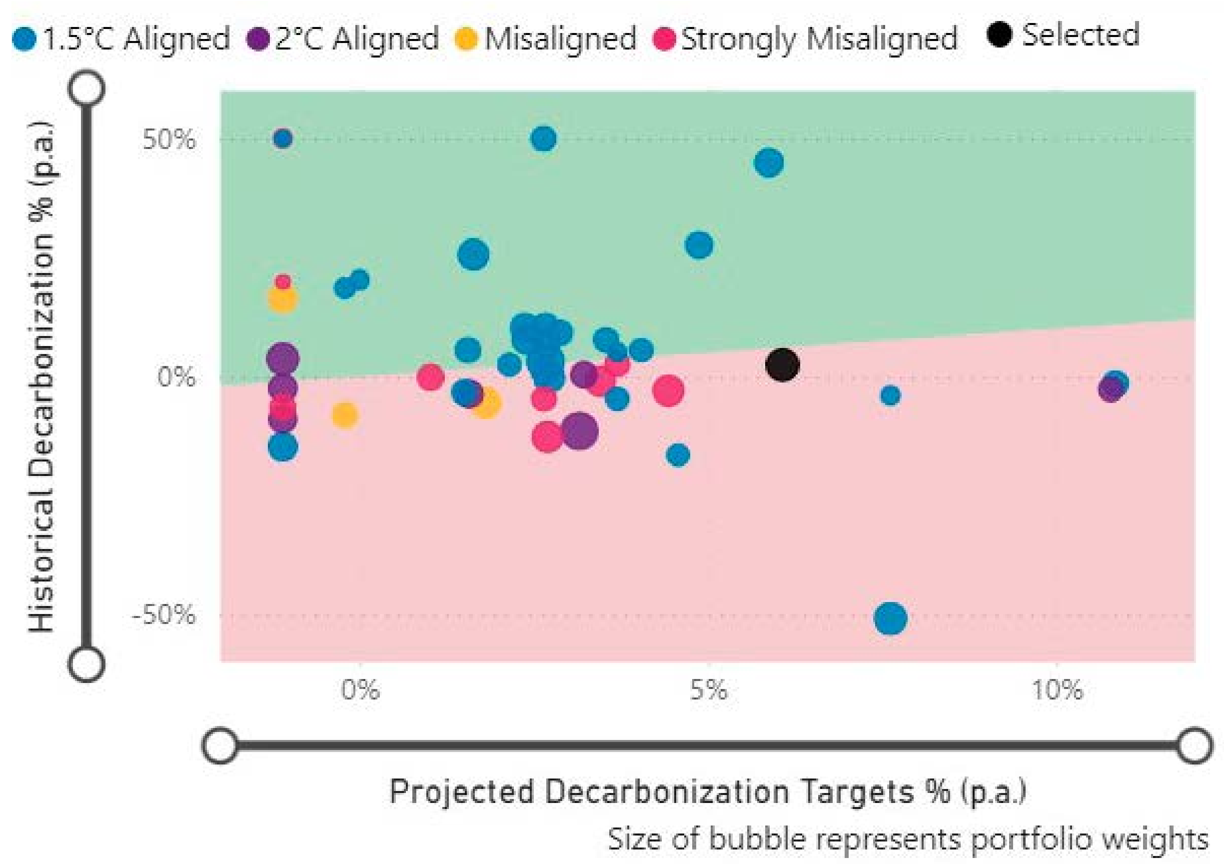
'Quantamentals' — Developing Internal Capabilities for ESG Integration

We subscribe to data sets from multiple data vendors which feed into an internal proprietary database. There is a need to integrate both internal and external data sets so that cross analysis can be done efficiently in order to monitor and assess the level of ESG integration across thousands of investment products.

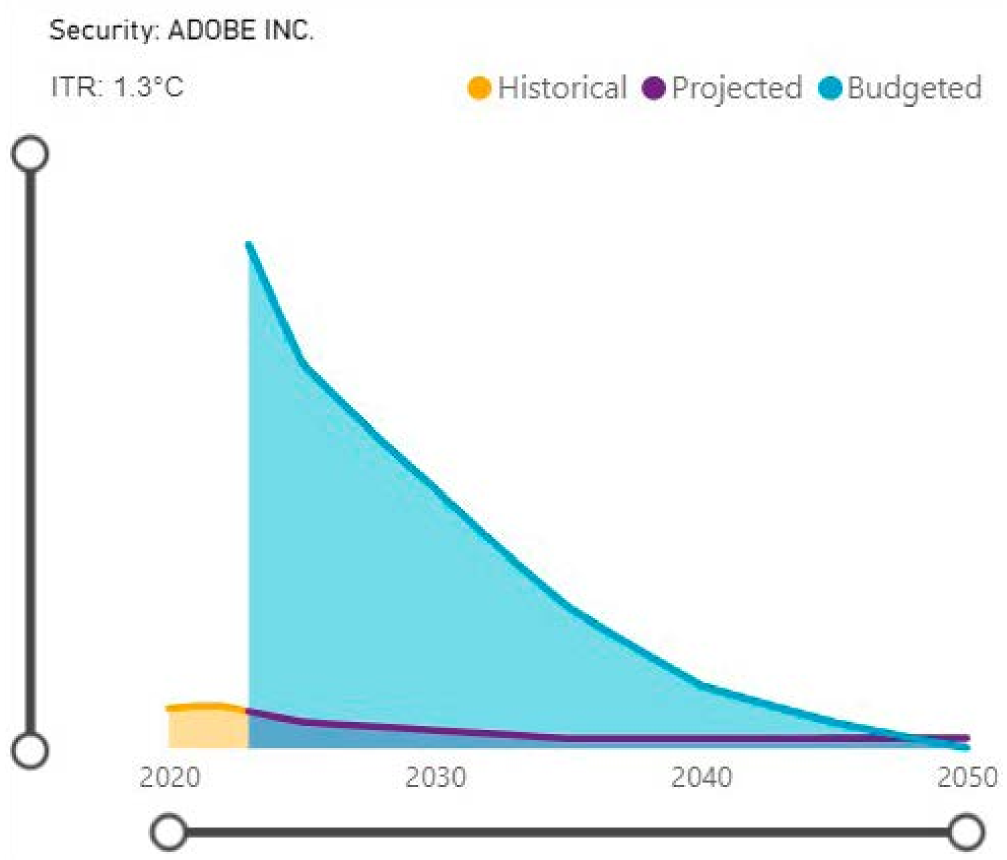
Our Manager Research team and the Aon Center of Innovation & Analytics (ACIA) continue to develop our Quantamental dashboard as an internal research tool which aggregates data from different source systems to create in-depth ESG analytics with drilldown functionalities. This allows colleagues to better understand the drivers of a strategy's ESG scores and use peer benchmarking capabilities.

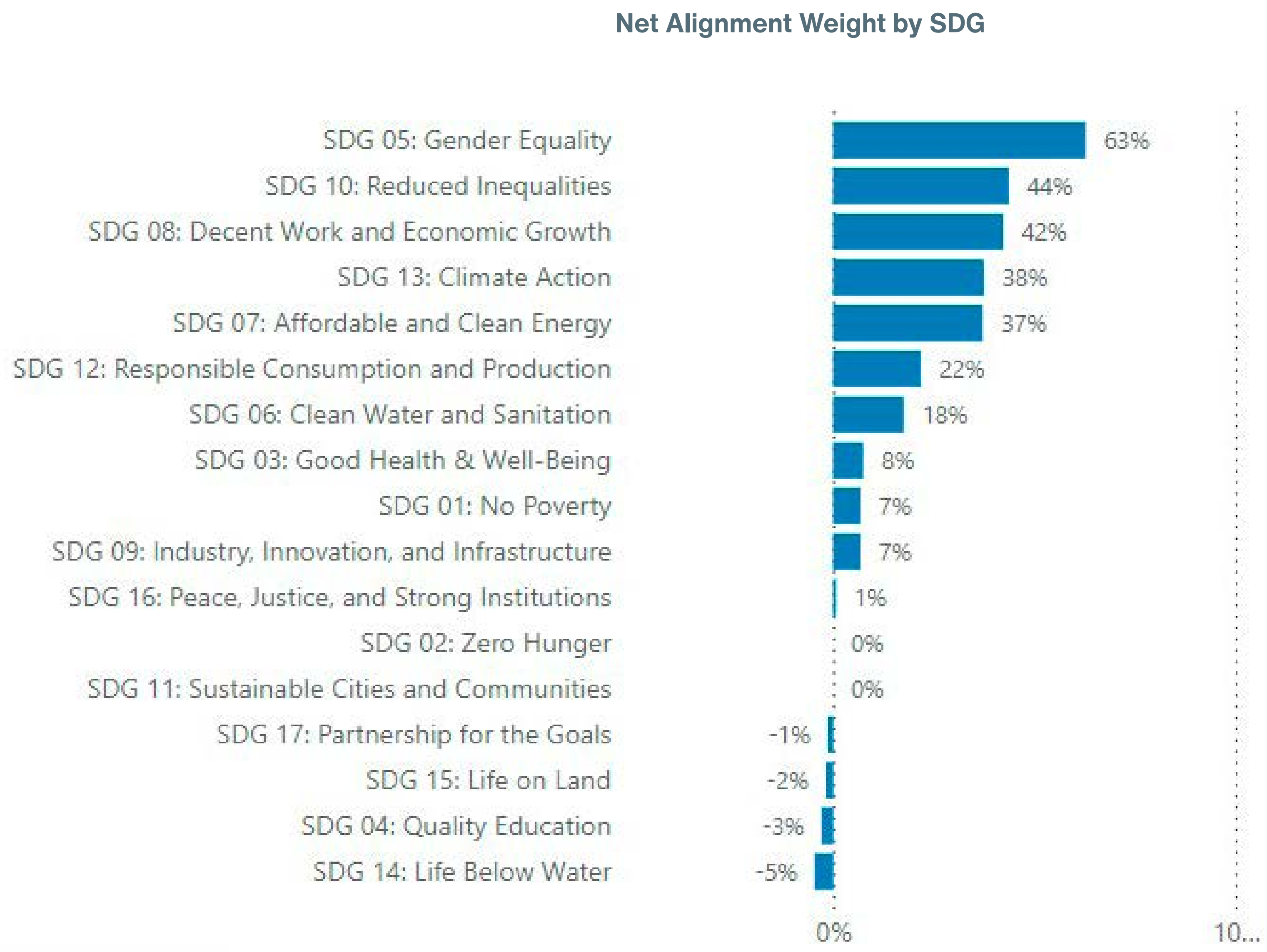
We illustrate below an example where users can drill into different components of climate/SDG related data and see the constituent holdings information which is represented by the data. Other metrics are similarly available. By leveraging data and analytics, proprietary models and technology, we are able to scale our manager research capabilities by incorporating ESG insights for over 8,000 liquid strategies. In 2024, we plan to expand our analysis to include more advanced metrics for implied temperature rise, SFDR's Principal Adverse Indicators (PAIs) and Diversity Equity and Inclusion (DE&I) factors.

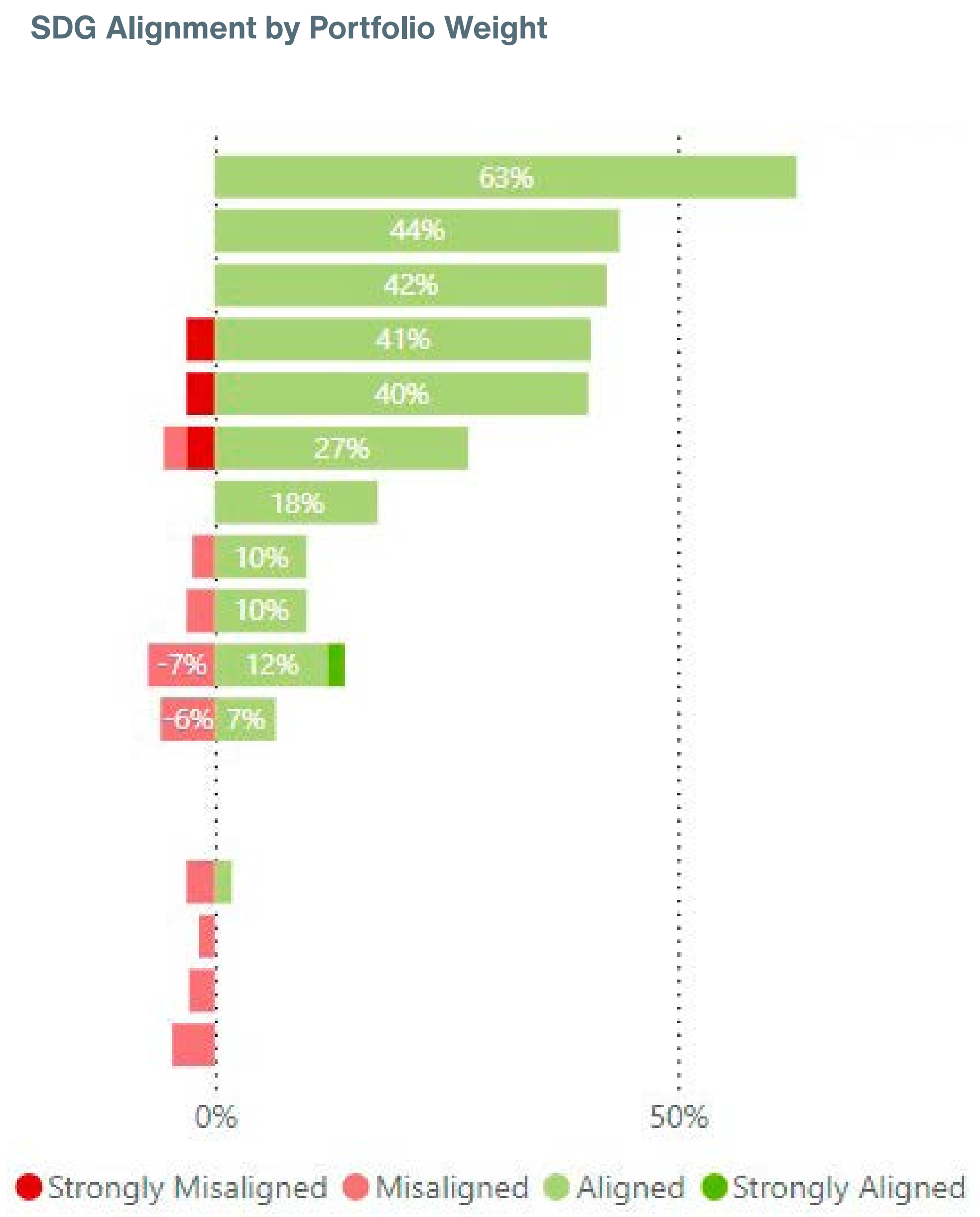
Historical vs Projected Decarbonization Targets



Budgeted vs Projected Emissions over time







Summary

We have rated our recommended investment strategies for many years now and have a ratings focus which centres on the management of financially material ESG risk. The ESG ratings are the preserve of our Manager Research team and are an output of their research, analysis and business-as-usual dealings with asset managers. We see the incorporation of ESG risk factors as integral to the process of evaluating our overall rating for a manager's ability to outperform in terms of risk and investment return. A manager's level of ESG risk integration into a strategy, plays into our overall judgement as to whether we should recommend the strategy to our clients.

While our approach to ESG ratings does not change year on year, we continue to enhance aspects of our ratings process. We have highlighted some of these above and detail an audit of our ESG ratings in Principle 5 of the Code. We recognise that as the nature of risk around sustainability issues evolves, increased attention towards particular themes or aspects of a rating will be needed. Our approach will evolve to embrace change as it becomes apparent and as our understanding of potential risk changes.

8

Principle 8

Monitoring Managers and Service Providers

Signatories Monitor and hold to Account Managers and Service Providers.

We hold asset managers to account at many levels. In Principle 7 of the Code, we describe how our Manager Research team assesses managers in terms of their ability to integrate financially material ESG risk factors at the strategy level — this is a bottom-up approach. We also have a top-down approach — which can help frame expectations for the strategy level.

Below, we detail our Engagement Programme in this Principle, where we assess the top-down approach of managers.

Aon's Engagement Programme

We launched the Engagement Programme some years ago, as a cross-asset class initiative, tasked to focus on active ownership and the investment stewardship behaviours at firm level. Our Engagement Programme meetings comprise of members from the Manager Research team, the Responsible Investment team, portfolio managers and specialists from our Fiduciary business. In Principle 1 of the Code, we introduced the core topics which the Engagement Programme focuses on, namely best practices for investment stewardship, decarbonisation, biodiversity loss and modern slavery.

The Engagement Programme has a standard agenda, a lens which adds transparency behind respective themes, and we expect a manager to be able to clearly communicate its commitments behind the topics of discussion. We show our standard agenda below:

Engagement Programme Standard Agenda

1. Clarity of mission — the commitment and communication of a manager's purpose, strategy and culture, with respect to responsible investment.
2. Transparency of engagement and voting activities.
3. Reporting of 'decision useful' engagement and voting activity.

Aon has made our principles and expectations for good investment stewardship and best practice clear, across the asset classes and in our 'Investment Stewardship Principles & Expectations' document. This is shared widely, and we expect the document to evolve as standards of best practice advance and the regulatory landscape develops.

Using outputs from the Engagement Programme, clients can assess the degree to which their asset manager actively aligns to their own responsible investment beliefs and expectations.

8 Activities and Outcomes, 2023

We engaged extensively over the year with our asset managers promoting best practice and alignment with our investment stewardship principles and expectations outlined above, the UK Stewardship Code and the PRI principles for responsible investment.

Engagement Programme (EP)

We highlighted our core engagement themes for 2023 and continuing into 2024, in Principle 1 of the Code. In 2022, we reported how the engagement programme focused manager engagement on general stewardship behaviours and how well they aligned to the UK Stewardship Code. Over 2023, we used our agenda, which promotes transparency around a manager's activities, to assess selected manager approaches to decarbonisation and potentially net zero alignment pathways. To do this, we also used the pillars from the UK Government's Transition Pathway Taskforce (TPT) framework, namely Ambition, Action and Accountability, which map easily onto our standard agenda — both lenses work to enhance transparency around a manager's intent and activity, as below:

Aon's EP Meeting Agenda — Strategy Decarbonisation:

- Clarity of mission (TPT: Ambition towards net zero)
- Transparency of engagement and voting activities (TPT: Actions towards net zero)
- Reporting of 'decision useful' stewardship information (TPT: Accountability)

Asset managers differ widely in terms of their investment beliefs on the topic and their approach to decarbonisation, transition and net zero. We therefore invited our asset managers to talk us through general talking points in order to best describe how their approach should be understood. The EP team then evaluated and characterised an asset manager in terms of their ambition, actions and accountability at firm level towards decarbonisation and net zero plans. Not all managers have the intention to decarbonise, while others are actively involved with how to reach stated net zero targets and are members of the Net Zero Asset Managers initiative (NZAM).

Aon's EP Manager Talking Points

1. Ambition	2. Action	3. Accountability
Policy	Engagement	Carbon measurement and data availability (Scopes 1-3)
Goals	Voting	TCFD & SBTi
Climate Scenarios	Priorities	Pathway analysis
Governance, Purpose and Strategy	Collaboration	Product level reporting
	Solution lines	

Engagement steps for the EP

Deep Dive Manager Meeting

Using our Talking Points, we seek to characterise our investment managers have in terms of their approach and progress towards decarbonisation.

We write this up and share summary findings with managers. We will escalate our goals and touchpoints with managers as appropriate.

Net Zero Alignment

We look to understand which of the five IIGCC corporate alignment maturity categories, each of our DCS products lieas (loosely defined until an IIGCC framework for fund level is available), i.e.:

- Not aligned.
- Committed to aligning.
- Aligning towards a net zero pathway.
- Aligning to a net zero pathway.
- Achieving net zero.

Goals and Touchpoints

We seek to agree goals and touchpoints for the Aon to monitor progress towards net zero in order that our fund progresses to the next IIGCC maturity alignment (we will align to teh IIGCC framework at fund level when available).

Outcomes

We observed a polarisation in commitment which can loosely be drawn across differing regulatory regimes across the Atlantic. There was a tendency for European asset managers to be more net zero aware and to become members of the NZAM initiative, while managers in North America were less likely to focus on net zero as an objective, but still had a focus on carbon reporting and transparency. All managers accepted that global warming had the potential to impact financial asset values. We illustrate our findings on the right.

Typical goals and touchpoints which we shared with the managers included:

- Developing a climate risk policy or communicating what implications global warming had for portfolios.
- Developing product level reporting with respect to engagement and voting in support of any stated ambitions in the manager responsible investment policy.
- Better communication of voting rationales and publish.
- Considering UK Stewardship signatory status, if not already a signatory.
- Continued development of collaborative partnerships at firm level and engagement with policy makers to better progress global decarbonisation.

	Manager	Not Aligned	Not Aligned	Aligning to a pathway	Aligned to a pathway	Achieved
		Traditional only	Resposible Only	Sustainable	Impact	Impact
Investment Managers based in the U.S.	Global Equity Manager			NZAMi		
	Global Equity Manager					
	Global Equity Manager					
	Global Equity Manager					
	Global Liquid Alts Manager					
	Global Liquid Alts Manager					
	Global Liquid Alts Manager					
	Global Liquid Alts Manager			NZAMi		
	Global Pasive Manager					
	Global Fixed Income Manager					
Investment Managers based in Europe	Global Equity Manager			NZAMi		
	Global Equity Manager			NZAMi		
	Global Equity Manager					
	Global Fixed Income Manager					
	Global Equity Manager			NZAMi		
	Global Equity Manager			NZAMi		

Manager taken forward for engagement in 2024

Looking Forward to 2024

Over the coming year, we continue the decarbonisation theme and will engage with selected asset managers on their approach and coverage of carbon emissions measurement, monitoring and reporting. We are looking to promote greater consistency and coverage in reporting and approach. In Principle 9 of the Code, we provide our updated Investment Stewardship Principles and Expectations to include carbon emissions reporting expectations at company level. We regard these expectations to be a good foundation for the improvement of overall carbon reporting for issuers and managers alike. Regardless of a manager's active decarbonisation plans, given current and likely future legislation, it is incumbent on managers to strive for transparent carbon emissions reporting, and we trust that our expectations serve as a good foundation to provide this.

Diversity, Equity & Inclusion (DE&I) Manager Engagement

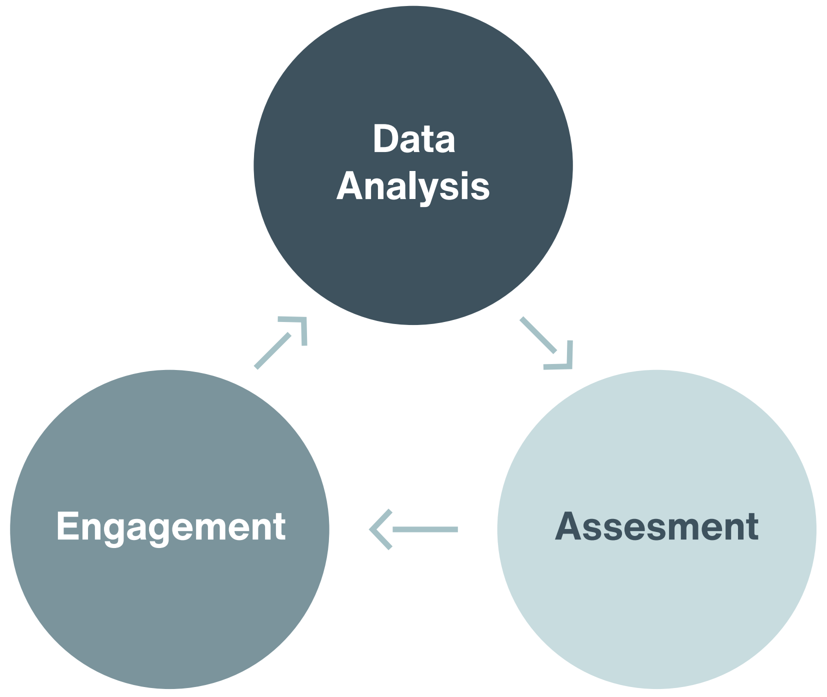
Aon has a three-stage approach to its DE&I process, depicted below. We recognise that improving DE&I issues is an evolution that will take place over time given continued commitment. Our focus, therefore, is on forward-looking momentum and engagement with managers to improve their DE&I characteristics rather than setting explicit targets. We previously reported in our Code submission that our next steps would be to focus on rolling out our DE&I approach to all our recommended managers as well as continued engagement with selected managers, enhancing understanding and setting realistic goals.

Engagement points discussed with managers are tracked in our internal database, InView, and we continuously look for tangible improvements. This is an ongoing process while we will seek to integrate any new changes into our research and assessment process.

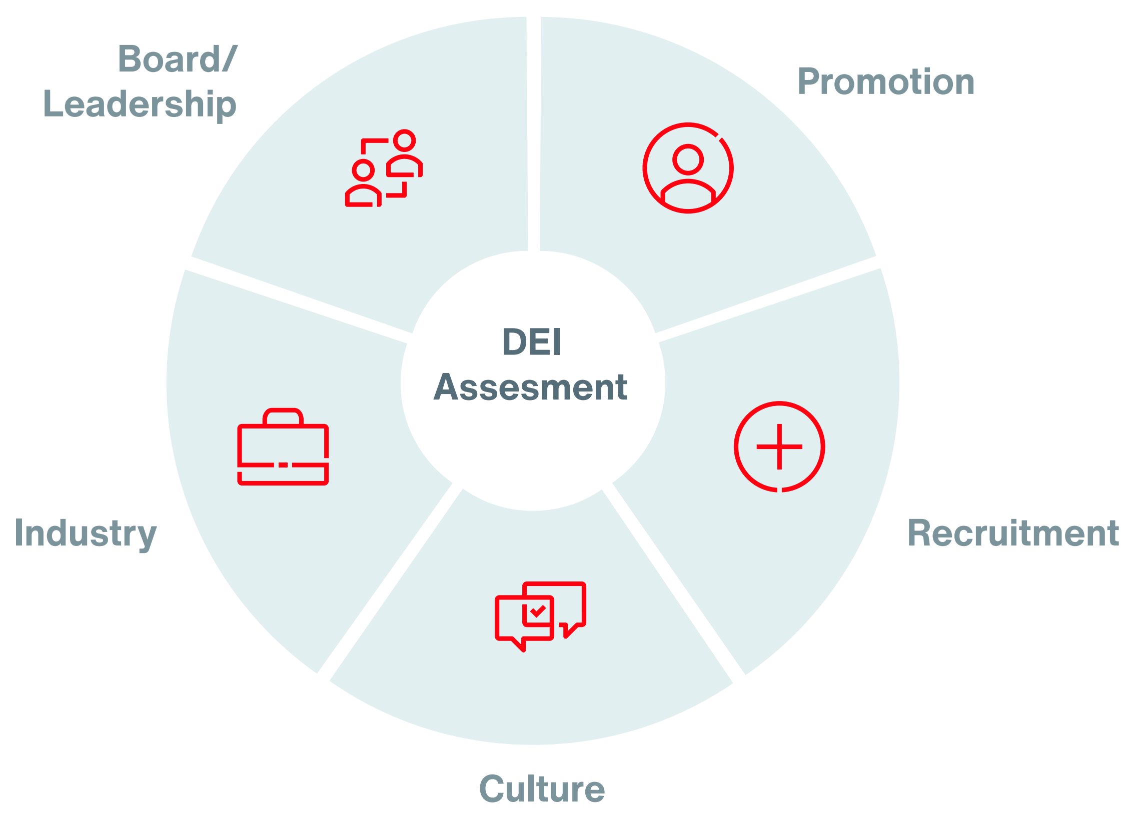
What did we do in 2023?

During the year, we updated our process for the evaluation of DE&I characteristics into our manager research approach, across all Buy-rated managers to provide more structure. Underpinning our assessment is a comprehensive Diversity Framework RAG (Red, Amber, Green) status which outlines expectations for each colour within each of the five framework categories (see below). This framework distinguishes between global and regional firms and between smaller and larger firms to avoid bias. It also ensures consistency in assessment from different manager researchers worldwide, across asset classes.

Aon's approach to DE&I analysis



Aon DEI Framework



Actions Over 2023

- All Buy-rated managers across Equities, Fixed Income and Liquid Alternatives asset classes, were contacted with a comprehensive and detailed questionnaire in respect of DE&I. The questionnaire covered five areas: Board/Leadership, Promotion, Recruitment, Culture, and Industry.
- The Manager Research team evaluated responses and followed up on points of engagement as needed.
- We then provided a RAG (Red, Amber, Green) categorisation for each of the five areas covered in the questionnaire. This categorisation informs our overall recommendation of Buy/Qualified/Sell, detailed in Principle 7 of the Code. It forms an input to both the Business and Investment Staff subcomponent ratings for each of the strategy's overall rating from our Manager Research team.
- If our DE&I Framework results in a 'red' categorisation for a particular manager, the Business and Investment Staff subcomponent ratings for underlying strategies cannot be rated a 4, our highest subcomponent rating.

Next Steps

We have long been a strong advocate for DE&I, and we believe that diverse teams lead to superior investment decision-making and better performance, as well as creating more stable firms by reducing staff turnover and mitigating reputational risk. We will engage with managers over 2024 for the improvement of DE&I approaches at a firm and strategy level. This is an iterative process and each year we hope we will see more robust approaches.

Summary

Monitoring and engaging with our asset managers is key in supporting our commitment as a Service Provider to the UK Stewardship Code, as follows:

> "
> Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

Source: FRC, UK Stewardship Code, Principles for Service Providers

Our Engagement Programme is one of the vehicles set up to help us to do this. Additionally, our Manager Research team and client leaders are all in frequent touch with our recommended asset managers, discussing client needs, investment objectives and potential engagement topics. This rolls up into a multilayered approach where we contact asset managers at many levels and across an array of topics. Engagement is undertaken, on a more formal basis by our Engagement Program, our Manager Research and Fiduciary teams, where specific or escalated themes or topics are directly addressed.

9

Principle 9

Engagement

Signatories Engage with Issuers to Maintain or Enhance the Value of Assets.

As explained above, our role is either as an advisor, or as a fiduciary fund-of-funds manager, or a combination of the two. This means that we are always at least one step removed from the underlying companies that our clients have exposure to. We therefore do not engage directly with issuers; instead, we make clear to our asset managers the expectations we have of them and by implication, of their investees when they themselves engage.

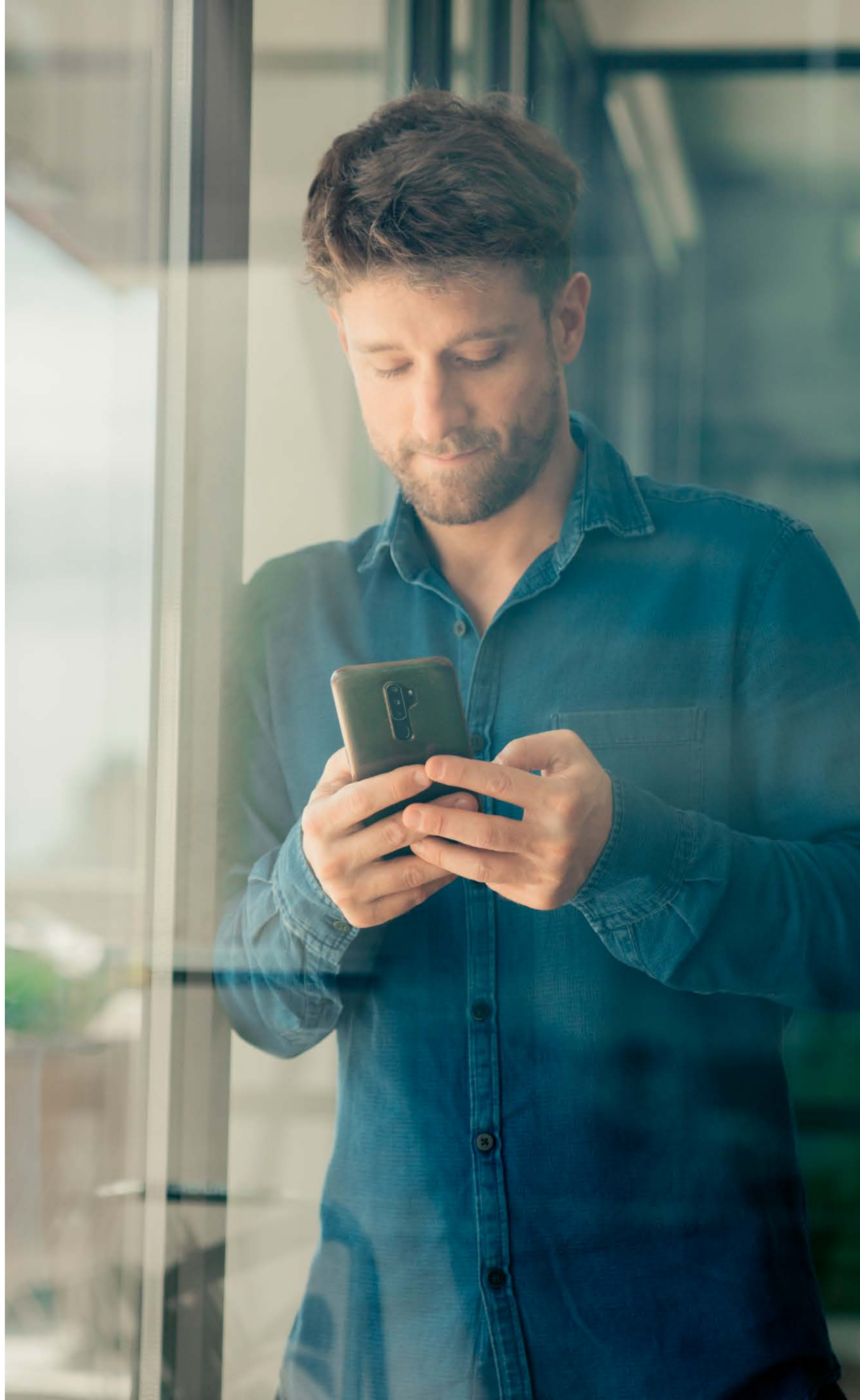
We expect our managers firstly to integrate ESG risks into their stock selection processes (described in Principle 7) and then to engage with issuers on those risks. Asset managers, therefore, need to be clear in their expectations of issuer activities, particularly in respect of corporate governance codes, company purpose, regulations, and activities around global systemic risk.

Some of the Investment Stewardship Expectations and Principles we set out in Principle 8 also relate to the expectations which managers themselves should have of the activities their issuers undertake. We expect managers to set engagement priorities and to hold their issuers to account by actively working towards engagement priorities set out clearly in a manager's responsible investment policy. Broadly, we expect our managers to engage with issuers for better practices and change, as on the right.

Encouraging issuer best practices at company level

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

No company is **perfect** but they can be positively influenced



Activities and Outcomes, 2023

Setting Carbon Emissions Reporting Expectations for Issuers

In Principles 1 and 7, we have described how our Fiduciary business has committed to a net zero target by 2050 across its portfolios. The need for global decarbonisation is understood and we have over the past year worked with a platform provider to facilitate the administration of carbon measurement across our fiduciary portfolios in the UK. Our ability to measure carbon emissions across a portfolio forms the basis for our DB and DC teams' ability to monitor progress and decide on future investment allocations.

To help progress our ability to measure carbon emissions, over the past year we updated our Investment Principles & Expectations with our carbon reporting expectations for investee companies document (see below) and over 2024 the Engagement Programme will engage against these expectations with selected managers (see Principle 8 of the Code for details).

These expectations form a foundation for successful carbon reporting on a consistent and comparable basis, using internationally recognised reporting frameworks. Our expectations are not prescriptive, instead they set out an uncontroversial basis for carbon reporting in alignment with the TCFD framework expectations. Asset managers who are equipped with robust carbon metrics from issuers, and who can present these transparently, can more accurately convey to us decarbonisation progress made at portfolio level.

We understand that carbon reporting will be an iterative process as the regulatory and technological landscape evolves and for our fiduciary team's net zero goal to progress, we will require clear, robust and consistent underlying carbon emissions data. It is therefore important that the companies our clients are invested in, the issuers, offer transparency around their carbon emissions and measurement.

Our Carbon Reporting Expectations for Issuers, 2024

Where practicable, over time, we expect companies to be working towards the following expectations with respect to carbon measurement:

- To measure Scope 1-3 carbon emissions (actual vs. estimated, categorised as appropriate using location-based Scope 2 and material Scope 3 emissions), to encourage SBTi targets and report these aligned to regulatory recommendations.
- To report carbon emissions comprehensively; across all business operations, regional and global.
- To report sustainable CapEx and OpEx (infrastructure, renewables etc) and how expenditures are being deployed.
- To have robust Board oversight, governance and accountability over carbon emissions measurement and management.
- The methodology used for measuring carbon emissions (allowing for sector-based granularity) should follow the GHG Protocol, reported to the CDP and verified with at least 'limited assurance'.
- To encourage efforts in the marketplace, to create a common methodology for avoided emissions and carbon offsets, to the extent possible reporting of each individually giving transparency on methodologies used.
- In addition to, or in the absence of carbon reporting, to be able to articulate what global warming risks and opportunities mean for the business.

Issuer Engagement and Expectations

We set expectations for issuers via our asset managers in terms of the portfolio objectives we set, our requirement for best practice, and our carbon reporting expectations set out in our Investment Expectations and Principles document where we cite the need to address global systemic risks and our support to the Paris Agreement.

As an illustration for issuer engagement, we report on the right the number of engagements undertaken by asset managers on our behalf. These engagements relate to our Global Impact Fund over 2023 and some real world examples of issuer engagement follow. Asset managers play an important role in building a constructive dialogue with issuers encouraging them to better manage financially material sustainability risks, increase the quality of information they disclose on ESG factors supporting more informed decision making, and improving issuer practices.

	Manager 1		Manager 2		Manager 3		Manager 4	
	Number of Engagements 2023	% of total	Number of Engagements 2023	% of total	Number of Engagements 2023	% of total	Number of Engagements 2023	% of total
Environmental	22	11%	30	71%	22	33%	57	12%
Social	40	21%	4	10%	24	36%	36	8%
Governance	91	47%	4	10%	21	31%	1	0%
Strategy	41	21%	4	10%	0	0%	75	78%
Other	0	0%	0	0.0%	0	0%	10**	2%
TOTAL	194	100%	42	100%	67	100%	179	100%

Source: Aon/underlying managers. Information as at 31 December 2023.

Global Impact Fund — Issuer Engagements on Aon's Behalf as an Investor, 2023:

1. **Impact Manager** — Company A in the Technology sector: Encouraging greenhouse gas emission targets.

   Engagement:
   The manager believes Company A to be an enabler of several technologies that will help decarbonise the world. However, the lack of a third-party approved greenhouse gas (GHG) emission reduction target means a full assessment of the company's net contribution to decarbonisation is challenging. The manager has been engaging with Company A to encourage the setting of science-based GHG emission reduction targets under SBTi (Science Based Target Initiative).

   Outcome:
   In December 2023, Company A committed to setting emission reduction targets under SBTi. Given SBTi is regarded as a gold standard for emission reduction target approval, this commitment significantly increases the manager's conviction that the company will follow a clearly defined pathway to align their emission reductions with the Paris Agreement. This should also increase broader investor conviction in the decarbonisation case of Company A and support its ESG score in the medium term.

2. **Impact Manager** — Company B in the Pharmaceutical sector: Discussing human rights concerns.

   Engagement:
   Company B is exposed to a high-risk sector (Biolife — plasma) which triggers both human rights issues, related to the compensation of the donation, and human capital management issues due to high turnover in the sector. In 2023, the manager began a dialogue with Company B to discuss the safeguards implemented to protect donors. The manager wanted to ensure the use of industry databases which serve to limit the potential for donors to switch from one company to another, and donating more than regulation allows.

   Outcome:
   The manager was satisfied that Company B aligned with market practices regarding donors and accept there is an inherent risk remaining due to the nature of the activity itself. Regarding human capital, the company is committed to employee retention programs, but there is a lack of clarity on the overall approach. The manager therefore fed back the request for further details, specifically detail on biolife in comparison to the business overall.

3. **Impact Manager** — Company C in the Industrials sector: Monitoring net zero targets.

   Engagement:
   In November 2023, the manager engaged with Company C about its net zero target and the challenges it faces. The company was identified due to:

   - the lack of near-term or long-term SBTi (Science Based Target Initiative) or approved Scope 1-3 net zero targets.
   - the company's absolute Scope 1-2 emissions not being on track for net zero.
   - the lack of reported Scope 3 emissions. Scope 3 is critical for Company C to achieve net zero. The Company emitted c. 30 million tCO_2e in 2023, placing it as one of the portfolio's highest carbon emissions companies.

   Outcome:
   Company C recently hired a climate monitoring and accounting platform to help calculate its Scope 1-2 emissions, and by 2024/2025 it plans to submit its near-term Scope 1-2 targets to SBTi. The manager has sent Company C information on how similar companies have measured Scope 3. The manager has timetabled further discussions during 2024.

Many more examples of issuer engagement on our behalf, can be found in AIL's Global Impact Report, 2023 , where we also report the degree of alignment which manager engagement has to the UN Sustainable Development Goals.

"Find It, Fix It, Prevent It", Issuer Expectations In Respect of Modern Slavery

We engaged with managers to bring about greater corporate awareness of modern slavery within companies. Modern slavery continues to be prevalent within company activities and it is a theme we are well placed to bring to the attention of our issuers via our asset managers. We work to align best practices on the topic, raising awareness of the issue of banishing modern slavery — and it is an expectation we strongly assert.

We are a supporter of the 'Find It, Fix It, Prevent It' (FFP) initiative, a modern slavery investment initiative which now has the support of a wide range of investors with gaining traction within the industry. The FFP has set out its FFP engagement expectations publicly, and we have shared these with managers where we believe they have exposure to sectors where the existence of modern slavery is a risk. We expect our recommended managers to adopt similar standards set out by the initiative — finding modern slavery, fixing it, and so preventing it — and to have these expectations of their investees.

What did we do over 2023?

The Equity Manager Research team contacted a select group of asset managers with a questionnaire regarding their approach to modern slavery. These managers were selected due to higher exposures in respective portfolios, to consumer goods and the electric vehicle value chain where raw material mining can pose an increased risk of modern slavery.

The questionnaire sought to discover how these managers were currently approaching the risk of modern slavery, including whether these managers had policies and procedures in place, whether they have focused resources on the issues, how they measured the risk; examples of engagements with underlying holdings on modern slavery; and any industry initiatives they are part of, on the topic.

In turn, and to evaluate efforts and respond to these questions, asset managers will themselves come to expect similar standards of investees; standards that prohibit modern slavery in the first place. We are clear that the existence of modern slavery within a company's operations and value chain may inhibit free access to capital finance. This is an ongoing engagement, and we continue to evaluate and reflect on responses and address where needed.

Summary

In Principle 7 of the Code, we briefly describe our Manager Research team's ratings process, which results in an overall investment rating of Buy, Qualified and Sell. Formal quarterly meetings, ongoing dialogue and research is the backdrop to these investment ratings, and manager researchers will discuss underlying issuer exposures as part of the evaluation process. Expectations of issuer activities naturally feeds into this process, as they drive the risk and return; especially key benchmark exposures. Where performance has been impacted due to issuer factors around, for example, corporate governance, business strategy, market positioning, sustainability risks, reputational concerns, controversies etc, this will be flagged by the manager to us and we can add these considerations into our overall, more general view, of issuer expectations — picking up on particular points with the manager as necessary. We have illustrated this above using the example of issuer carbon emissions reporting.

10

Principle 10

Collaboration

Signatories, where necessary, participate in Collaborative Engagement to Influence Issuers.

As an investment advisor, we, like other advisors, act as a critical link between asset managers and asset owners, providing us with an exceptional opportunity to facilitate change within the investment industry. Aon is open to, and supportive of, collaborative engagements where we are able to improve outcomes for our clients and more generally, mitigate global systemic risks. By working with other parties where we believe we can influence outcomes by sharing our expertise, we work to indirectly influence issuers. Our first example below, is an illustration of this.

Our second example is a more direct illustration of how, by working across Aon, we can collaborate to more directly influence issuers. The Blue Heart Collaboration is an innovative way to demonstrate to companies the investment value in nature-based solutions and why it behoves companies to seek these opportunities out.

Activities and Outcomes, 2023

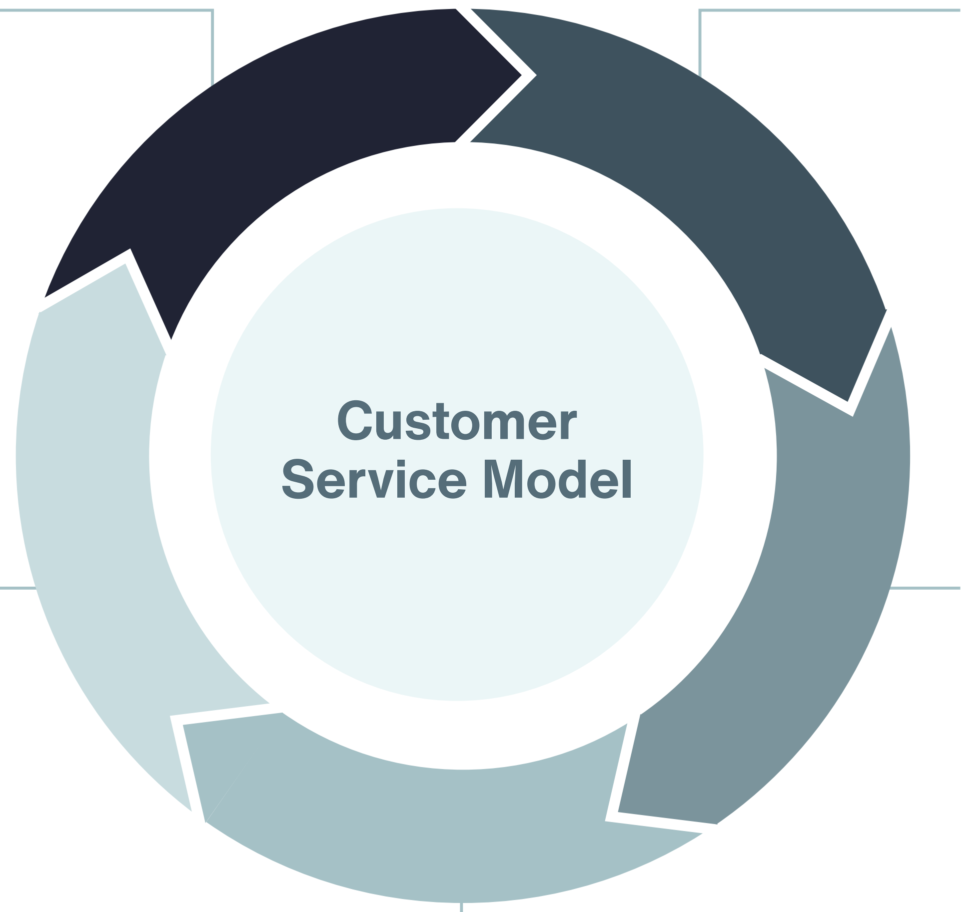
In Principle 1 of the Code, we introduced one of Aon's key collaborative partners, the Cambridge Institute for Sustainability Leadership (CISL). Aon has been a supporting member of CISL's steering and working groups for a number of years and work jointly on key projects; all of which align to Aon's responsible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

CISL and "Let's Discuss Nature" Collaboration and Workshops

Last year, we featured our work with CISL on a use case for enabling the identification of material biodiversity risks in a portfolio. Aon's 'Nature-related financial risk: use case' is available on CISL'S website and was read widely. The natural question following the identification of biodiversity risks in a portfolio, is then how to engage on them. Therefore, over 2023 Aon worked with CISL to help produce CISL's 'Let's Discuss Nature with Climate: Engagement Guide'. The guide was written primarily to empower client leaders and asset managers to support investors and issuers to act on the opportunities, risks and compliance demands associated with nature and climate.

Central to the guide is its five-phase approach (see below) which looks to integrate nature into existing engagements for climate. The guide gives links and resources, as well as context to the issues and a process through which material biodiversity risks can be identified and mitigated at portfolio level.

A five-phase approach for understanding risks associated with biodiversity loss in an investment portfolio



Review

Monitor progress, support your portfolio clients and investee companies, and further the nature-positive agenda within your financial institution.

Set the scene

Open the dialogue by expanding climate-related conversations to include nature and establishing your financial institution as a close partner in your portfolio clients/ investee comapnies' net zero and nature-positive journey.

Structure

Structure solutions, financing or otherwise, that support the nature-positive transition of your client or investment.

Assess

Assess your client or investment's current position on nature and ambitions for the future.

Design

Support your client or investment to design clear transition plan, highlighting financial implications and cliamte and nature related impacts.

Source: CSIL, 2023

What did we do in 2023?

Asset Manager interviews:

We conducted interviews with selected asset managers to understand how they were currently approaching the need to identify biodiversity risks within their investment portfolios. Each of the managers interviewed were at different stages of their approach to identifying biodiversity risk, and our objective was to ensure we learned from and understood the significance of the differing approaches. This would help inform the guide which was subsequently published.

Key findings following the interviews are as follows:

- Increased learning and upskilling will be needed more broadly with regards to understanding the materiality of the different ecosystem services to a company and its operations.
- It is important that an asset manager commits to the issue, dedicating resource while also accepting the need to focus on what is manageable, taking a pragmatic approach.
- The current availability, consistency and transparency of biodiversity data is patchy and inconsistent. However, with regulatory support, this should improve apace. Consistent data is needed such that simple biodiversity metrics can be established and losses measured.
- Given the high specificity of ecosystem materiality to a company and its sector, the use of case studies to evidence activities is a good way to illustrate commitment and progress.
- The importance of location and materiality is fundamental to understanding biodiversity risk. Unlike climate change and carbon emissions, a universal metric to understanding biodiversity risk and impact, does not exist. Measurement of biodiversity loss will likely take on a range of perspectives and data points, differing across industry sectors.
- It should be accepted that achieving sustainable outcomes will be an iterative process where findings are continually integrated into ongoing activities, leading to a gradual improvement in the natural capital landscape.

Running Workshops at Aon's Wealth Insights Conference, London in Q4 2023

Three workshops were hosted by Aon at our Wealth Insights Conference (see Principle 1) entitled 'Engaging on Nature: The Essential Guide'. At these sessions, we brought to our asset managers' attention the published CISL guide, emphasising the need for investment diligence around biodiversity materiality and potential consequent risk to the value of financial assets. Aon also discussed the relevance of the guide towards reporting for the TNFD, and the likelihood that in time, TNFD reporting would become mandatory. As illustrated in Principle 8 of the Code, biodiversity loss is one of Aon's key engagement themes and next year, Aon will continue to discuss the topic as a standing agenda item at our manager Engagement Programme meetings.

CISL and Blue Heart Collaboration

Quantifying the value of nature based solutions in order to encourage issuer activity towards nature based solutions and enterprise.

Aon Client Leadership works to leverage and share expertise across our business solutions such that Aon and its investors benefit more widely. Here, we showcase the relevance of an exercise undertaken by Aon Reinsurance in collaboration with CISL, which potentially influences issuer activity for real world positive change.

In our capacity as a reinsurance agent, Aon plays an important role in identifying and managing nature-related risk and opportunity because our underwriting, investments, and claims' supply chain are intricately connected to the natural world. In addition, our Climate Risk Advisory practice helps clients with their climate-related financial risks, including risk-based analytics to support investments in Nature Based Solutions (NbS). Colleagues from these teams worked alongside other Blue Heart partners in Australia to develop an industry-first use case, demonstrating how NbS can be integrated into the technical insurance underwriting process, thus demonstrating risk reduction and financial benefit to insurers.

In practical terms, Aon, and its Blue Heart partners — The Nature Conservancy and Sunshine Coast Council — aimed to provide the groundwork for future investment opportunities within financial markets, for a given locality. This collaboration provides (re)insurers with a robust methodology to accurately quantify the impact of NbS alongside conventional risk reduction measures like levees and seawalls. This use case is a pivotal step toward mainstreaming NbS in the insurance sector's risk assessment practices.

What did we do in 2023?

We worked in Blue Heart, an area in Southeast Queensland, that encompasses the coastal flood plains of the Maroochy River. A newly approved carbon accreditation system is in place here and the approach aims to help coastal ecosystems, such as mangroves, salt marshes, and seagrasses, by restoring tidal flows to previously drained wetlands. These ecosystems are considered "blue carbon" because they can sequester and store significant amounts of carbon dioxide and their restoration may also provide increased protection and flood mitigation benefits through their expansion in coastal flood plains.

The coastal wetlands of the Blue Heart floodplains have, over the past several decades, been systematically drained and converted to sugar cane cropping, grazing and coastal developments. As a consequence of these land use changes, the delicate balance of the coastal wetlands has been disrupted, resulting in increased vulnerability of the area to further erosion, natural capital depletion, flooding and reduced carbon absorption. In order to encourage blue carbon projects which can address problems such as these, it is essential to convey ways to reduce enterprise risk, particularly in the context of Disaster Risk Reduction (DRR), which may also enhance the appeal of such schemes to potential investors.

This is what we set out to do, quantifying risk reduction by assessing factors such as coastal protection against storm surges, erosion prevention, and the resilience of ecosystems in the face of climate and nature-related challenges. For instance, mangrove restoration not only sequesters carbon but also acts as a natural buffer, reducing the impact of storm events on coastal areas. Salt marshes and seagrasses, integral components of ecosystems, contribute to shoreline stabilisation and water filtration, enhancing the overall resilience of coastal regions. Aon was able to quantify the value of restoration projects using our natural catastrophe risk assessment toolkit, called Combined Hazard Information Platform (CHIP), a widely used screening database available for Australia and New Zealand. We calculated the technical rate of insurance for all property within the Maroochy River catchment area using pre-scheme flood modelling and current flood defence infrastructure in place.

Summary

We have illustrated in our activities for the year, how our collaborative work with CISL works to influence issuer behaviour. Next year, we plan to continue working with CISL on a nature workstream project called 'Scaling Nature Positive Finance'. The theory of change for this project is to better align demand and supply of nature-positive financial securities of sufficient size and market liquidity. The workstream helps identify how to reduce the current biodiversity financing gap (cited by the Conference of the Parties (COP) to the Convention on Biological Diversity) and helps issuers access capital with an approach which is meaningful to investors.

A note on NbS

There has been increasing interest from investors in NbS, either directly, or indirectly through the purchase of carbon credits in a common market and the emergence of nature-based credits. There are several reasons for this. Investors may be attracted to the proposition of a multi-layered asset, which delivers holistic ESG benefits for local communities, while also supporting their own net zero strategies. The rise of nature based financial disclosures such as TNFD has also galvanised support for nature-positive investments to support market disclosures. Issuers, embracing and demonstrating their commitment to nature, could provide a reputational dividend with their customer base whilst also opening access to ESG-linked capital.

Supporting and directing stakeholders to understand the broader positive impacts on both the environment and local communities, may thereby strengthen the case for sustainable investments in blue carbon and nature initiatives. NbS emerges as a robust investment proposition that promotes and fosters portfolio diversification. This is critical for the encouragement of further sustainable development in any given locality where a need for nature restoration has been recognised.

11

Principle 11

Escalation

Signatories, where necessary, escalate Stewardship Activities to Influence Issuers.

As identified earlier in this document, our focus as stewards of our clients' assets is on the manager rather than on the underlying issuers. Through our engagement with asset managers, we have the expectation that managers in turn influence issuer behaviours, and this is implicit in the stewardship standards we set them (see Principle 8).

Aon has three main avenues to escalate activities after engagement with asset managers:

- Our expectations and the standards that we set asset managers during our normal course of business, and our Investment Stewardship Principles and Expectations document.
- Where needed, managers who fail to influence issuers adequately in areas of concern will become a focus of our Manager Research team or by the Engagement Programme as appropriate. We will seek to engage with the manager in order to employ their escalation procedures, encouraging better issuer outcomes — outcomes that are aligned to the values and beliefs of both the manager and Aon.
- Our Responsible Investment team can also capture broader areas of concern via our Engagement Policy Reporting Tool (EPRT) where we can log areas of concern — often this is as a result of manager reporting of engagement and voting actions.

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

Fiduciary Team's Escalation Framework

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

Due to the scale of our Fiduciary business and the strong relationships it has with its underlying managers, we have found managers are receptive and responsive to engagement. However, in the event of an unsuccessful engagement, there are several ways that we can escalate:

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

Activities and Outcomes, 2023

Escalating Investee Activities with a Global Fixed Income Manager

We engaged with a global fixed income manager to see an improved escalation process for portfolio companies and investees, and for the recording of engagements. Previously the manager did not have a formal escalation process in place.

We met with their Head of Responsible Investment, the Head of Responsible Investment Research and Innovation and a senior stewardship analyst to discuss the progress made:

- The manager now distinguishes between an interaction and an engagement and is recording this data. A 1-5 score records the engagement stage, with 1 being an engagement has initiated and 5 being the issue has been addressed with positive outcomes achieved.
- The manager has created specific sector materiality maps which show engagement priorities and which key issues have been identified. For instance, the manager gave us an example of thermal coal risk being a focus for the year (see case study below).
- Alongside the progress on engagement, the manager has a new escalation process where a 1-5 scale is also used to assess receptiveness of their dialogue with the issuer. An actively engaged issuer scores a 1, progress being monitored scores a 2, a structured communication (where a formal communication is warranted due to the materiality of the manager's engagement or unresponsiveness) scores a 3, an issuer being put on a watch list scores 4 and a recommendation for investment action (exclusion or disinvestment), scores 5. If an assessment is a 3 or below, the Responsible Investment team becomes involved alongside the analyst.

We also discussed how we would like the manager to engage and demonstrate active ownership with investments they make on behalf of our clients. We give brief highlights of escalations, from the manager, below:

Investigating a Swiss Multinational Commodity and Mining Company's ESG Record

Background: The issuer is a Swiss multinational commodity trading and mining company. The company violated the UN Global Compact because of a bribery violation controversy and had contravened regulations in several jurisdictions.

The manager's engagement objectives focused on three areas:

- Understanding the company's time-bound commitment to stop global investment in new thermal coal capacity.
- Providing additional detail on thermal coal asset run-down plans such as timelines, capacity reductions, and 'Just Transition' considerations.
- Due to its inclusion in a third party's UN Global Compact violators list and bribery settlements with various regulators, the manager wanted the issuer to improve disclosures on corrective actions, proactive measures or quantitative data related to ethics, compliance, and internal controls.

The manager escalated the issue with the investee to its monitoring list due to the UN Global Compact bribery violation controversy and non-compliance with the manager's position on thermal coal. The manager communicated its expectations verbally and in written form to management.

The company acknowledged the strategic priority to improve and execute its coal run-down strategy and subsequently published a climate progress report and announced a commitment to close 12 coal mines by 2035. This was the first time the issuer has disclosed a quantified number of coal-asset closures with specific target dates, which was one of the manager's engagement objectives for the company. While the manager is still monitoring the company's coal run-down strategy closely, they view this as a positive incremental improvement on the transparency of its coal exit strategy.

Holding a Company Accountable for its Treatment of its Employees

Background: The company in question operates as a port operator and operates marine terminals and handles cargo containers. It is the 100% shareholder of a company that was at the centre of a major social controversy in 2022 when it made a large proportion of its workforce redundant without union consultation. This was widely criticised in the media and parliament.

The manager engaged with this company to understand the reasons that it did not follow the recommended process with regards to the redundancy consultation period. It was clear from discussions that the company would not change the approach taken and did not regret decisions made. Consequently, the manager was not reassured and the possibility of further attempts to bypass the law or recognised processes, with other companies that it owned, remained.

Outcome: As a result, the manager escalated the issue and it was agreed to place investment restrictions for investing in the company for funds with relevant sustainability criteria, and it was labelled unsuitable for strategic credit portfolios. The manager continues to track developments in terms of controversies and will re-engage if any significant developments occur.

Escalating Investment Stewardship Principles and Expectations with its Asset Managers

Aon expects managers to strive for best practice and this means aligning, in most cases, to many if not all of our Investment Stewardship Principles and Expectations. We illustrate, with two cases, instances where we escalated areas of concern where focus on a manger's investment stewardship activities was not clear. Our escalation worked towards both an increase of, and development for climate transition engagement activities, clarifying both the purpose and communication of those manager engagement activities.

Given regional differences in regulation for climate risk management, some managers may be less able, or successful, in promoting decarbonisation activities. However, increasing regulation for more accurate data and business approaches, enables the investment community to achieve more accurate carbon profiling — a first step towards any decarbonisation approach.

Manager 1: A Global Fixed Income Manager

Aon has engaged with a large global fixed income manager over the past two years highlighting the need for alignment towards best practices, and the consideration for UK Stewardship Code signatory status.

Aon had seen limited progress in terms of the manager's ability to articulate its engagement activities and focus. A consequence of this was that its influence on a number of companies had been underplayed and the manager had not necessarily realised the broader significance of its activities. Many of the manager's engagement activities lacked structure. While the manager had been actively analysing the credibility of net zero targets and approaches stated by investee companies, it had not followed these up with more proactive engagement with investees in order to address overstated targets. Where these targets were not credible, given other stated ambitions the investee company had in place, the business model and future value of the investee as a financial asset was unclear.

The manager had developed an approach which called for investees to clarify their business models and goals, indicating courses of intended action as and when stress points were reached. Given the beginnings of a good foundation for manager engagement activities, the manager needed to formalise its focus to address the issues.

We highlighted the value of the work the manager was undertaking in terms of the resulting enhanced transparency, which adds to investors' ability to make investment decisions. The influence the manager could have with investees on the topic would be greater with broader collaboration, recognition of which could be drawn by clearer articulation of its work. Aon encouraged the manager to broaden the scope of its work, escalating and promoting issues. This could also form the basis of an improved approach to its own stewardship.

Aon communicated the following goals for the manager:

- To improve the transparency of its responsible investment approach on its website.
- To develop more granular responsible investment policies for engagement and climate risk.
- To illustrate its engagement approach through demonstrable activities.
- To report its engagement activities with high carbon emitting investees.

Outcome: The manager has now invested in an engagement software service and will be able to track and monitor its carbon transition monitoring engagements. As a result of increased focus, more companies will be engaged with and transparency enhanced. This not only benefits the wider financial community but also the manager in terms of clearer valuation models, enabling better stock decision making and facilitating others in decarbonisation efforts. The manager will work towards progressing a more distinctive investment stewardship approach.

Manager 2: A Global Equity Manager

We engaged with one of our global equity managers regarding the clarity it offers around its engagement and voting activities in respect of the documents the manager had published on its website. The context for the engagement was the importance of representing the manager's responsible investment policies clearly, such that potential or existing investors can evaluate alignment to stated responsible investment beliefs and values, if needed.

An asset manager should be accountable to its responsible investment policy and we found this not to be the case in this instance where active ownership activities were misaligned. We escalated discussions by highlighting a number of key questions which centred on the strength of the manager's engagement and voting activities relating to the manager's responsible investment policy.

Outcomes

- The manager substituted its default voting policy, from a sustainability focused policy to a standard benchmark policy, one where the manager found better alignment to its investment processes.
- The manager reasserted its approach to responsible investment which is designed to serve its clients' investment objectives which are financial in nature.
- The manager engaged with investee companies to generate insights about the management of financially material ESG issues, and this has been made clearer.

Aon now understands more clearly the manager's investment stewardship approach and allowing us to align our investment recommendations accordingly.

Escalating Data Quality for TCFD Reporting Expectations

The trustee of a hybrid UK pension scheme was required to publish an annual report on its climate-related risks and opportunities, in line with the recommendations from the Taskforce for Climate-related Financial Disclosures ("TCFD"). The scheme's first TCFD report was published in mid 2023.

The trustee had set its own climate-related targets for its investments and initially was focussed on working with its managers to improve the quality of greenhouse gas emissions data across its portfolios, as well as reducing the carbon emissions of the scheme's equity holdings.

Aon worked with the trustee's managers to obtain the data the trustee required in order to fulfil its reporting obligations — this included a measurement of progress versus the targets the trustee had set, and providing reassurance that the managers' reporting was as robust and comprehensive as it could be.

We had found that the quantity and quality of data received from the trustee's managers was varied and identified the need for managers to improve the information provided. To address this, we drew up appropriate letters and issued these to the trustee's managers, outlining the trustee's TCFD reporting expectations.

The letters were drafted under the three categories, with the request for further information:

- Managers who had provided a full response.
- Managers who had provided limited or no response.
- An individual manager who had provided a limited response, but which did not publicly support existing TCFD recommendations.

The letters falling into the first two categories, where data received was found to be inadequate, expressed the trustee's wish to work with those managers to understand the reasons behind the current gaps in the data provided and the steps the managers were taking to improve the availability of data going forwards. The final category took a further step, requesting reasons for the managers' lack of support for carbon emissions reporting.

The trustee understood that TCFD-related disclosures are still relatively new, and methodologies are evolving. However, the data is an integral component of the trustee's requirement to assess its climate risk management. The scheme's managers are relied upon to support the client's reporting capability. Given the size of the scheme, the trustee had an opportunity to act as a leader on behalf of other schemes in the scope of the DWP requirements, and improve reporting aligned to the TCFD recommendations.

Summary

In order to tackle many of the different issues which good investment stewardship can present, our asset managers are willing to work with us to achieve better outcomes. By working together, we also enhance the ability of the wider financial community to progress their own investment stewardship agendas and address issues.

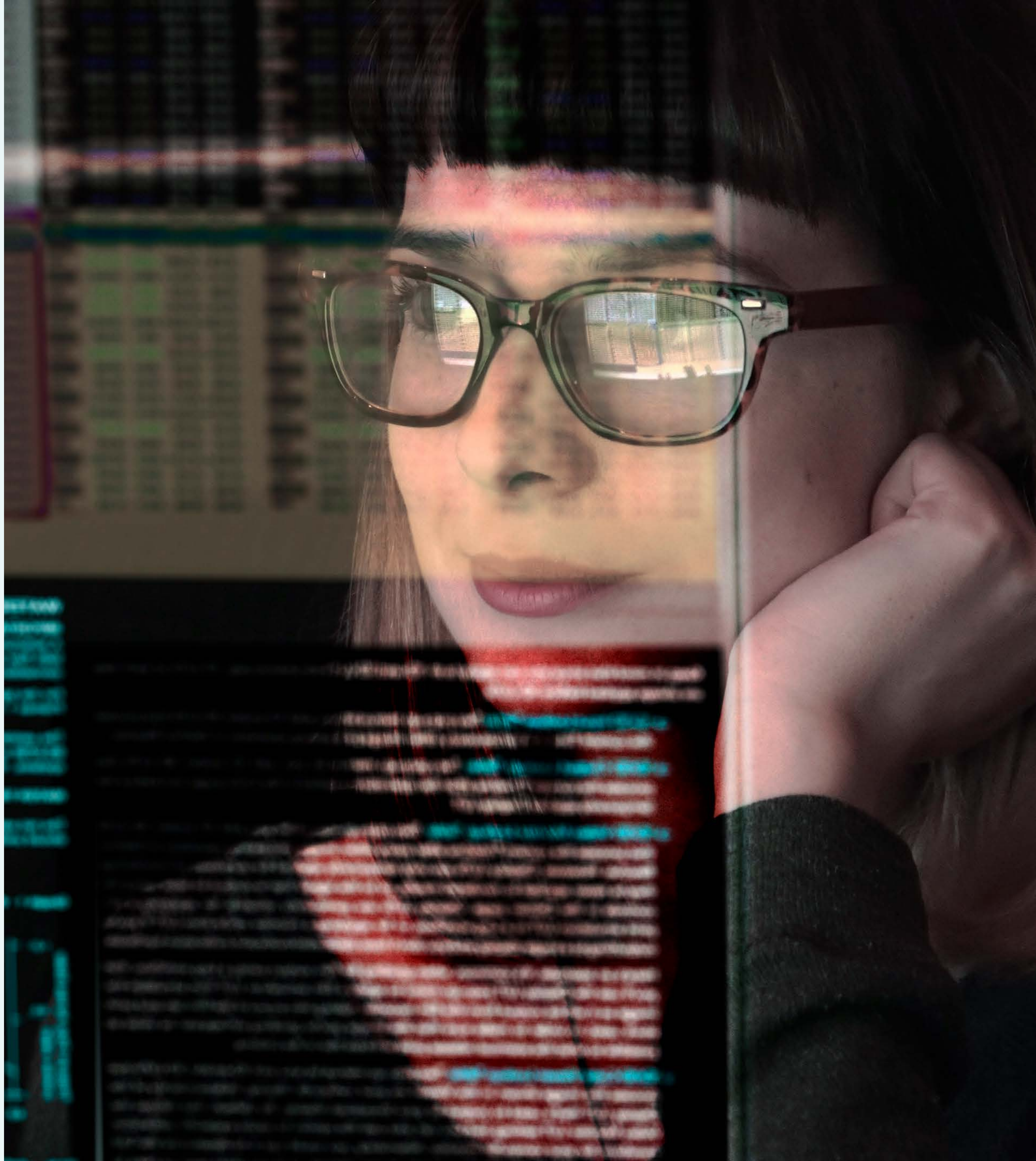
12

Principle 12

Exercising Rights and Responsibilities

Signatories Actively Exercise their Rights and Responsibilities.

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



Proxy voting is a tangible demonstration of exercising the rights and responsibilities of beneficiaries and we assess voting practices through our ESG manager ratings process, through our investment questionnaires and our Engagement Programme. If necessary, we will follow-up with a manager directly where we see evidence that their voting policies and /or actions fall short of our Investment Stewardship Principles & Expectations.

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

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

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

In Principle 8, we described Aon's Engagement Programme's general approach and we demonstrated how, our expectations around voting behaviours are listed in the goals and touchpoints for an asset manager. These expectations are also listed in our Investment Stewardship Principles & Expectations document, which is shared with managers.

With respect to voting, managers should:

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

Voting Characterisations

At our Engagement Programme meetings, Aon looks for a strong connection between a manager's responsible investment policies and its voting actions. Where a manager has committed to specific ESG themes in its responsible investment policies, we would expect the manager to use its voting powers in support of its commitments and as an escalation tool, where not enough is otherwise being done at company level. As part of our due diligence ahead of those meetings, we will look to see how a manager has voted across a list of significant votes. These votes have been selected given the support they receive from Climate Action 100+ and Share Action.

We noted in Principle 8 of the Code, the polarisation we see between Europe and the US, where in the US there is less support for active decarbonisation and ambitions aligned to the Paris Agreement. We present on the right a heatmap demonstrating this.

Voting actions of selected managers, 2023 Proxy Voting season

	Region Manager	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	E.U.	E.U.	E.U.	E.U.	E.U.	E.U.	E.U.	E.U.
	Net Zero Asst Managers imitative signatory	No	No	No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes
		Global Managers															
Company	Resolution	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Equinor	Manage Climate-Related Risk and Possibilities	Voted Against	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For
CRH plc	Director reelection wrt climate risk management	No Invested Exposure/ Did not vote	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For	Voted For
Shell plc	Align to Paris Climate Agreement	Voted Against	Voted Against	Voted Against	Voted Against	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For	Voted For
Engie plc	Modify articles of association on the company's climate strategy	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For
Total Energies	Align to Paris Climate Agreement	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	No Invested Exposure/ Did not vote	Voted For	Voted For
Exxon	Scope 3 GHG Reduction Target	No Invested Exposure/ Did not vote	Voted Against	Voted Against	Voted Against	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For	Voted For
Chevron	Scope 3 GHG Reduction Target	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For	Voted For
Amazon	Warehouse Working Conditions	Voted For	Voted Against	Voted For	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	No Invested Exposure/ Did not vote	Voted For	Voted Against	Voted For	Voted Against	Voted Against	No Invested Exposure/ Did not vote	Voted For	Voted For	Voted For	No Invested Exposure/ Did not vote

Source: Managers

Voted Against · Voted For · No Invested Exposure/ Did not vote

In instances where we see misalignment of voting actions versus stated goals and ambitions in an asset manager's responsible investment policy, we will engage with the manager to seek alignment.

Our scrutiny also extends to passive managers (see to the right) where we believe the concept of universal ownership should come to the fore. We note that unlike the year before, two of the larger passive managers, one on either side of the Atlantic, voted similarly. In many cases, shareholder resolutions were not supported because they had been overly prescriptive in the approach needed to address the issues of concern where the outcomes were potentially unacceptable.

Proxy Voting Actions by passive managers – U.S. and UK

Company	Resolution	Passive Manager — U.S.	Passive Manager — UK
Equinor	Manage Climate-Related Risk and Possibilities	Voted Against	Voted Against
CRH plc	Re-elect Shaun Kelly as DIrector	Voted For	Voted For
Shell plc	Align to Paris Climate Agreement	Voted Against	No Invested Exposure/ Did not vote
Engie plc	Modify articles of association on the company's climate strategy	No Invested Exposure/ Did not vote	Voted Against
Total Energies	Align to Paris Climate Agreement	No Invested Exposure/ Did not vote	Voted Against
Exxon	Scope 3 GHG Reduction Target	Voted Against	Voted Against
Chevron	Scope 3 GHG Reduction Target	No Invested Exposure/ Did not vote	Voted Against
Amazon	Warehouse Working Conditions	Voted Against	Voted For

Source: Managers

Voted Against · Voted For · No Invested Exposure/ Did not vote

Asset Manager Voting on Our Behalf — Global Impact Fund

In Principle 9 of the Code, we illustrated issuer engagement on our behalf using our Global Impact Fund reporting, by way of example. For Principle 12, we look at the voting decisions taken by equity managers in the Global Impact Fund in respect of significant votes. We monitor our appointed managers in terms of their vote decisions and that their voting reaches close to 100% of those votes they are entitled to vote on. Where overall votes fall below an acceptable threshold, we will engage with the manager as to the reasons.

We note that:

- **Manager 1:** Whilst they are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), the manager does not delegate or outsource any of its stewardship activities or rely on third party recommendations when deciding how to vote on our clients' shares. All voting decisions are made in house in line with the manager's own voting policy.
- **Manager 2:** Relies on their bespoke voting policy at ISS, and vote manually, for an overwhelming majority of eligible votes.
- **Manager 3:** Pursues their own voting policy and refers to the ISS proxy vote policies and research recommendations as one of their sources of research.
- **Manager 4:** Receives third-party analysis and recommendations from Glass Lewis to help inform their decision-making. The manager also implements voting recommendations by the Climate Action 100+ and strictly adheres to the guidance laid out in their ESG policy, decarbonisation strategy and stewardship policy.

Summary of voting, Global Impact Fund, Proxy Season 2023

Voting Statistics 2023		Manager 1	Manager 2	Manager 3	Manager 4
Meetings eligible to vote at		34	64	45	25
Resolutions eligible to vote on		349	833	679	396
% of resolutions voted on for which eligible		95%	100%	100%	100%
Of the resolutions voted on:	% voting WITH management	97%	86%	53%	95%
	% voting AGAINST management	3%	10%	41%	5%
	% voting ABSTAIN	0%	3%	4%	0%
% of meetings where voted against management at least once		21%	78%	96%	16%
Proxy advisory services used		N/A	Institutional Shareholder Services (ISS)	N/A	Glass Lewis
% of resolutions voted on contrary to the recommendation of their proxy adviser (if applicable)		N/A	8%	N/A	2%

Source: Aon/underlying managers. Information as at 31 December 2023. Figures are subject to rounding.

Company name	Company A	Company B	Company C	Company D
Manager	Manager 1	Manager 2	Manager 3	Manager 4
Date of vote	2023	2023	2023	2023
Size of holding as at the date of the vote	4%	4%	1%	5%
Summary of the resolution	Shareholder resolution regarding median pay gap reporting	Authorise issuance of Equity or Equity-Linked Securities with pre-emptive rights up to an aggregate nominal amount	Shareholder proposal regarding tax, climate, political contributions	Authorisation to issue special voting shares
Manager's Vote	Against the shareholder resolution	Against management	For the shareholder proposal	Against management
If voted against, was this communicated with management ahead of the vote?	Yes	No	Yes	No
Rationale for the voting decision	Manager 1 opposed a shareholder resolution asking for median pay gap reporting. They are satisfied that the company committed to provide this reporting and is currently working with consultants to remedy.	The share issuance authority with pre-emptive rights has a volume of 16.3% of currently issued capital. Manager 2 also had concerns given that the term of the authority is 26 months.	Manager 3 routinely engage with Company C regarding tax disclosures and believe country by country reporting is critical information for investors to have access to. Manager 3 was in favour of the shareholder proposal which related to climate reporting and political contributions.	Manager 4 believes that the authority to issue shares may benefit shareholders by providing the company with the flexibility to finance operations and future business opportunities. However, Manager 4 believes dual class share structures and unequal voting rights are typically not in the best interests of ordinary shareholders. Manager 4 believes that equal voting rights ensure that minority shareholders have a voice particularly regarding the election of Directors. Voting "Against" this proposal creates an even playing field for all shareholders and Board accountability.
Outcome of the vote	Fail	Pass	Fail	Fail
Implications of the outcome, lessons learned and likely future steps in response to the outcome	As the company has committed to publish adjusted median pay and provided a breakdown of their workforce, Manager 1 will be waiting for the release of the materials and seek engagement to understand the nature of adjustment in the future.	Authorisation comprising more than 10% of the company's capital should be avoided unless otherwise specifically justified.	While the discussions around tax disclosure have been helpful to Manager 3, they continue to encourage the company to improve disclosure ahead of the 2025 Global Reporting Initiative (GRI) requirements.	The implication of this outcome is to ensure that Manager 4's portfolio companies are implementing best practices for sustainability. No further action is required.
Criteria that this vote was assessed to be "most significant"?	This resolution is significant because it was submitted by shareholders and received greater than 20% support.	Manager 2 defines significant votes as those that are strongly contrary to their company purpose, strategy and culture and where Manager 2 needs therefore to enact change in the company.	Relevant to engagement strategy.	Proposal supports dual-class structure.

Source: Aon/underlying managers. Aon Global Impact Fund. Information as at 31 December 2023. Figures are subject to rounding.

Summary

Aon's fiduciary team does not vote directly on the assets it manages on behalf of its Fiduciary business. Votes on these assets are instructed by the manager and we apply scrutiny over those manager's voting decisions. We identify significant votes aligned to the concerns of our clients and Aon's core values, and monitor selected manager vote decisions. We regard proxy voting as an extension of a managers' ability to engage and influence investee priorities and a useful benchmark to characterise an asset manager's approach to fiduciary duty.

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About Aon

Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues in over 120 countries and sovereignties provide our clients with the clarity and confidence to make better risk and people decisions that help protect and grow their businesses.

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