



Barclays Wealth & Investment **Stewardship Code**

October 2022





Foreword

The UK Financial Reporting Council (FRC) defines stewardship as “the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.” We support this view and seek to describe how we reflect that in our business, people and processes at length within this document.

The wealth management industry can play an important role in driving change and helping to tackle some of the planet’s sustainability challenges. Our clients’ assets are invested across companies providing a vast range of goods and services in the UK and overseas and so, as professional investors, we know that our decisions can make a huge difference.

Last year was a year like no other in living memory. The pandemic and attendant lockdown measures and restrictions led to a global economic downturn of a scale not seen for generations. The response to the crisis has involved unparalleled responses. Throughout the huge amount of change, we stayed firmly focused on being stewards of capital for the generations of today and tomorrow whilst investing sustainably. Clients expect this of us. They are increasingly aware of the impact that their decisions can have on our society and environment alongside seeking a financial return on their investments.

We hope you enjoy reading this report, find the examples throughout illuminating and are heartened by the work we are doing.



Ian Aylward
Head of Manager Selection & Responsible Investing



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Chief Investment Officer



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Principle 1

Our purpose, strategy and culture

Principle 1: 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.

Our purpose

Our purpose is the reason our company exists; the societal need we fulfil. It encapsulates what we are fundamentally here to do. It provides a clear expression of the kind of business we want to be, and what we care about, which in turn helps guide us in the decisions we make. Finance is the oxygen of the economy. Acting transparently and with expertise, we deploy finance responsibly to support people and businesses. We have the capability and capital, the operational resilience and the commitment, to make a real and lasting difference to the economic lives of customers and communities. This is as true today as it was when our bank was founded over 330 years ago.

Acting with empathy and integrity, we aim to be a leader in the profession of banking and to engender trust amongst our key stakeholders. We understand the power of building a supportive and inclusive culture for everybody, knowing that we make a bigger difference when we pull together as one team.

We operate with energy and imagination, championing innovation and sustainability, to make a positive and enduring difference, to take pride in leaving things better than we found them. New ideas and technologies can help customers and communities to unlock opportunities.

Our success is judged not only by commercial performance, but also by our contribution to society, and how we act responsibly for the common good and the long term, because these outcomes are mutually dependent. We are at our best when our clients, customers, communities, and colleagues all progress.

Our investing purpose is to make money work for UK based clients and prospects with investments and/or savings, or with a propensity to start investing. We help our clients to become strategic, confident investors by providing access to relevant information, financial expertise, quality products and services; delivering their financial goals and managing their wealth in a safe place. Our end to end investment process is led by our CIO team, delivering dependable, consistent and strong risk adjusted returns, backed by institutional quality process and execution via easily explainable investment solutions.

Our culture

Our success cannot be separated from our culture. And the power of who we are is greatest when we are bound together by a common Purpose, shared Values and a single Mindset. Our five Values — Respect, Integrity, Service, Excellence and Stewardship — are our moral compass; the fundamentals of who we are and what we believe is right.

Our Values are:

- **Respect**
We harness the power of diversity and inclusion in our business, trust those we work with, and value everyone’s contribution.
- **Integrity**
We operate with honesty, transparency and fairness in all we do.
- **Service**
We act with empathy and humility, putting the people and businesses we serve at the centre of what we do.
- **Excellence**
We champion innovation, and use our energy, expertise and resources to make a positive difference.
- **Stewardship**
We prize sustainability, and are passionate about leaving things better than we found them.

Our mindset is:

To Empower, Challenge and Drive. Barclays people have a Barclays Mindset. Our Mindset shapes how we take action, living by our Values, driven by our Purpose, always with our customers and clients at the heart of what we do.

- **Empower**
Trust and support each other to deliver. Make decisions with those closest to the topic. Include diverse perspectives. Celebrate success and learn from failure.
- **Challenge**
Question whether things can be done better. Use insights based on data to inform decisions. Be curious about how we can adapt and improve. Speak up and be open to alternative viewpoints.
- **Drive**
Focus on outcomes. Deliver with pace. Be passionate and ambitious about what we do. Take personal responsibility. Actively build collaborative relationships to get things done.

Our strategy

We are part of a British universal bank (the “Barclays Group” or “Group”) with a diversified and connected portfolio of businesses, serving retail and wholesale customers and clients globally. There are 4 strands to the bank’s strategy:

Focus on customers and clients

Putting them at the heart of the decisions we make about running our business and shaping it for the future.

Continue digitalising

Enabling our customers and clients to engage with us in the way they want to, and making our business more efficient.

Strengthen our diversification

Diversify our organisation by business, geography and income type to be more resilient to economic headwinds and future trends.

Protect and strengthen our culture

Draw on our Purpose and Values to guide our choices as colleagues and as an organisation.

Each of these components is complementary, with benefits from improvements in one reinforcing progress across the others. For example, we better meet our client needs by focusing on digitalisation, which in turn expands our product sets and strengthens diversification. This improves the resilience of the Group, increases efficiency and reduces cost and operational risk, while providing an improved experience and faster capability for our customers.

With respect to the Wealth and Investments business, our aim is to become the top provider of advice and investments in the UK. To achieve our ambition, our strategy is to ensure a client continuum across the UK and drive scale through Barclays customers. Key will be to integrate the existing capabilities of Platforms, Customers, Data, Products and Experience which we will bring together into a leading integrated proposition and a supporting platform; the combination of the two will drive higher revenue and returns, More specifically for the areas below

- **Integrated investment proposition:** we will support the transformation of the tiered propositions in Barclays UK by providing a market leading investment experience to support the broader banking & credit services; the new proposition will offer simple journeys, access to variety of instruments and digital advice for the mass and mass affluent customer segments
- **Barclays continuum:** we will enable clients to move from first time investing all the way through to full wealth services, having services that support key life events.
- **Scale:** in order to scale the business from c. 350k customers with investments today, we anticipate the majority of new customers will come from the existing Barclays base

Our investment beliefs

We believe that we have a unique approach to wealth management. Our pioneering approach uses behavioural finance — how emotions impact investment decisions — to help improve long-term returns. Over the years, we’ve found that investors consistently struggle to get the sort of investment returns they should. We created a dedicated team of behavioural finance specialists to find out why, and to find out what we could do to improve our clients’ investment decision-making and returns. Our unique investment philosophy approach is the result of their research. We do not invest in non-listed equities.

We’re often not aware of it, but sometimes individuals’ own emotions — rather than practical reasoning — are the biggest driver of people’s investment decisions.

The traditional approach to creating an investment portfolio focuses almost entirely on an investor’s attitude to risk and ignores the other emotional factors at work. Our investment philosophy approach measures five different aspects of an investor’s personality that relate to their financial behaviour and decision-making. We believe this enables us to develop more effective individual investment solutions that reduce the negative impact on returns caused by investor emotions.

The three steps of our investment philosophy are:

Understanding our client’s wealth

We start by using our expertise across our whole business to look at every aspect of our clients’ wealth. This allows us to see if they’re over-exposed to risk or missing out on opportunities for better returns. It also helps us to provide the right level of support and services.

The Financial Personality Assessment

Once we’ve completed the wealth review, clients are invited to take our Financial Personality Assessment. This unique tool measures five key personality attributes in a robust, objective and scientific manner. The results help us understand how our clients think and feel about wealth and investments, and what influences their decision-making.

Creating the individual portfolio

We use the information from the wealth review and Financial Personality Assessment to create an individual investment portfolio that matches our clients’ situation, objectives and personality. We continually monitor and manage portfolios and adapt to new opportunities as they arise or when markets change.

With regards to the underpinning investment philosophy, we focus where we believe we add the most value i.e. in designing risk profiled Strategic Asset Allocations (5 risk levels), adding Tactical Asset Allocation overlay, consistently applied across our range of multi asset class funds and discretionary portfolios, with our CIO being accountable for investment outcomes across all of our BUK investment solutions.

In our opinion, we source the best Fund Managers from the open market to fulfil the 8 asset classes that are blended to deliver our best thinking risk profiled funds and portfolios via segregated mandates or their UCITS funds once they have passed all aspects of our rigorous due diligence process. We employ a strict Investment Due Diligence process in selecting managers, following a tried and tested approach which looks beyond strong performance. In particular, we focus on the Parent company; the People managing the assets; the investment Philosophy employed; the robustness of the Process; as well as the Performance achieved (‘The 5 P’s’). Alongside this, we assess every manager on their ESG credentials with a separate rating between A–C. We select only the most experienced managers; preferring teams and individuals working in a transparent culture that encourages and attracts talent, and avoiding small funds which may become difficult to exit. We believe that there is a group of managers in the investment community who, over reasonable time frames, can be expected to outperform and participate less in sustained negative markets, thus reducing absolute volatility. No one firm can be amongst the best in all asset classes so an unfettered approach is taken. These managers may work within any type of company, from a small boutique to a very large investment house, but we would typically expect some embedment of ESG considerations. We won’t necessarily exclude managers with the lowest rating of C but will certainly work with them to improve their credentials. These managers may work as individuals or in teams, adopt a qualitative or quantitative approach and have one of many investment styles. There is no one simple way of verifying the presence of skill and hence the manager selection process draws on both qualitative and quantitative techniques. This approach allows us to identify managers with an explainable and repeatable process, leading to consistent investment outcomes for our clients.

The second, equally important, component of our selection process is Operational Due Diligence, which focusses on the business resources and processes needed to support their investment activities and operational know-how needed for the 3rd party managers to execute and sustain their investment strategy. Areas such as trading and execution, reconciliation, pricing, custody and compliance/governance are areas of potential risk that can only be understood by having a dedicated team to focus on them.

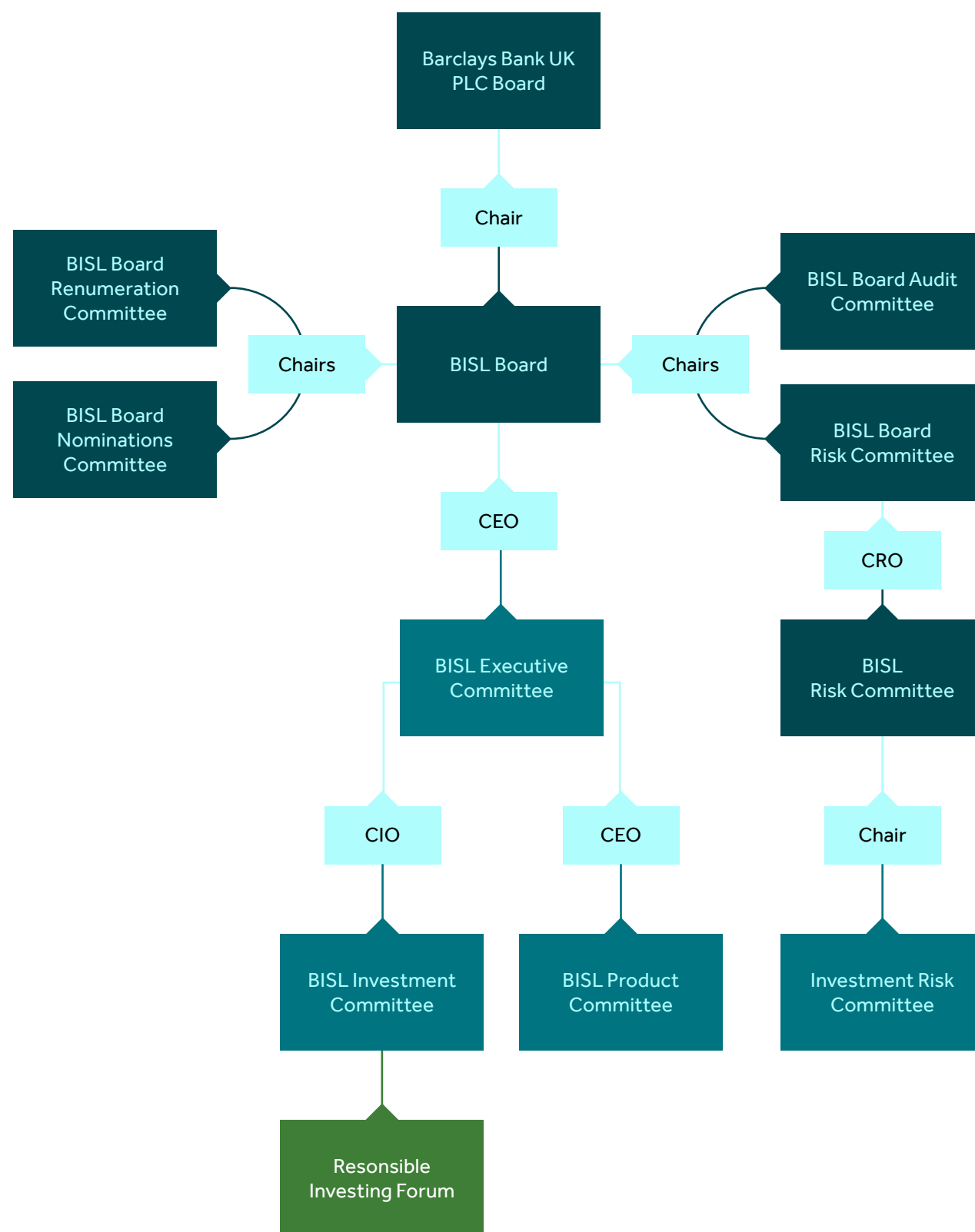
As a signatory of the UN Principles for Responsible Investing, we adopt a responsible approach to investing. ESG is an integral part of our selection and ongoing monitoring process, with each active manager explicitly assessed according to our own ESG criteria. Additionally, we have an award winning Multi-Impact Fund that incorporates not just responsible principles but investments targeting specific sustainability and societal outcomes. We also vote and engage with the underlying company holdings.

Our Commercial Management Team continually drive value for money for our clients, by ensuring that we negotiate the best rates possible with our managers, often achieving fees that are exclusive to our clients.

Having selected the best products, at the best price, we continually monitor every aspect of the investment process (performance, investment, concentration, liquidity and credit risk) to ensure each aspect is explainable, appropriate for the client base and behaving the way we expect. We will take action, including the removal of managers and products from our recommended lists, should they not meet our criteria at any point in time.

The most tangible examples of where our investment beliefs have guided stewardship and the actions we have taken as a result over the period are:

- the commencement of voting and engaging using one of the global leaders – Hermes EOS
- getting approval and standing up the project to convert our Irish domiciled range to Article 8 under SFDR
- funding a number of candidates for the CFA Certificate in ESG investing for the first time



Principle 2

Our governance, resources and incentives to support stewardship

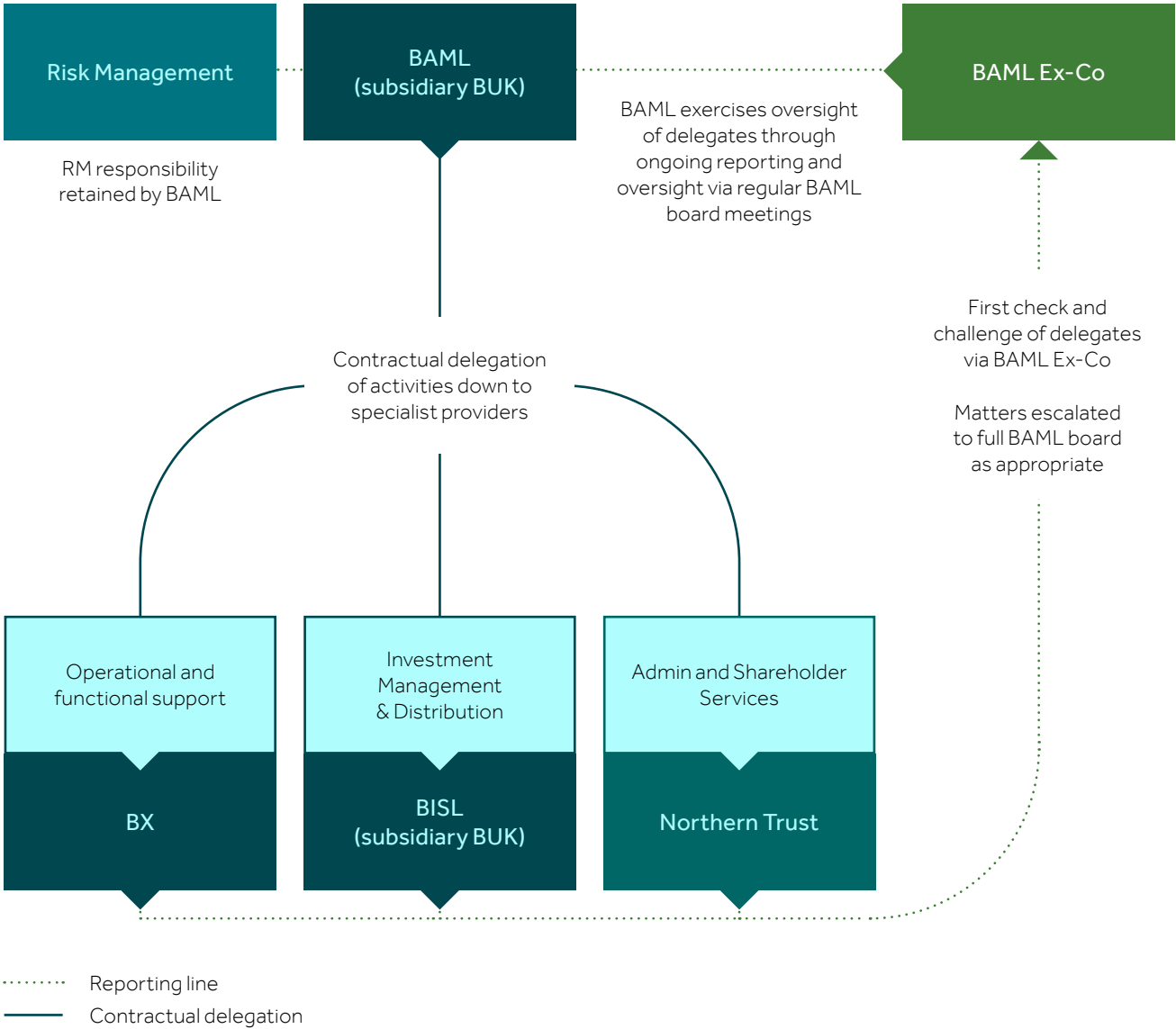
Principle 2: Signatories' governance, resources and incentives support stewardship.

Our governance

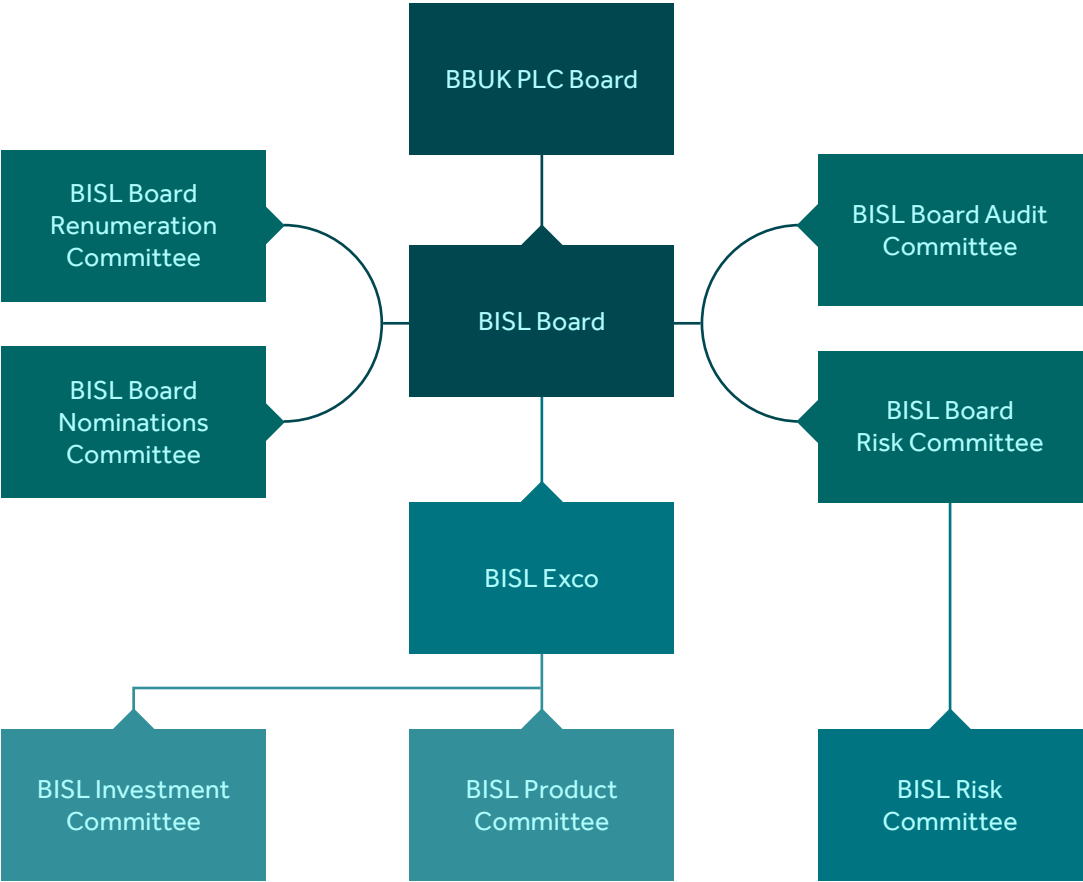
Barclays plc is a British multinational universal bank, headquartered in London, England. Barclays operates as two divisions, Barclays UK and Barclays International, supported by a service company, Barclays Execution Services. Barclays has a primary listing on the London Stock Exchange and is a constituent of the FTSE100 index. Situated within Barclays UK, Barclays Wealth Management serves affluent and high net worth clients through offices across the UK, offering personalised banking, credit, investment management and wealth planning services. The investment entity within the Wealth division is Barclays Investment Solutions Limited (BISL) whilst Barclays Asset Management Limited (BAML) is the Authorised Fund Manager ("AFM") of a range of investment funds domiciled in the UK. BAML is responsible for the investment management, risk management, distribution and administration of those funds – though delegates all day-to-day activities to 3rd parties. BAML is responsible for appointment and oversight of all delegates. BAML is a wholly owned subsidiary of Barclays Bank UK PLC. BISL has been appointed as the investment manager by BAML. BISL is responsible for making all day-to-day investment decisions on behalf of each fund. BISL is a wholly owned subsidiary of Barclays Bank UK PLC.

The BISL Investment Committee is responsible for the governance of all investment decisions end-to-end. This includes stewardship matters. A number of forums report into the Investment Committee including the Asset Allocation Forum and the Manager Selection Forum. The day-to-day oversight of stewardship considerations rests with the Responsible Investing Forum. This also feeds up into the Investment Committee. This, and other relevant reporting lines, are shown on the, highly simplified, diagram (left).

The relationship between BAML and BISL is shown below:



In addition to the board level committee, highlighted in the chart above, additional Group level committees and business level meetings exist to support them in their objectives. A good example is the Climate & Sustainable Finance Council. More information on these meetings can be provided on request. At BISL level, the Executive Committee oversees two sub-committees – the BISL Investment Committee and BISL Product Committee. The BISL Investment Committee is chaired by the Chief Investment Officer (CIO) and oversees multiple forums including the Responsible Investing Forum. The BISL Risk Committee is chaired by the BISL Chief Risk Officer (CRO). These are shown schematically below:



Our people and incentives

Every employee of the Wealth and Investment business has five high level annual objectives. One of these relates to creating new sources of sustainable income and evolving our social purpose whilst another relates to Diversity and Inclusion. Several of the investment team are ‘ESG Champions’ with an even more heightened focus on how we embed sustainability within our business. We have a diverse investment team with the majority having either the CFA or CAIA in addition to first or second degree. Additionally several of our investment professionals hold the CFA’s Certificate in ESG Investing. Many of our investment teams are involved in our stewardship efforts such as:

- **Investment risk team** — who produce ESG metrics on our funds and portfolios such as carbon emissions.
- **Fund selection team** — who assess the external managers that we employ including assessing their ESG credentials.
- **Direct equity selection team** — who embed ESG research into their stock analysis
- **Portfolio construction team** — who consider ESG characteristics when blending managers within our clients’ portfolios and funds.

We attach great importance to Diversity and Inclusion within our business. At Barclays, we focus on five areas of inclusion — disability, gender, LGBT+, multicultural, and multi-generational. We believe that creating an inclusive and supportive culture is not only the right thing to do, but also what is best for our business. It makes us better at understanding the needs of our customers and clients, and it creates a sense of belonging and value that enables our colleagues to perform at their best. For more details please see our annual [Diversity and Inclusion report](#).

An example of the specific steps taken to improve diversity include the attendance of the CIO and Head of Investments at the Barclays 2-day Inclusion Summit. This Summit provided a platform for senior leaders to hear from our customers and clients, explore external trends in DEI and understand each leader’s role in driving progress of our D&I strategy. The Inclusion Summit gave extra impetus to achieving our DEI ambitions by mobilising a critical mass of senior leaders to hold themselves accountable for executing the DEI business plans and be active advocates and leaders of our DEI strategy both internally and externally. One example of the output from this was the appointment of a number of Diversity Ambassadors across the Wealth Management business. With regards to the Manager Selection and Responsible Investing team itself, 20% are female whilst 30% are from an ethnic minority (one of whom is the most recent hire to the team). The average tenure on the team is over a decade each, with the head of the unit having over 25 years of investment and ESG experience. Many languages are spoken and the staff have graduated from different universities in a wide variety of disciplines. This all helps ensure diversity of thought amongst the stewards of our clients’ capital.

In the period, Barclays renamed and refreshed its 12 Employee Resource Groups. Examples now include the Black Professionals Resource Group and Spectrum — the LGBT+ Resource Group. Just one example of the Group’s various DEI targets is achieving our Gender Ambition of 33% female representation in senior leadership roles (MDs and Ds) by the end of 2025.

Barclays has a sizeable Group Sustainability team in addition to over 100 specialists located across our various functions and divisions globally. That central team numbers well over 20 staff split across 5 areas: Social & Environmental Policy, Climate Policy, Governance, Frameworks & Execution, Sustainable Business Advisory and ESG Strategy, Ratings & Reporting.

Our resources

Within our CIO unit, in addition to our ‘bottom up’ in-house Manager Selection and Responsible Investing team of 11 people, there are 8 staff involved in the ‘top-down’ activity of asset allocation and behavioural finance. The CIO has over 25 years of investment experience and most of the investment staff are also seasoned having well over a decade of experience each. These staff have numerous degrees and post-graduate qualifications such as the CFA (10) and CAIA (4). An increasing number also have the CFA Certificate in ESG Investing. In addition to this team are the collaborative efforts of all the investment personnel mentioned earlier, whilst we also employ a number of external service providers:

Associations			Broker Research			ESG Research Providers		
UNPRI	IA	UKSIF	Goldman Sachs	Barclays	JP Morgan	MSCI		
TISA	TCFD	BEI	Morgan Stanley		UBS			
Voting Recommendation			Engagement			Database Providers		
ISS	Hermes EOS		Hermes EOS			Factset	Style Reserch	Morningstar Direct

We pay for research from the brokers shown above in addition to ESG research from MSCI. We employ Hermes EOS to provide stewardship services to us. Bloomberg terminals allow the CIO team to monitor markets and investments minute-by-minute, whilst Style Research and Morningstar Direct enables the team to select and blend external managers successfully. Our investment in these systems and research and data sources ensures that we are appropriately resourced.

Members of the CIO unit frequently present in both of our weekly internal calls with colleagues across the Wealth and Investments business on stewardship matters to ensure education right across the business. Examples topics include explaining the content of our impact reporting and explaining the significance of the UNPRI. They also feature very regularly on our weekly external podcast – ‘Word On The Street’.

We believe the internal and external resources shown here ensure that we are appropriately resourced for our stewardship activities.

Areas for improvement include making ESG training more widely available for colleagues within Wealth and Investments. More than 2,500 colleagues in the business bank undertook a number of e-learning modules on sustainability in 2021. This should occur more widely. Whilst the likes of podcasts and formal qualifications are, of course, hugely valuable, online e-learning can quickly improve knowledge and awareness more broadly. Another area for improvement is communication with clients, most particularly with regards to informing them of the ESG footprint of their investment products in a straightforward and accessible way. Finally, we should consider how we can ensure that the managers of the 3rd party funds in which we have a holding, vote and engage with the same rigour and to the high standard that we do for our segregated mandates where EOS are employed.



Principle 3

Managing conflicts of interest to put the best interests of clients and beneficiaries first

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Barclays Group has a Policy and associated Standard to identify and manage potential conflicts, explaining roles and responsibilities. In addition, the Wealth Management & Investments business has a Conflicts of Interest Register which provides macro conflict themes applicable to the business, the conflict type and the associated inherent risk, mitigating/ preventative controls and residual risk associated with each. There is a conflicts of interest log to capture individual instances of conflicts and the associated actions and controls to describe how these are mitigated from arising.

The register is maintained in line with Group Standard requirements and outlines mitigants to conflicts that might arise from when:

- Where a Customer has an interest which is incompatible with/competes with the interests of another Customer.
- Where Barclays has an interest which is incompatible with/competes with the interests of another Customer.
- Where an Employee has a business or personal interest which is incompatible with/competes with the interests of a Customer.
- Where an Employee has a business or personal interest which is distinct incompatible with/competes with the interests of Barclays.
- Where an Employee has a business or personal interest which is incompatible with/competes with the interests of another Employee.
- Where Barclays has an interest which is incompatible with/competes with the interests of a Regulator.
- Where the activities undertaken by a Business or part of a Business conflict with the activities undertaken by another Business or part of a Business.

The Market Integrity Policy supports the Conduct Risk Management Framework and aligns to Barclays' overall Enterprise Risk Management Framework. The Conflicts of Interest Management Standard provides requirements for the proactive identification and appropriate management of business and personal Conflicts of Interest.

The provisions of the Standard are mandatory and are used to implement a Group approach for managing the Governance, Risk and Control Processes. Any deviations from these Control requirements must be escalated to the Policy and/ or Standard Owner in line with the Barclays Control Framework and associated documents.

Managing our conflicts of interest

Consistent with our commitments and responsibilities, Barclays has developed a robust Conduct Risk Control framework to manage our regulatory and reputational risks. This Control framework adopts a risk-based and proportionate approach to meet regulatory expectations. There are four key pillars in the Barclays approach to Conflicts of Interest, which are as follows:

- Identify actual or potential Conflicts of Interest
- Prevent Conflicts of Interest wherever possible, or have procedures to manage and mitigate them
- Maintain records of identified Conflicts of Interest and steps taken to prevent or manage them
- Monitor and review identified Conflicts of Interest.

Employees are required to:

- Adhere to any local Business Procedures and Controls, in addition to the applicable requirements and obligations in the Conflicts of Interest Management Standard
- Complete all mandatory Conflicts of Interest training which is assigned to them.

This Group Standard applies to:

- (a) Barclays PLC and all its subsidiaries (including any consolidated entity where Barclays has legal or operational control)
- (b) All employees and workers (as per the definitions below) of any entity within paragraph (a) above “employees” means permanent employees and fixed term employees of all in scope entities “workers” means contingency workers (also referred to as agency workers) of and secondees to all in scope entities from a third party (including secondees who would otherwise be in category (e) below), irrespective of their location, function, grade or standing.

The control requirements of the Standard cover:

- **Conflicts of interest governance and oversight**— The Business has procedures and processes in place, designed to provide a consistent approach for the management of business and personal Conflicts of Interest.
- **Conflicts of interest Register and Trigger events** — The Business assesses and documents its Conflicts of Interest.
- **Compliance systems for employee disclosures and approvals** — Systems are in place to facilitate disclosure and approvals for specified categories of personal Conflicts of Interest.

Whilst a couple of stewardship specific examples are given below, examples of broader topics on the Register include Gifts and Entertainment, Personal Investments, Political Activities and Employee Personal Relationships.

EXAMPLE

Sub theme	Description	Context	Risk	
			Inherent Would be where the control environment is unsatisfactory	Residual Considering the mitigating factors / controls what is the actual risk left over
Voting on behalf of BISL clients	Conflicts of interest can arrive where Barclays Investment Solutions Limited (BISL) as investent manager for Barclays Funds and DPM client portfolios undertake company voting which is different to other parts of Barclays Group (eg. Private Bank) or voting on the shares of Barclays stock.	Responsible investing Forum is in place as a sub-meeting to BISL Investment Committee where specif conflicts can be discussed. BISL will use Hermes EOS as an external provider to apply an independence to their Voting and Engagement activities. Contractual documentation will indicate where voting is to be abstained to void specific and more material conflicts with rregards to voting e.g. Barclays stock. BISL as investment manager makes decisions independently for the best outcomes for the clients and thus may not be in line with other parts of the Group.	High	Low

EXAMPLE

Sub theme	Description	Context	Risk	
			Inherent Would be where the control environment is unsatisfactory	Residual Considering the mitigating factors / controls what is the actual risk left over
BISL vs. Barclays The activities of a Business / or part of a business actually or potentially conflicts with the activities of another Business / or part of a business	Hermes has been chosen by Barclays Investment Solutions Limited (BISL) where appointed investment manager and the Private Bank (PB) as the external provider for Voting and Engagement services. There is the potential for conflicts to arise if Hermes EOS recommends a vote against any Barclays resolutions at AGMs or EGMs. The votes are publically available information that show that "Barclays voted against itself".	Included in the Voting Framework, BISL will always instruct Hermes EOS to abstain from voting at Barclays AGMs or EGMs. The framework is part of the legal contract between BISL and Hermes EOS. BISL as investment manager makes decisions independently for the best outcomes for their clients and thus may not be in line with other parts of the Group. BISL as investment manager has a fiduciary reasonability to act independently in its investment decisions.	High	Low

As at Barclays, Hermes EOS conflicts are maintained in a group conflicts of interest policy and conflicts of interest register. As part of the policy, staff report any potential conflicts to the compliance team to be assessed and, when necessary, the register is updated. The conflicts of interest register is reviewed by senior management on a regular basis.

EXAMPLE

From our stewardship services provider – Hermes EOS

A particular class of bond held by a Federated Hermes Limited credit team had its coupon cut because the company went into technical loss. While this was clearly against the interests of the holders of the particular credit security, it could have been perceived as in favour of the equity holders as it saved capital for the company, which is otherwise in good financial health. The company is represented for engagement by EOS across equity and credit and is also held by the FHL credit and global equities teams. Following a meeting of the Federated Hermes Limited equity and credit teams, EOS agreed an engagement strategy that was in the joint interests of both credit and equity. A joint letter was sent to the company signed by EOS, and the Federated Hermes Limited credit and equity teams.

EXAMPLE

From Barclays Investment Solutions Limited (BISL)

The Barclays AGM occurred in the period. As such, a potential conflict of interest was crystalised given that BISL pays EOS for services. In order to mitigate any conflicts, we abstained on all resolutions.

Data privacy

There are potential conflicts surrounding data privacy if customer information is misused, e.g. passing it on to a different entity within the Barclays Group or a 3rd party. To prevent these conflicts, there are group wide standards in place on the rules of engagements relating to use of customer data. In addition, all employees undertake mandatory training on data privacy to understand their obligations. Data privacy conflict themes and individual conflicts identified would be captured within the register and log.

Product governance

It is important that the design of our products and services meets the needs of clients, customers, markets and the bank. We do this by operating two processes, which together form our Product Design and Review framework. Firstly, we have a process that supports the bank in the approval and implementation of new and amended products and services. This process outlines the requirements and risk assessment standards that must be met in order to ensure that new and amended products and services are appropriately designed prior to their launch. Secondly, we have a complementary process that reviews the existing portfolio of products and services. This process considers information about the performance and operation of the product or service through a Conduct lens. If issues are found, remedial action is taken to address them. Both processes have undergone significant review and enhancement over the last 18 months. The improvements covered both the design and operation of the processed and have resulted in an enhanced Product and Design Review control environment.

Training

For regulated activities, employees are required to meet the regulatory Training & Competence (T&C) rules and expectations under the 'FCA Training & Competence Handbook', the 'Markets in Financial Instruments Directive (MiFID II)' and the 'Insurance Distribution Directive (IDD)' to ensure our employees and supervisors are trained and competent for their role. The three key areas of T&C are: Assessing Competence, Maintaining Competence and Record Keeping.

Assessing Competence is the first stage of training scheme. New joiners are assigned a T&C supervisor whilst the attaining of competence is undertaken. It is their own supervisor (typically their line manager) who is responsible for them and ensures that evidence is completed and stored. They ensure that the right level of supervision/ control is applied at all times whilst the new joiner works through their competence requirements. For inexperienced new entrants, the training period is a minimum of 6 months. The T&C manager is the owner of the Training and Competence Scheme, processes, controls, reporting and information and will be responsible for supporting the colleague and supervisor and identifying any gaps or breaches in this process.

Employees performing regulated activity must continue to maintain their competence. Appropriate training is required to maintain product knowledge, regulatory changes and legislative changes. In addition to this, skills, expertise and technical knowledge, behaviour of employees and their ability to apply these in practice are also reviewed. This includes 1:1's, sampling reviews, observations and CPD (Continued Personal Development). Evidence of this must be recorded.

Individuals who provide advice and support on ESG matters are also required to attain competence knowledge requirements and for example, would need to complete ESG related training and informative sessions such as how to use and interpret MSCI ESG data.

How long records are kept will depend on the type of business the records relate to. For example, for MiFID II business, records must be kept for at least 5 years after an employee or supervisor stops performing the activity. Evidence is submitted to a system which allows for the management, monitoring and maintaining compliance of regulatory activities.

The training supports our stewardship endeavours by ensuring that new entrants gain a broad understanding of products, processes and ESG investing. For more experienced entrants the training ensures that they acquire and are tested on their understanding of our principles and ethos notably in respect of stewardship.

Remuneration

Whilst remuneration is not a T&C Requirement, the T&C scheme, knowledge requirements and appropriate supervision should deter the creation or promotion of unsuitable products to our clients. Employees are not remunerated based on revenue or profits, therefore are not incentivised to create or promote unsuitable products to our clients. Note that the employing entity is Barclays Bank UK PLC. Any incentivisation is managed through the end of year Performance Management Process. This avoids the potential conflict of placing BISL's interests above our clients' interests.



Principle 4

Management of market and systemic risks and the promotion of a healthy financial system

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Identifying risks and responding to them

Being a wealth manager a key objective is to manage financial risks and returns. We consider macroeconomic factors when assessing risk as this is embedded along with valuation considerations in our asset allocation framework. We also believe that it is important to bear in mind a wide range of environmental, social and governance factors.

Our asset allocation process takes account of market and systemic risks in several ways. First, when designing our strategic asset allocation (SAA), we use a long history of asset class returns, which covers very different market regimes (rising and falling interest rates, volatile and stable inflation, etc) each with their own risks and challenges. We acknowledge that the realised path of historical returns is just that, one realisation out of many possible outcomes. That is why we re-sample historical asset class returns many times over. This adds robustness to our SAA as it results in allocations that take the risks of many different futures into account. We know that investors perceive market risk in a way that is not reflected by two-dimensional metrics such as the Sharpe ratio. Therefore, we have developed a utility function that captures the whole distribution of possible investment outcomes and is aligned with how investors experience market risk. We have additional risk controls imbedded into our SAA process in the form of volatility bands, which are dependent on a client's risk profile. Clients are mapped to five risk profiles based on a financial personality questionnaire, which takes the ability and the capacity to take risk into account. This ensures that clients are more likely to stay with their investment plan and not sell when asset prices are depressed, lowering systemic risks in the market. By reducing the allocation to risky assets for more risk-averse investors we ensure that market risks are properly aligned within our portfolios.

The SAA reflects our long-term risk and return outlook. Short-term risk is managed by our tactical asset allocation (TAA), where we analyse a broad range of macroeconomic, fundamental and sentiment indicators to take advantage of any market dislocations. Asset prices have many different drivers, which is why we look at economic forecasts, trade flows, interest rate projections,

purchasing manager indices, foreign exchange rate projections, political risks, market liquidity, default risks, inflation forecasts, commodity price trends, etc. Any positioning will also take into account how portfolio risk is likely going to be affected. There is additional oversight from the Investment Risk department, who track the trailing volatility of clients' portfolios.

EXAMPLE

Our asset allocation team worked to identify and act on perceived risks on behalf of clients surrounding our latest SAA refresh. In the painstaking work building up to the new SAA, a thorough investigation was conducted into the asset class toolkit. The result included a reaffirmed commitment to the benefits of including commodities, alternative trading strategies and the addition of inflation linked bonds. We had simultaneously increased the look back of our re-sampling process allowing for a greater variety of real-world outcomes to be incorporated into the Asset Allocation process. The result provides a good example of how we have aligned our investments to the risks we identified. Specifically there was a substantial increase in diversified commodities and Alternative Trading Strategies which have served our clients well in the subsequent inflationary backdrop.

EXAMPLE

The characteristics of a well-functioning financial system include the application of good governance principles, a prudent risk management approach focusing on investor protection, open dialogue with industry stakeholders, timely decision-making within regulatory frameworks and reporting to regulatory bodies, especially in the face of uncertain and volatile conditions.

These attributes drove our response to the market stress triggered by Russia's invasion of Ukraine in early 2022, which presented unprecedented and multi-faceted challenges to our oversight of client investments. Following the news of the invasion, the independent risk management function established and chaired a crisis working group, which focused on our mandates with direct exposure to Ukrainian, Russian, and Belarussian securities. Expertise was drawn from teams across our Product division to gather information relating to the rapidly evolving situation. When necessary, this group escalated to the BISL Risk Committee and the BUK-WMI Crisis Leadership Team.

The key matters discussed at this working group included the monitoring of in-scope securities, the fair valuation of Russian equities and the pricing of both onshore and offshore Russian bonds. In addition, the Moscow Exchange was classified 'ineligible' within our Barclays funds under the UCITS framework. The defined appropriate governance routes were followed to make these decisions, enhancing investor protection and demonstrating the application of the funds' regulatory framework.

In addition, we elected to undertake a detailed reputational risk assessment and stakeholder due diligence process with regards to investments in Russian assets. The key outcome of this exercise was an investment moratorium sent to our sub-investment managers to operate alongside sanctions and formalise our position. Over the course of this exercise, BISL retained clear dialogue with our third-party managers, ensuring that the actions undertaken on behalf of investors aligned with the risks we had identified.

Monitoring and managing risks

The Investment Risk team is a distinct team sitting alongside the investment managers and analysts. It operates functionally and hierarchically independent control processes designed to "check and challenge" our investment and portfolio management teams. The output of these processes is fundamental to the governance of our Wealth and Investment Management business.

The Investment Risk Framework (IRF) seeks to challenge each layer of the investment process. This includes the strategic asset allocation (SAA) designed by the Chief Investment Officer, the shorter-term tactical asset allocation (TAA) overlays, the stock selection process and the implementation decisions in both client models and individual portfolios.

The IRF seeks to identify, monitor and address systematic and idiosyncratic risks arising from investment activity in diverse global multi-asset class portfolios. This is achieved by ensuring that this activity operates within the confines of a stable and orderly market (for instance, via the assessment of asset-side and liability-side liquidity, exchange eligibility, best execution and the safe custody of client assets). It is also of paramount importance that the risk delivered to clients is aligned with their stated preferences and consequently, the applicable acceptable risk tolerances.

The IRF operates on a regular basis with ongoing reporting obligations to Senior Management and its frequency can be increased should the underlying market conditions warrant greater scrutiny. The framework focuses on a defined list of key risk indicators (KRIs) and the implementation of guidelines and limits within which the investment activity can operate. These risks are mapped to the investment process with risk ownership attributed at each step of the client investment journey. Two-way dialogue between the risk and investment teams is key to the sound functioning of the IRF. This interaction supports the exception management process and allows for a clear understanding of risk attribution and onward actions.

In addition to a variety of quantitative risk models, Barclays has at its disposal, many decades of relevant investment and risk expertise to help apply a qualitative overlay. Both are essential to discharge our client fiduciary responsibilities, as well as to contribute to efficiently operating capital markets.

The liquidity of retail investment funds has been a key focus for regulators, industry bodies and fund managers alike in recent years. In response to the regulatory developments and published guidelines in this space, the Investment Risk team led on a project to enhance our liquidity risk framework, with particular emphasis on liquidity stress testing data, in an effort to provide more transparency on the portfolios, potential scenarios and to assist with contingency planning.

We continue to undertake detailed reviews on the exchanges that our funds trade on. This includes an assessment of the legal and regulatory frameworks that the exchanges are subject to, the frequency and nature of their operations, the availability of financial instruments and their liquidity, as well as monitoring developments in pertinent jurisdictions on an ongoing basis. Enhanced proactive governance and oversight in this space supports the operational and investment processes in place and ultimately contributes to better overall client outcomes.

Industry initiatives to promote a well-functioning financial system

On behalf of its clients, including Barclays, Hermes EOS regularly engages with a wide range of stakeholders, including government authorities, trade bodies, unions, investors and NGOs, to best identify and respond to market-wide and systemic risks. From time to time they will also collaborate with other investors in pursuit of improved outcomes, Our Stewardship and Engagement provider, Hermes EOS, is involved in a number of regional and industry initiatives including the UN Principles for Responsible Investment (PRI), Climate Action 100+, Institutional Investors Group on Climate Change, Asia Investor Group on Climate Change, Ceres, International Corporate Governance Network (ICGN), Council of Institutional Investors, Eumedion, Focusing Capital on The Long Term, Corporate Governance Forum and Investor Forum. Below are some specific participations:

PRI: EOS are a founding member and chair of the drafting committee that created the PRI. The six principles were partly drafted in their offices in London – given EOS helped to write them, the alignment to these principles is well understood.

Climate Action 100+: EOS support the Climate Action 100+ investor collaboration (CA100+) by acting as the engagement lead or co-lead for a considerable number of the top systemically important emitting companies. They apply escalated engagement techniques, including raising issues at annual shareholder meetings and supporting shareholder resolutions which support positive change. They also support effective policy making aligned to the goals of the Paris Agreement, including through adoption of net-zero greenhouse gas reduction targets by national governments. EOS are currently leading or co-leading engagement at over 25 of the 167 focus companies across Europe, North America, and Asia. For more on their engagement work through Climate Action 100, please refer to the EOS 2021 annual report.

Institutional Investors Group on Climate Change (IIGCC): EOS is squarely focussed on the mission of IIGCC which is that investors will deliver significant real economy progress towards a net zero and resilient future by 2030. Bruce Duguid, the Head of Stewardship at EOS, is on the Board.

The involvement of EOS in these organisations aligns to the Wealth Management stewardship aims and, without which, EOS would not be the appropriate provider of these services to us.

EXAMPLE

Contribution to the pre-COP15 discussions

Hermes EOS contributed to the pre-COP15 discussions on the Global Biodiversity Framework (GBF) on behalf of the 28 financial institutions that are currently part of the Finance for Biodiversity Foundation. World governments discussed the GBF and suggested improvements to the current draft in virtual sessions. EOS made an intervention in the session focused on the targets that are most relevant to business. The engagement specialist emphasised that the framework needs to be more ambitious in order to halt and reverse biodiversity loss in this decade. It was explained that there is a growing recognition within the financial sector of the significant and systemic risk that biodiversity loss poses to the global economy. Given that the financial sector must contribute to delivering the GBF, EOS suggested that it should be explicitly referenced within either target 14 or target 15. It was also stressed that the framework should require the alignment of public and private financial flows with the goals and targets of the GBF. Finally, EOS asked governments to create an enabling regulatory environment so that the financial and private sectors can address biodiversity-related risks and opportunities. It was pleasing to all parties involved that the proposal received support from the EU on behalf of its 27 member states.

Source: Q3 2021 Hermes EOS Public Engagement Report

Barclays, our parent company, is involved a great deal of industry initiatives. Many are detailed below, followed by a case study on Just Transition:

External body	Barclays engagement	
	Banking Environment Initiative (BEI)	Barclays is a founding member of the Banking Environment Initiative (BEI), which is a group of global banks committed to pioneering actionable pathways towards a sustainable economy. The BEI is convened by the Cambridge Institute for Sustainability Leadership (CISL).
	CERES	Barclays has been a member of Ceres since 2019. During 2021, we were engaged in their working group on Land Use and Climate (LAC) and we remain engaged with the organisation on other sustainability topics.
	The Prince of Wales' Sustainable Markets Initiative's (SMI) – Financial Services Task Force (FSTF)	<p>During 2021, Barclays was a member of the Prince of Wales' Sustainable Markets Initiative's (SMI)'s Financial Services Taskforce (FSTF) and was involved in both the Net Zero Emissions working group and the Carbon Offsetting working group.</p> <p>In late 2021, the FSTF published a Net Zero Practitioner's Guide for Banks to which Barclays contributed.</p>
	Partnership for Carbon Accounting Financials (PCAF)	Barclays has been a member of PCAF since 2020. During 2021, Barclays co-chaired the PCAF Working Group on Capital Markets Activities which published a Discussion Paper on Capital Markets Instruments in November 2021. Barclays was also involved in reviewing other new methods that PCAF published for consultation in late 2021, including Green bonds, Sovereign Bonds and Negative Emissions.
	PRA/FCA Climate Financial Risk Forum (CFRF)	<p>During 2021, Barclays was a member of the Climate Financial Risk Forum's Disclosure Working Group and Innovation Working Group.</p> <p>Barclays contributed to reports published by the working groups during the year, including on a CFRF recommended climate data and metrics dashboard and certain Barclays case studies.</p>
	Taskforce on Nature-related Financial Disclosures (TNFD)	Barclays is a member of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum, which is a consultative network of institutional supporters who share the vision and mission of the TNFD.
	United Nations Environment Programme Finance Initiative (UNEP FI)	Barclays has been a member of UNEP FI for more than 20 years. In the last few years, Barclays has partnered with UNEP FI by engaging in their TCFD pilot project in 2018/19, by becoming a founding signatory of the Principles for Responsible Investing (PRI), by joining the Net-Zero Banking Alliance (the banking component of the Glasgow Financial Alliance for Net Zero (GFANZ)). A Barclays representative was elected on behalf of Western Europe to the UNEP FI Banking Board.
	World Business Council for Sustainable Development (WBCSD)	In 2021, Barclays became a member of the Banking for Impact on Climate in Agriculture (B4ICA) initiative when it launched in November. B4ICA is backed by WBCSD in partnership with UNEP FI, PCAF and the Environment Defence Fund (EDF) and aims to bring together banks to develop best-in-class technical data-solutions to support themselves and their clients to align their financial portfolios in the food, agriculture, and land use space towards net zero and Paris Agreement Goals.

EXAMPLE

Just Transition

Barclays recognises the need to sustain and support livelihoods and communities in the UK and around the world as we support our clients to transition to a low-carbon economy. A Just Transition is essential for achieving the goals of the Paris Agreement. The Paris Agreement envisages that appropriate financial resources, new technology and an enhanced capacity building framework are put in place to support action by those countries most vulnerable to the impacts of climate change. Governments and the private sector each have roles to play in ensuring that the transition to a low-carbon economy is not carried out at the expense of vulnerable communities, social welfare, and access to decent work and quality jobs. Financial institutions have a role to play in integrating social considerations into their supply chains, policies, and decision-making as part of their participation in the transition to net zero. In 2021, Barclays joined over 40 financial institutions and stakeholders to form the Financing a Just Transition Alliance (FJTA), co-ordinated by the Grantham Research Institute on Climate Change and Environment at the London School of Economics (LSE). The Alliance aims to translate the concept of a just transition into tangible steps and outcomes. In 2021, Barclays contributed to the report, 'Just Zero: 2021 Report of the UK Financing a Just Transition Alliance', which sets out requirements for a just transition in the UK, while highlighting potential applications in an international context. The report featured a Barclays case study, focusing on Barclays' Rebuilding Thriving Local Economies (RTLE) programme. The RTLE is a five-year initiative, launched in 2018, that aims to boost local economies across the UK through co-operation with local authorities, academics, schools and business groups. The coastal community of Great Yarmouth was announced as a RTLE pilot area in March 2021; its large offshore wind sector represents a growing industry key to the decarbonisation of the UK's energy supply. While in the early stages of this pilot, Barclays began to scope out ways to help facilitate a Just Transition, focusing on two areas - supporting local businesses and addressing the local skills gap. Barclays will work directly with businesses, business groups and local business leadership to help them find opportunities for growth and job creation from the transition.

EXAMPLE

Feedback on Climate Action 100+ paper on 1.5°C aviation

Hermes EOS engaged with The UN Principles for Responsible Investment (PRI) on a new draft Climate Action 100+ (CA100+) white paper on the implications of the 1.5°C global heating scenario for the aviation sector. The white paper was intended to be an extension to the CA100+ Aviation Sector Strategy launched in January 2021. It forms part of the broader CA100+ global sector strategies work aimed at mapping and implementing the actions that need to be taken for carbon intensive sectors to transition to net zero. The paper was developed because a credible 1.5°C scenario was not available for the aviation sector at the time of the sector strategy publication. Since then, developments related to 1.5°C pathways for the aviation sector have advanced, with the International Energy Agency publishing its Net Zero Emissions by 2050 report and key aviation sector bodies the International Air Transport Association (IATA) and the Air Transport Action Group (ATAG), each publishing their own 1.5°C scenarios. The PRI felt that the 1.5°C pathway should be elaborated upon to help frame investors' thinking on this topic and inform ongoing CA100+ engagements with aviation companies. EOS comments on the paper were positive, but further clarification was required on the definition of sustainable aviation fuel given the different mixes that can be used and the safety implications. More clarity was needed on the scale of emissions reduction by the sector in the short and medium term and the feasibility of the solutions for military aviation and commercial space travel. The paper is expected to be finalised in 2022 after which CA100+ will move into its implementation phase, identifying actions that players across the aviation sector need to take in order for the industry to achieve net zero.

Source: Q1 2022 Hermes EOS Public Engagement Report

Barclays Wealth is also involved in a number of industry initiatives. Examples include the United Nations Principles of Responsible Investments (UNPRI) where we have been a signatory for over 5 years and are A rated (note that this latest rating covers the period before we started to formally vote and engage with our underlying holdings). We will take part in a number of its roundtables and working groups, where relevant. We are also members of various TISA (The Investing and Saving Alliance) Committees including the Responsible Investing Committee and various Investment Association (IA) Committees. A member of the investment team is part of a global group of 8 industry experts for the Certificate in Quantitative Finance (CQF) Institute, the Portfolio Management Industry Group, where we advise CQF on thought leadership and curricular content. The CQF Institute Industry Group is responsible for advising on the delivery of thought leadership, events, and research focusing on specific areas within quantitative finance. Formed of subject matter experts, the Group provides advice and guidance on current and emerging themes and topics in their respective sectors.



EXAMPLE

Investment Association

Barclays Wealth has a member on the Product Development & Regulations Committee. It is the committee that considers any proposed changes in UK or EU regulation affecting the development of UK authorised funds and related products or the competitive position of the UK funds industry, including the UK’s implementation of European legislation pre- and post-Brexit. Just a couple of recent examples of topics are a) the FCA SDR Discussion Paper and feedback to it and b) the Temporary Marketing Permissions Regime (TMPR) introduced by the FCA following UK’s departure from the EU to enable overseas funds (such as our Luxembourg and Irish Funds) to continue to be marketed in the UK. Both experiences have had direct implications to how we align our products and investments.

EXAMPLE

COVID-19 market shock. The drawdown observed during H1 2020 was both broad and deep, with all asset classes experiencing pronounced spikes in volatility. The Risk Committee, which oversees the IRF, resolved to allow a broader approach to volatility guideline calibration. This allowed our Asset Allocation team to seek opportunities for our clients rather than de-risk portfolios. In general, we encourage our clients to maintain a longer term outlook regarding their investments rather than fire-selling risk-assets into short-term market stress.

The Enterprise Risk Management Framework (ERMF), owned by the Group Chief Risk Officer and approved by the Barclays PLC Board of Directors, sets out the processes and governance arrangements used to evaluate, respond and monitor risks incurred by Barclays. The ERMF is designed to protect Barclays and prevent detriment to its customers, colleagues and other stakeholders, enabling the bank to meet its goals and respond to new opportunities. All risks identified must fit within the established Framework. In line with this, as of 2022, the principle risks identified in our ERMF have been complimented with climate risk. For instance, Barclays fully embraces its responsibilities with respect to the SFDR and EU Taxonomy regulatory initiatives and works openly and collaboratively to embed environment, social and governance factors into its investment process.

Market-wide risks are continually evaluated by our Asset Allocation team to assess whether the potential reward is compatible with the risk taken. Whilst shorter-term shocks are rarely predictable, our investment process and risk framework aim to position our clients in the best possible way so as to generate a return compliant with their preferences. This is all within an overarching principle of sound market conduct and long-term positive client investing.



Principle 5

Stewardship policy review and monitoring

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

As shown by the charts in chapter 2, our stewardship governance structure is driven day-to-day from the Responsible Investing Forum. This reports directly into our Investment Committee, which meets at least monthly, and then upwards to various boards. The Head of Responsible Investing chairs the RI Forum whilst the CIO chairs the IC. Many areas of the business are represented at the RI Forum such as Risk Analytics, Behavioural Finance, Fund Managers, Portfolio Construction, Performance Analytics, Group Sustainability, Compliance, Legal, Business Operational Control and Product Specialists. We are pleased to be A rated by the UNPRI – independent recognition of the effectiveness of our stewardship activities (note that this was awarded before we commenced the voting and engaging with our clients’ underlying holdings).

The Terms of Reference for the RI Forum state that its key functions include:

- Overseeing and regularly reviewing our Responsible Investing Policy and Voting & Engagement Policy
- Overseeing and regularly reviewing our relationship with Hermes EOS
- Production of our RI literature such as the Impact Report for our Multi-Impact Growth Fund
- Production of our annual UNPRI and Stewardship Code submissions
- To continually promote responsible investing techniques and actively work to embed ESG principles across the business and externally

As an asset manager it is our duty to promote effective stewardship and long-term investment decision making by enhancing the transparency of our investment processes. Our Responsible Investing Policy, SRD II statement and voting records are publicly available [here](#).

These policies and statements are formally reviewed annually and approved at the RI Forum. As detailed in Chapter 8, we review the activities of our voting and engagement partner – Hermes EOS – on a regular basis. Their website allows us to monitor historical progress on engagement and voting topics. It also contains a future engagement plan.

Whilst we can be highly effective with our stewardship activities for assets that are directly held in our segregated managed accounts, it is less straightforward to be so where we invest in pooled third party funds. In other words where we are one of a number of investors. Nonetheless, as discussed in chapter 7, we do assess and score all such managers on their ESG credentials and seek to engage with them to improve their commitment to being good stewards of capital.

There are many layers of assurance and oversight within our business to ensure the effectiveness of our activities as follows:

1st line of defence — Control Monitoring Unit

Primary responsibility for ensuring strong internal controls rests with the first line of defence. The first line undertakes controls assurance and testing across Wealth Management & Investments in line with a defined and agreed testing plan. Implementing assurance testing meets the following requirements for our business:

- It is an explicit requirement of the Barclays Assurance and Controls Testing Standard under the Barclays Control Framework and our Regulators.
- It improves the overall quality of governance, risk, and control management.
- It enables proactive early identification and remediation of process gaps.
- It provides evidence to support the self-assessment activities carried out by management, particularly control effectiveness assessments as part of the Risk and Control Self Assessment (RCSA).

2nd line of defence — Compliance Assurance

Compliance Assurance (CA) is a global team, responsible for the execution of independent, risk-based Conduct and Financial Crime reviews. The team supports Barclays' Compliance strategy by examining the bank's defences against risks, offering insightful analysis and providing expert advice.

Conduct: The team performs assurance over the Conduct and Reputation Principal Risks across Barclays' first and second lines of defence. Conduct reviews and issue closure validation activities rigorously assess whether the required outcomes are being achieved through effective controls, culture and behaviours.

Financial Crime: The team undertakes assurance over the Financial Crime risk (part of the Conduct Principal Risk) within the bank. Financial Crime reviews and issue closure validation activities assess whether Barclays is effectively managing the risks posed by money laundering, bribery and corruption, terrorist financing and sanctions violations.

Additionally, CCO Testing provides independent validation to Business Management that our control environment is designed and operating effectively. Undertaking design and operational testing of controls within a process. Reviews will be delivered in line with Controls Testing Methodology which aligns to the requirements of the Barclays Control Framework Controls Assurance & Controls Testing Standard.

3rd line of defence — Internal Audit

Internal Audit is an independent control function which supports our business by assessing how effectively risks are being controlled and managed. It is a regulatory requirement for all banks to have an independent audit function and contributes to good corporate governance.

The objective of Internal Audit is to assist the Board and Executive Management to protect the assets, reputation and sustainability of Barclays.

This will be achieved through the provision of independent, objective, reliable, valued, insightful and timely assurance to the Board and Executive Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks.

How we ensure our reporting is fair, balanced and understandable

The review process and feedback has prompted improvements to our stewardship policies. Examples include commencing voting and engagement activities this year and aiming for one of our fund ranges to become Article 8 under SFDR this year. We also introduced the ESG rating for all external managers as a standalone score this year. It was previously subsumed within the '5P' scores – as detailed elsewhere – but feedback meant that it was better surfaced alongside the 5Ps.

The Wealth Management and Investments business has a forum dedicated to client communications. It seeks to ensure that all communication is fair, balanced and understandable. It is crucial that whenever we engage our clients, we do not harm, exploit or mislead them. We need to exhibit the fact that we are good stewards of their capital. We need to ensure that we clearly understand our clients' needs and priorities prior to making recommendations to them. One of the key components of treating our clients fairly is ensuring that the communications that we provide help them make informed decisions. Our clients rely on us to provide clear information to help them understand the risks and benefits of the Products and Services we are offering. Its purpose is to ensure that:

- All Client Communications are fit for purpose and meet client needs
- All Client Communications are aligned with regulatory requirements and expectations
- All Client Communications are not misleading and are well informed
- All contractual Client Communications mitigate legal risk within the business
- All Client Communications take appropriate consideration of the needs of clients in vulnerable circumstances
- Clear records of the approval of Client Communications are maintained

We make our reporting fair, balanced and understandable in the following four methods:

1. Financial Promotions training

A framework was agreed with Compliance in relation to communications promoting investment products. The training included the following aspects:

- **'Fair Balance'**
Within this training is the view that everything we produce must have a fair balance. So not only does our content have to be wholly true, it has to be the whole truth. If for example we state a true benefit of a particular product, we always need to consider whether there is a detriment too. In addition to 'fair balance', all assets still go through a full technical assessment.
- **'Fair Opinions'**
If an opinion is given, it must be a reasonable one, based on evidence and honestly held. If we communicate a third party's opinion we must consider the effect that it might have on the reader. Notwithstanding that it might be an opinion that's honestly held, we must consider whether it is a valid one or one that if followed is likely to harm the reader.
- **Comparisons**
If we compare our services to another firm's or one product to another, we must ensure that the comparison is fair – it must be on a "like for like" basis or we must make clear the difference provided that the comparison is still meaningful.
- **Understandable**
Our communications must be comprehensible to the average member of the audience likely to receive them. In general we need to follow conventional grammar and syntax or recognised language usage and avoid jargon or unduly "high" language i.e. use plain language.

2. Technical Reviews

In addition to our self-attestation, content will still go through a full technical review when required. We have a number of stakeholders across the business who hold the responsibility to make sure that content is correct as and when it is created. This forms part of our BAU sign off process. We keep a Compliance control document (sometimes referred to as a cover sheet) attached to all web page copy docs which lists the technical reviewer for each page. The 'copy doc' audit history also shows who has been involved in each review; any amendments they make are documented as tracked changes and stored in a separate file on the shared drive. All approval emails are also kept in these files on the shared drive.

3. Annual Content Reviews

For Digital Investing, we have a full content library which lists all content pages on Smart Investor and Plan & Invest (operational and editorial). We use this library to ensure every page is looked at every 12 months and updated or removed if necessary. We are in the process of building out a similar library for Wealth Management content so the same review process can be undertaken. We are also awaiting the appointment of a dedicated copywriter to help carry out this review process.

4. Tone of Voice Guidelines

Our tone of voice toolkit was created and rolled out in 2019 to help us consider our audience in the often complicated world of investing and enable us to make the complex simple, which subsequently should mean that all our readers could understand how investing can be for them. A checklist was created on the back of this which served as a quick reminder of the techniques to consider before we start writing something for the reader.

With regards to the review and assurance process at Hermes EOS:

- on an annual basis, their voting process is independently assured (AAF 01/06).
- case studies are reviewed by the named companies in advance of publication to enable them to correct any aspects of their reporting.
- there are multiple touchpoints for clients to review EOS' activities such as at our quarterly relationship meetings and its bi- annual client conference.

EXAMPLE

Plan and Invest is our digital investment journey. Feedback indicated that its description was not as understandable as it might have been and so a project was undertaken to simplify the language. We rewrote the documentation many times. Ultimately we sought, and were successful in receiving, the "Crystal Mark – Clarity approved by Plain English Campaign" for our communication with respect to its Terms and Conditions.

EXAMPLE

The Multi-Impact Growth Fund is our 'darkest green' fund offering. An annual impact report is produced each April describing in great detail, over more than 100 pages, the ways in which the fund has a positive effect on society and the planet. Now in its 4th iteration, we have worked with our compliance and legal colleagues and our design agency over the years, to make it even more understandable and balanced.



Principle 6

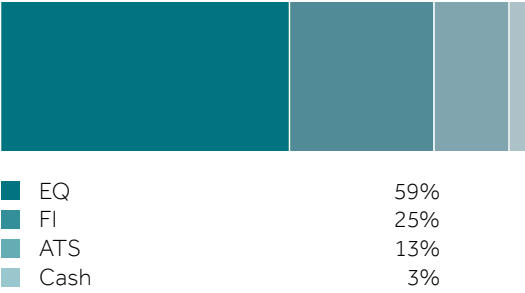
Incorporating clients and beneficiary needs

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

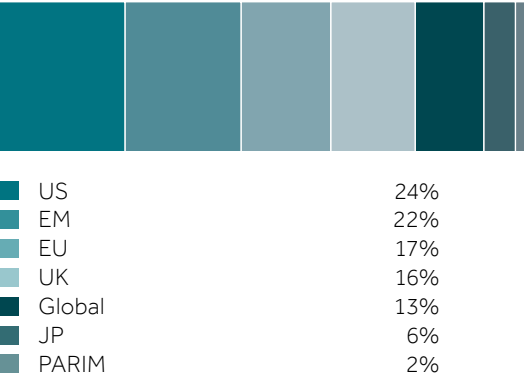
Assessing client needs

Barclays Wealth and Investments and its investment management unit – BISL – serves individuals and charities predominantly within the UK. Total discretionary assets are over £17bn (at end 2021). Almost 95% of these assets are managed externally by 3rd party fund managers. Many of these £16.1bn in assets managed by 3rd party managers are in segregated mandates. These mandates are housed on Barclay's infrastructure and wrapped as Barclays UCITS funds. Therefore, these assets in mandates as well as the very small amount of in-house directly managed assets (the remaining 5%) have the stewardship services of Hermes EOS applied to them. Those £17bn of assets are roughly split as follows:

AUM by asset class



AUM by geography



How we take account of client views and communicate with them, depends on which investment route they choose to take because Barclays provides a full spectrum of services to our private clients through access to Discretionary, Advisory & Execution only services. There is always a focus on risk management and wealth preservation. We cover the broadest spectrum of services ensuring the client has both access to these and they are also thought of when providing advice to the client. We consider wealth planning at the outset to ensure due consideration has been applied to structuring and protecting the client investments before the investment process has begun. We are able to provide finance using the portfolio as collateral in addition to our credit teams offering across the spectrum of mortgage solutions.

We help clients align the overall investment solution with their goals in a way that fits with their financial personality. By discussing the client needs and our service offering, we are able to find the best investment solutions for our clients. We incorporate behavioural finance in the way invest and serve our clients. We favour approaches that aim to lead to consistent long-term returns through a full market cycle rather than following the trend or momentum trades over shorter periods. The discretionary service provided combines the expert knowledge of the various teams we have across the business including specialists within funds, asset allocation, portfolio construction, behavioural finance, portfolio management and others. The unification of the insights from these teams creates our best thinking models. All of this is overlooked by our relevant risk management and due diligence teams, from an operational as well as investment standpoint, to ensure the safety of client accounts.

We have developed a proprietary investment philosophy which is reflected in the discretionary investment portfolios we manage for our clients. Our approach aims to create a detailed picture of our clients and their attitudes, goals and aspirations. Risk tolerance is crucially important but there is much more to investment attitudes than that. Our behavioural finance specialists have developed a unique tool – the Financial Personality Assessment (FPA) and its derivatives – that enables us to build a highly detailed profile of clients' preferences and attitudes. Using this tool, we can measure six key dimensions that, in combination, reveal how a client thinks and feels about wealth and investments. The results of the FPA help clients to clearly understand the basis of our investment recommendations and provide context regarding how they make financial decisions. In building client portfolios, we tend to use a blend of eight key asset classes that meet our investment criteria, which include competitive risk-adjusted returns, diversifying returns and efficient access for our clients. We provide investment solutions designed for total return and also oriented toward income for those clients who have specific income needs. We also cater for clients preferring to have a home market bias to their portfolio.

Meeting client needs

Barclays Investment Philosophy is the cornerstone of our client offering. Based on our clients' needs, it is designed to provide personalised investment portfolios, delivering sustainable growth and risk management through diversified investments across multiple asset classes.

Every investor has an asset allocation, whether they think in those terms or not. Holding nothing but cash is an asset allocation, or only individual equity investments is also an asset allocation, albeit a highly concentrated one with limited diversification benefits. So the question is not whether you have an asset allocation or not, but rather if your asset allocation is in line with your needs and rewards you adequately for the risk you are taking. We believe that a thoughtfully designed, diversified asset allocation is the best foundation for achieving your long-term investment goals. When we created the strategic asset allocation process that lies at the heart of our Investment Philosophy, we followed four basic principles: it must (1) meet client needs, (2) provide diversification to help manage risk, (3) comprise asset classes that are generally accessible to investors, and (4) incorporate our long-term market views, as well as our insights in quantitative finance.

To meet our clients' long-term investment needs, they must be able to invest in portfolios that align to their Risk Profile – determined by their Risk Capacity (as established by a review of total wealth) and their Risk Tolerance (measured by our Financial Personality Assessment™) – and be comfortable to hold this portfolio over a long time horizon. To satisfy this requirement, we have developed five Strategic Asset Allocations (SAAs) from Low to High risk, taking into account how investors psychologically perceive risk, which tends to be more focused on poor outcomes than on volatility. More generally, our SAA model portfolios reflect how we think financial markets work and they incorporate our long-term views on economic and market variables. We combine this to generate optimal long-term risk-return trade-offs for investors with different Risk Profiles.

To benefit from diversification and enhance portfolio efficiency, an investment portfolio should include several asset classes and, ideally, go beyond the traditional set of stocks, bonds and cash. The idea that introducing diversifying assets to a portfolio can both help decrease risk and enhance opportunities for return is well established in the academic literature and among investment managers. There have been moments in history, such as the global financial crisis in 2008-2009, where most asset classes were sold off at the same time, resulting in elevated short-term correlations. Whilst some use this as a basis of critiquing the diversified approach, we believe in the long-term benefits of diversification such as reducing the reliance on a single asset class performance. We strongly believe that diversification should play a key role in all asset allocations and still urge you to not "put all your eggs in one basket".

To achieve diversification, we expand our range of asset classes to include the full universe of investible assets available to individual investors, including Commodities and Alternative Trading Strategies (ATS). We believe that absolute return funds and other alternative investment vehicles can play a variety of roles in a portfolio, including the generation of attractive risk-adjusted returns while also offering a low correlation with other asset classes.

To create diversified allocations, we use industry standard as well as internally developed risk measurement and management techniques to account for the fact that asset returns do not follow an abstract Normal (bell-shaped) distribution, tending instead to be asymmetrical and have 'fat tails'. More generally, when analysing asset class returns, we are careful not to rely on a simplistic interpretation of data, and also avoid the assumption that the future will look like the past, a surprisingly common forecasting bias.

To make sure our clients are truly diversified, we have to provide an optimal portfolio that is also practically accessible. That is why we recommend broad categories of investible assets, both potentially attractive and accessible to all investors, rather than specific areas or products.

Our final principle is that we seek to incorporate our long-term market views, as well as our insight in behavioural finance. We combine market data with our investment experts' views on economic trends. We also incorporate behavioural finance to help us understand what is important to our clients, their perceptions of long-term risk and their preferences when balancing risk with expected returns. Using quantitative analysis, we combine our behavioural insights and understanding of clients with our market expertise, to best meet the long-term investment needs of our clients. We are proud of our strategic asset allocation process and believe that it contains many significant improvements to past practices in the investment management industry. However, we continue to be focused on improving our process, which is why we regularly conduct a deep dive into our inputs and methodology, to maximise our chances of delivering strong long-term investment returns in line with our client's goals.

EXAMPLE

In late 2021, we broadcasted a client event. Two external speakers and two Barclays employees — the Group Head of Sustainability and ESG and the Wealth Head of Responsible Investing presented on, and discussed, sustainability matters in an attempt to educate and inform our clients.

Seeking client views and acting upon them

When it comes to seeking client views and feedback to understand the effectiveness of our approach, we have a number of channels:

- Feedback via Wealth Managers
- Complaints
- Net Promoter Score Surveys
- Clients Research

Over the course of 2021, that client research included interviews, focus groups, co-creation virtual spaces and surveys.

Wealth Managers take considerable time at the start of all relationships, and on an ongoing basis, to understand our clients' views. A tangible example are our charity clients where we may assist in understanding and then developing their Investment Policy Statements to ensure that fits with the aims of the charity in line with guidance from the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator or the Charity Commission for Northern Ireland. Often this then entails acting upon those views with specific exclusions from the portfolios – typically based on revenue exposure to certain undesired activities.

Feedback from clients pointed to the fact that wealth planning was increasingly in demand. This was in addition to their traditional discretionary portfolio management service. In order to improve our stewardship of their assets, through providing additional services (such as IHT planning, pensions and protection) in a more cohesive manner, we have hired more wealth planners and expanded the training of some wealth managers.

EXAMPLE

We recently conducted the first formal survey of our clients' ESG considerations. The online survey was completed by 1,853 respondents with four key objectives:

- What do customers care about within ESG?
- What do customers care about within ESG in Finance?
- How do customers currently perceive Barclays in the ESG space?
- What do customers expect from Barclays in the ESG space?

Three notable results were that:

- 39% of Barclay's customers agreed with the following statement: If I could, I would like to invest in environmentally / socially responsible funds even if the returns are lower than those purely focused on growth.
- The issue most often cited in the 'top 3 ESG issues most cared about' was Climate Change at 55%.
- 25% of Barclay's customers chose the following as one of their top 5 environmental initiatives: Providing investment products that focus on environmental projects or companies doing remarkable work on environmental issues

Whilst we have yet to act upon these very recent results, the two most notable examples of us taking action in this period based on views were commencing our voting and engagement activities as detailed in principles 9 – 12 and starting work on converting our Irish fund range to become Article 8 under the EU's SFDR regulation. This range becoming Article 8 is primarily predicated upon adding several exclusionary screens and seeking to mitigate climate change somewhat.

EXAMPLE

Currently we do not report on ESG metrics, such carbon footprint or water intensity, for our funds or client portfolios. We have access to the data, via MSCI, and a project is underway to not only to make such metrics available on our factsheets and reporting, but also to make such data points meaningful and intuitive to clients.

Ensuring alignment with clients' policies and reporting

To ensure that assets are being appropriately managed in line with clients' expectations and policies, Barclays has a team of Quality Training and Competence Managers whose duties include:

- Advice is checked to ensure it is suitable
- Annual reviews are checked to ensure suitability is maintained

With regards to adherence to investment policies, internal audit reviews our procedure documents and checks samples of our work on a regular basis. We also have an investment risk and performance team – deliberately separate from the investment and responsible investment team – that monitor portfolios daily to ensure:

- Performance is in line with expected returns within each risk bracket
- Volatility is also in line with similar portfolios and modelled expectations
- Portfolio holdings are appropriate for the client
- Portfolio holdings and asset classes are of an appropriate weight

No securities captured by exclusionary screens are held.

An annual report is produced giving an overview and highlights of all the voting and engagement activity that has occurred across the discretionary assets held by our clients. In addition quarterly reports are posted on our website outlining how we voted and engaged, working with our partner, Hermes EOS, over the period. For those clients in our specialist impact fund – the Multi-Impact Growth fund – we produce a hugely detailed impact report once a year. The latest copy is available [here](#):

For our HNW clients, we produce formal quarterly reports and regular client reviews are delivered by the Wealth Manager / Investment Consultant / Portfolio Manager as appropriate. Monthly factsheets are produced for our Funds whilst video factsheets are recorded for them quarterly.

An annual report is produced giving an overview and highlights of all the voting and engagement activity that has occurred across the discretionary assets held by our clients. In addition quarterly reports are posted on our website outlining how we voted and engaged, working with our partner, Hermes EOS, over the period. In addition to these voting and engagement reports, EOS provides a range of formal qualitative and quantitative reporting for Barclays on a regular basis outlining how they have implemented our engagement policy. This includes statistics, engagement information (objectives, progress, meeting notes), case study examples and voting recommendations which is mostly available to our clients on their dedicated online portal. Barclays provides our input for consideration, alongside those of other of EOS' clients, for the development of a forward-looking Engagement Plan. Our annual Engagement Review, based on EOS activities on our behalf, is also available to our Wealth Managers.

For those clients in our specialist impact fund – the Multi-Impact Growth fund – we produce a substantial impact report annually. The latest copy is available [here](#):

For our HNW clients, we produce formal quarterly reports and regular client reviews are delivered by the Wealth Manager / Investment Consultant / Portfolio Manager as appropriate. Monthly factsheets are produced for our Funds whilst video factsheets are recorded for them quarterly. In addition to our written reporting, we also produce a weekly podcast named Word on the Street. ESG topics frequently feature here and the Responsible Investing team often present. Finally, each HNW client has formal meetings with their Wealth Manager. This gives the opportunity for two-way dialogue regarding their needs and our taking of those into consideration. The Responsible Investing team has attended such meetings, as required, over time.



Principle 7

The integration of stewardship and ESG within the investment process

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Integration in our business

Our success as an organisation is judged not only by our commercial performance, but also by how we act for the common good and the long term. We believe we are at our most effective when we deploy finance to support people and businesses in a way that is responsible, transparent and makes a real and lasting difference to the lives of those we serve, our colleagues, and the communities in which we live and work. Our approach to environmental, social and governance issues is grounded in the work we do every day, right across our business. The transparency provided by our reporting and disclosures is built on a clear framework for action. We see our focus on the sustainable impact of our business as one of the key pillars of the investment case for Barclays. We consider our ESG responsibilities through five areas of focus, reflecting the interrelated nature of ESG issues. They give us a clear guide to how we can maximise the positive impact we have on society, and help us to manage carefully the environmental and social impact of our business. These areas are shown here.



As we consider the risks and opportunities in each of these five areas, our approach is supported by governance and oversight from our management and Board governance structures. It is also underpinned by our commitment to the Principles for Responsible Banking, of which Barclays was one of the 30 founding banks, which help to align banks with society's goals as expressed in the Paris Climate Agreement and the United Nations' Sustainable Development Goals. The importance of action on climate change and the changing financial and social needs of society as a result of COVID-19 were both significant for Barclays in 2020. We engage directly with our internal and external stakeholders to assess our areas of focus against their priorities – through ongoing conversations, as well as surveys and information requests from investors and ratings agencies. We also monitor closely the relevant ESG frameworks and reporting guidelines.

Just a few examples across these 5 areas include:

- In March 2020, Barclays set an ambition to be a net zero bank by 2050. We're already net zero from our own operations, offsetting any residual emissions; our focus now is on reducing the client emissions that we finance – so-called 'financed emissions'.
- We have a target of facilitating social and environmental financing of £150bn by 2025 with £124bn achieved by end 2020.
- We have a target of £100bn in green financing by end 2030 with £32bn achieved by end 2020.
- Our Scope 1 and 2 carbon emissions have been reduced by 71% at end 2020 against the 2018 baseline.
- 87% of staff would recommend Barclays as a good place to work.

Please see our latest Group Stewardship report [here](#).

Barclays was a founding member of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and this is our fourth year of disclosure aligning to the TCFD recommendations. We continue to believe that comprehensive, robust and comparable disclosures are essential to enabling stakeholders to understand our activity and progress in managing our climate-related opportunities and risks. Full details of our approach can be seen here in our latest Group TCFD report [here](#).

To give just one example of how well regarded the progress that the Barclays Group has been making in this area, MSCI — a leading independent ESG ratings agency — rated us AA in 2021.

Our investment beliefs

We believe in the integration of environmental, social and corporate governance (ESG) considerations into our investment management processes and ownership practices, as these factors can have an impact on financial performance. We believe that as ESG considerations play out over a long horizon, and as they increasingly become a priority for company managers, they may help alleviate the pressure for short-termism and encourage a focus on long-term value creation — to the mutual benefit of firms, investors and the world at large.

These beliefs align with our Values of Respect, Integrity, Service, Excellence, and Stewardship.

To recognise many of our existing investment practices, and to further reinforce and strengthen them, BAML has become a signatory of, and is committed to implementing, the six principles of the United Nations supported Principles for Responsible Investing (PRI) in our investment management activities.

We're committed to seeking to deliver the best possible risk-adjusted returns for our clients and we believe responsible investment supports this aim.

We believe ESG considerations capture non-financial information that could affect financial performance. Considering these ESG factors, and consequently a broader set of data, we believe enables investors to make a better judgement about the financial performance and longer term viability of an investment. Therefore, as part of our investment process, we seek to incorporate any foreseeable risks and opportunities that arise from material ESG factors be included.

A majority of the assets we manage on behalf are our clients are invested indirectly, through third party fund managers. Nonetheless, our approach to undertake responsible investment is relevant across all the asset classes, sectors and markets in which we invest.

EXAMPLE

We intend to add a number of additional screens to all our funds in 2022. Examples of these include Fossil Fuels, Gambling and Adult Entertainment.

Investment integration

Our ambition is for ESG integration to be a key element, rather than an additional element, of the investment process. The key parts of our investment process are Asset Allocation (Strategic and Tactical) and Manager and Fund Selection – primarily of third party managers – supported by Portfolio Construction. Within Manager and Fund Selection we select and invest in the managers based on our confidence in their ability to deliver their investment objectives, along with their associated strategies and practices to responsible investment. We inform our external managers of our focus on and commitment to the PRI principles.

As part of our due diligence and ongoing monitoring, we will review their integration of the principles and practices of responsible investing. This includes a review of the ESG policies and governance of potential managers and identifying how effectively they integrate ESG factors into their investment decisions.

Throughout the life of an investment, we monitor identified ESG risks and work with managers to ensure effective oversight. We encourage managers to engage in an open dialogue with us about their own approach to responsible investment and how ESG factors impact its investment analysis and decision-making processes.

Overall, our approach to responsible investment involves ESG integration, rather than screening. Where we provide mandates to external managers, who undertake screening as part of their investment process, we will acknowledge their practices. We do not extend restrictions to investment managers of co-mingled funds where we're not the sole client. There is one exception to this approach and it is in the area of controversial weapons whereby firms involved in weapons such as landmines or cluster munitions cannot be invested in.

We have given clear instructions to the managers of these mandates on how to action this exclusion – we send a list of companies at regular intervals to them instructing them to add them to their trading systems to prevent them buying them.

We can provide clients within segregated accounts the option to exclude sectors or companies based on ethical or personal preferences, which are incorporated into investment guidelines. The screening rules we are currently able to apply include – abortion, alcohol, animal testing, armaments (including anti-personnel landmines and cluster munitions), environmental impact, fossil fuels, gambling, human rights, pork, pornography, and tobacco. Furthermore, our Charities Fund and portfolios aim not to have any direct exposure to companies that generate more than a small minority of their turnover from tobacco, pornography, gambling or the manufacture or sale of arms.

We use an external research provider to provide screens which undertakes comprehensive research on each theme and identifies the companies to be excluded. These screens are incorporated into our portfolio management system, which allows us to manage the investment process as well as monitor and ensure that we do not invest in the companies that come under any rules.

Voting refers to exercising voting rights on management and shareholder resolutions at AGMs and EGMs to express support or concern. Examples include on the election of directors and executive pay. Engagement takes two forms – ongoing Corporate interaction between investors and management boards in order to influence business practices and Public Policy interaction with legislators and industry bodies to help shape standards and codes. Carrying out these activities is part of our fiduciary duty and helps ensure that we are investing sustainably. It manifests itself through the direct holdings that we have in our segregated managed accounts. We employ a specialist provider – one of the largest in the world – to engage on our clients’ behalf and to recommend the votes that we should be making on the firms in which we invest. We set an overarching framework, via a clear and actionable voting policy, within which the specialist makes the voting recommendations. Our historic voting record is available on the Barclays website at the bottom of this [page](#).

Manager Selection and Tendering

From time to time the need arises to appoint a new external manager. In that event, the relevant fund analyst within the team will use a variety of sources to arrive at a ‘long-list’. Examples include their knowledge of the asset class involved (many of the fund research team have been in place for over a decade), the Morningstar Direct database and the MSCI ESG Manager database. Screens are applied within the latter two databases to ensure that managers with superior ESG scores and metrics, such as carbon footprint, are highlighted. This gives a good indication of managers that are likely to integrate stewardship and ESG well. A DDQ is then sent to all the managers on the long-list to help narrow down the field. This DDQ comprises a number of ESG questions. The responses to these, together with a review of their voting and engagement reports and ESG policies and memberships, helps identify those managers who integrate stewardship well. The analyst will then meet the fund managers on the resultant shortlist face-to-face. As these managers pitch to us in these meetings, the content includes a thorough discussion on stewardship and ESG matters in addition to investment matters. We ask for examples of successful and failed engagement, notable votes and any sales or purchases, amongst others things, as we seek to fully comprehend their approach. Ultimately, we make it clear that we expect stewardship to be integrated into the investment approach.

Next, every remaining manager’s offering is given a single standalone score from A to C for ESG considerations – reflecting both their intent and their outcome. We expect all active managers – equity, bond and alternatives – to be engaging with the managements of their holdings on these topics and comprehending how their activities could impact on the sustainability and profitability of the business. We assess all external managers across 5 key areas that each happen to start with the letter P. We do this both through initial DDQs but also in-person meetings. We expect to see that the E, S & G is borne in mind within each of the 5 P areas, as the following few examples illustrate:

Parent: Climate reporting, stance on Diversity and Inclusion and balanced recruitment and training policies.

People: A dedicated ESG team, aligned pay structures and the knowledge of the investment team of such matters.

Philosophy: An understanding of which ESG factors are material and why they matter for each holding.

Process: The embedment of ESG metrics into the investment process, how it is incorporated into the research notes and how ESG risks might affect the company valuation (via the discount rate for example).

Performance: Holdings analysis using MSCI ESG Research to help question and challenge the managers on their contentious holdings. The strategy note from MSCI is also reviewed.

As the team award their Sustainability score, examples of the inputs studied to build up the mosaic of understanding include the voting records of the manager, the MSCI ESG Research report on the strategy and the managers’ documentation regarding any Codes or affiliations they might adhere to. Examples of the latter include the UK Stewardship Code, Climate Action 100+ and the Women In Finance Charter to name just three. Having appointed a manager, we revisit them formally at least every 6 months; more often if we have concerns. We expect to see ongoing examples of good stewardship.

Further details of how we approach manager research and the ‘5P’ research framework can be found [here](#).

EXAMPLE

Just as we have been a signatory to the UNPRI for many years, so we expect all our external managers to be. One of the managers — US based — has been reluctant to commit and so we have been working with them to give them assurance over the pros and cons of becoming a signatory. We are pleased to report that they have decided to become a signatory this year.

Service providers

To support our ESG integration, we use several external providers as follows:

MSCI ESG Manager: provides ESG data and insight. This includes company and industry reports and thematic research on specific ESG issues. Our investment personnel use this to inform themselves and also to help question external managers on any their holdings. The tool is also used to construct our exclusionary screens.

Hermes EOS: engages with corporates and on public policy on our behalf. EOS also provides voting recommendations to us on our company holdings. We operate a triage process on these recommendations ensuring that we review, and amend if necessary, any particularly noteworthy votes. The contract we have in place with EOS, as an example of all those we have in place, clearly lays out our service-level agreement including how we will set criteria for them, how they will report to us and the voting framework. That criteria evolves over time via several channels: giving feedback on the annual refresh of the Engagement Plan, at the quarterly relationship reviews and at the bi-annual client advisory council events.

ISS: primarily our voting portal to log our company votes, but it also provides research recommendations and research on those upcoming company votes.

EXAMPLE

The Procurement team recently trialled a new ESG questionnaire in a tender for laptops. The questionnaire contained more than 30 questions related to stewardship issues. These questions were intended to ensure that potential hardware providers were not sourcing their goods in a manner that was contrary to our stewardship principles. Examples of the more than 30 questions therein included:

Do you have a programme to avoid, mitigate and otherwise manage the significant environmental aspects of your activities, products and services?

Do you have greenhouse gas emissions reduction targets, are such targets science-based? Have you pledged for net zero greenhouse gas emissions by 2050 at the latest?

Materials – Have you optimised the materials used in the product (e.g. percentages of recycled materials, postconsumer recycled plastic, ITE – derived plastic, metals and rare earth materials etc.)?

Product Carbon Footprint – Please indicate the Product Carbon Footprint (PCF) for the product (include ISO14040 documentation if available).

Do you have a publicly available packaging optimization program to minimize packaging weight and volume?

Further details on our Third Party Code of Conduct can be found [here](#).

Barclays has an ESG team within its Procurement department. This helps ensure that firms that tender to provide services to us have to be good stewards and integrate ESG issues. This team drives positive ESG outcomes and manages reputational and other risks in the supply chain. They environmental aspects aim to ensure our suppliers have in place environmental management programs appropriate to the nature and scale of their business, have greenhouse gas emissions reduction programs in place and are working towards a science based net zero emissions target. Furthermore, the human rights and modern slavery aspects aim to ensure that our suppliers have in place the necessary policies and practices to prevent exploitative practices such as forced / compulsory labour, debt bondage, child labour, and that they carefully manage recruitment practices, working conditions and migrant labour. Finally, the governance aspects focus on corporate policies and how companies are governed. The main focus here is on Controls, Corporate responsibility, Remuneration and Risk Management.

Use of information gathered through stewardship

Information gathered through stewardship informs acquisition, monitoring and exit decisions at a number of levels at Barclays Wealth:

- research that our external fund managers conduct may lead them to increase or decrease a company holding weight
- research that the Barclays Manager Selection team conducts may lead to increased monitoring of an external fund manager
- research that EOS conducts may lead the Manager Selection team to increase monitoring of an external fund manager.

One example of each is given below.

EXAMPLE	EXAMPLE	EXAMPLE
Barclays stewardship leads to enhanced monitoring of a fund manager	EOS stewardship leads to enhanced monitoring of a fund manager	Manager stewardship leads to a reduction in a holding
A UK Equity Income fund has carbon emissions higher than that of the market. Our analysis showed this to be almost entirely the function of one holding. The team raised this with the fund manager, because we want to know if/when the new emissions reducing investments being made by that particular company are going to be reflected in external data. If the commitments to reducing methane emissions are going to take many years, and the carbon emissions will remain stubbornly high, then we need to know that and decide whether it's a holding that we want in our mandate. The fund manager is currently going back to their third-party data provider for more transparency on this point and to update their data if necessary.	EOS recommended voting against the proposed CEO at Frasers Group and the pay package for him last year. The fund managers we spoke to had engaged with the company and had been involved in its design. Whilst larger companies had ESG and engagement teams who voted against the pay deal, those investors who were more directly involved with the company and the exercise voted for it. Another issue raised was the independence of the company from Mike Ashley, who remained on the board and was the largest shareholder until recently. This led the Barclays team to enhance its dialogue and monitoring of the fund manager over this company. We view the stepping down of Mike Ashley as a definite improvement in governance of the company and one could argue that this shows the value of active company engagement with shareholders and will lead to greater board independence because of shareholder feedback.	Wellington, a fixed income investor, engaged with CRH in the fourth quarter of 2021 regarding environmental and social risks. On the environmental front, they discussed transition risks, science-based targets, and Wellington's Net Zero Asset Managers Initiative. On the social front, they discussed the quality and sustainability of their product. CRH has a 2025 carbon reduction goal and uses some alternative fuels. The engagement led Wellington to believe that CRH's 2025 goal is achievable. However, they were concerned that the regulatory environment will not support further reductions past that point. Additionally, they do not believe that the science is in place to enact incremental carbon reductions. Wellington elected to reduce the holdings in CRH, given this assessment of the environmental risk. They plan to follow-up with CRH on the approval of science-based targets for carbon reduction and to see more clarity on the post-2025 roadmap for transition risk.



Principle 8

Monitoring third party service providers

Principle 8: Signatories monitor and hold to account managers and/or service providers.

External Fund Managers

Each member of the team is a specialist in their allotted asset classes. Having identified a manager that they believe is among the most likely to outperform in the future in their space in a sustainable manner, a set '5 P' template research note (as explained in Chapter 7) is completed and scored before it is presented to a monthly meeting of peers — the Manager Selection Forum (as explained in Chapter 2) for robust challenge. Only once it has been approved, does it move into the operational due diligence process. These preceding sentences detail the due diligence we perform prior to investing with an investment manager or recommending the manager to our clients. However, a reliable manager research process requires extensive ongoing monitoring to make sure continued investment with a given manager is advisable. After an initial investment, we continue to perform the following for each time period:

Daily/monthly: We monitor news and information on our managers, in real-time, in industry publications and news alerts, to glean any information on the manager, its employees or its key investments. We also monitor performance updates that we receive for any unexpected developments. For our managers with whom we have mandates, we receive full portfolio holdings daily so we can perform risk analysis and performance attributions. In addition, we monitor a portfolio's holdings or levels of exposures, such as gross and net exposures, top positions, or sectoral, regional, or asset class concentrations. If there are any concerns we can't resolve, such as any holdings we feel peculiar from an ESG perspective, we discuss them with the investment manager.

Quarterly: We undertake a more detailed formal performance review focused on the relative performance, market factors that affected the portfolio, and positions that had the greatest positive or negative impact. For equity managers we review the voting record such as votes cast, votes against, rationale, etc. We also update our own funds' factsheets and commentary.

Semi-annual: We speak to all our managers on a regular basis; the frequency depends on the complexity of their process and the transparency we have into the underlying investments. The greater the transparency, the less the need for direct communication. At a minimum, we speak with each of our managers formally at least once every six months, even if performance and results are completely within our expectations. We formally review any changes to the organisation, voting and engagement policies, investment process, portfolio and performance. We want to see decisions made, including votes and engagement, be consistent with our expectations, given their philosophy and processes.

Ongoing evaluation: Throughout various steps of ongoing monitoring, we keep our internal scoring or internal rating of managers up to date. This is implemented to ensure that, at any point, the appointed managers remain above the thresholds we have defined to be present in our roster of external managers.

EXAMPLE

Typical ESG topics that get discussed at our regular meetings:

- The rationale for holding any holdings lowly rated by MSCI.
- Recent voting or engagement activity of note.
- Any changes to ESG personnel or processes e.g. data providers, how the data is used.
- Any developments in ESG at the Group level.

Operational monitoring

We define Operational Due Diligence (ODD) as a rigorous independent review of the firm’s operations and product offering that, at its core, seeks to assess and mitigate business and operational risks.

We believe, and have experience to show that, the operational ‘set up’ can hinder or positively support the ability of the fund to deliver performance. A skilled portfolio manager would not be able to execute to the best of their abilities if the firm is not adequately resourced to manage and oversee their business processes or regulatory responsibilities, and manage the daily processing of investment decisions. Put another way, there is no premium or return for taking unacceptable business or operational risks in the long run, and so these should be minimised wherever possible. On the flip side, well managed businesses create a better environment for investment managers to perform and, in return, help foster long-term investment success for our clients.

We benchmark all managers to our own expectations derived from market practices, and our thought leadership. Each manager must pass the ODD review before being made available to clients, and periodically assessed thereafter. While risk can never be fully mitigated, identified critical sub-par controls are not accepted. Our understanding of risks and deep knowledge of operational processes is why ODD at Barclays is positioned alongside Investment Due Diligence at the heart of our manager research process. Structurally, we believe that this service is uncommon in a Wealth business and yet fundamental to sustainable long-term investment success for our clients.

Barclays sources managers and funds across a broad range of strategies and fund types in order to meet our client needs. Regardless of size or whether a manager is based in New York, London or Paris, business and operational risks are distilled and organised into a set of Operational Pillars. From here the risks are scrutinised and evaluated in isolation, and then collectively, to consider as a whole. Only then will we consider if we have attained what we call ‘Operational Conviction’ in the manager’s operations. Listed below are the Operational Pillars we focus on:



Integrating ESG questions into the operational due diligence process frames ESG as an ongoing effort worthy of both monitoring and measurement. Doing so provides a framework for us to work with fund managers to establish best practice criteria and chart progress over time.

When evaluating ESG, from an ODD perspective we are looking for managers to document and evidence policies in ways that are quantifiable. Regardless of size and experience, managers must be able to present evidence of monitoring compliance with their policies and have formal procedures in place in the event of a failure to comply.

Culture is also highly valued in the evaluation process; the satisfaction level of employees, retention, and support for policies protecting safety and well-being are all important considerations. There is an understanding that smaller firms will not have all the data available for a robust ESG evaluation; in these cases operational due diligence is flexible and adjusts accordingly.

EXAMPLE

Cyber security

Much has been reported in the press about the threats of cyber crime. There have been many examples of disruption, including data thefts and ransomware attacks, notably against Facebook, Sony Pictures, Equifax, Voya Financial Advisers as well as the WannaCry malware that targeted the NHS Windows systems, and yet, the level of cyber protection varies from one manager to another. There is no doubt that this is a significant concern we all face in our daily lives as individuals, from how we use digital media to how we invest and whom we invest with. We conduct significant research into understanding the threats and how they can be combated, and discuss and afford our experience with managers.

Service providers

We are in frequent ad hoc contact with the relationship managers and product specialists at our external service providers such as Morningstar Direct and MSCI. We also conduct a commercial review on them at contract renewal time which is typically once a year. With regards to Hermes EOS we attend their regular Client Councils. We also have a formal update meeting with them each quarter. Typical attendees include our relationship manager and SMEs depending on the agenda. Example topics discussed include developments within Hermes EOS business, ESG trends within society and the industry and any particularly noteworthy voting or engagement activity. We also want to check that they are adhering to our Voting Policy that we have in place.

We have a triage process in place for monitoring EOS’ voting recommendations. This ensures that we vet votes that are particularly noteworthy, potentially contentious or sizeable. Examples of the parameters include percentage of the equity held, MSCI company rating and Barclay’s Group Standards. We will typically review MSCI’s company research, broker research, ISS’s research and reach out to the external manager that is holding the stock as we build up our mosaic of understanding with respect to the voting topic. This is overseen by our Responsible Investing Forum as mentioned in Chapter 5.



Principle 9

Engagement with the issuers to maintain or enhance the value of assets

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

As previously mentioned, we partner with one of the global leaders in this space – Hermes EOS – to engage through dialogue, on our clients' behalf, with their portfolio holdings. EOS represents a global client base of institutional investors who believe that effective stewardship needs substantial resource and expertise. We recognise that we do not have the scale of resource in-house. EOS advises on its clients' listed equity and corporate bond assets of approximately \$1.75tn at end Q2 2021. We are involved in setting those expectations for engagement in a variety of ways such as feedback on their engagement priority areas and process as part of the annual refresh of the Engagement Plan. The latest annual EOS engagement plan can be found [here](#).

We also have other opportunities to set expectations such as through the bi-annual client advisory council events, client advisory board and via our EOS relationship manager.

We believe that Hermes EOS is very well placed to carry out this engagement activity for three key reasons:

- **Relationships and access** — Companies understand that EOS is working on behalf of pension funds, wealth managers and other large institutional investors, so it has significant leverage. The team’s skills, experience, languages, connections and cultural understanding equip them with the gravitas and credibility to access and maintain constructive relationships with company boards.
- **Client focus** — EOS pools the priorities of like-minded investors and, through consultation and feedback, this helps determine the priorities of its Engagement Plan.
- **Tailored engagement** — EOS develops engagement strategies specific to each company, informed by its deep understanding across sectors, themes and markets. It seeks to address the most material ESG risks and opportunities, through long-term, constructive, objectives-driven and continuous dialogue at the board and senior executive level, which has proven to be effective over time. An academic study in 2020 actually showed the tangible efficacy of this engagement via the reduced riskiness in targeted companies.

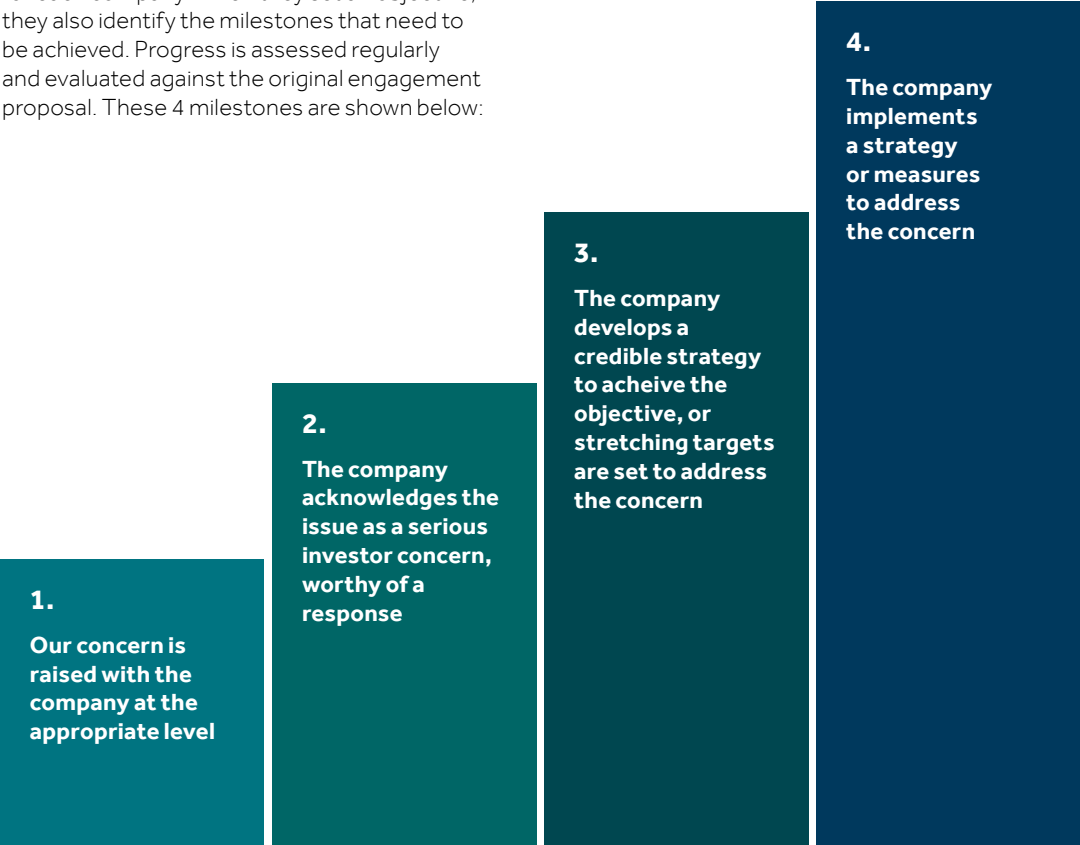
EOS go about the engagement activity and seek to effect change through setting objectives given 12 key high-level themes and 36 sub-themes. Examples include Climate Change, Board Effectiveness and Human Capital Management. An objective is a specific, measurable change that we are seeking for a company to achieve, and it is tracked using milestones. An objective is regularly reviewed until the company has implemented the change requested or it is discontinued. An objective may be discontinued if, for example, it is no longer feasible or material. EOS may engage with a company on multiple objectives at any one time. Each objective relates to a single theme and sub-theme. An issue is a topic they have raised with a company in engagement, but it may be of lower materiality or related to the annual shareholder meeting, for example.

EOS prioritises companies based on the optimal combination of the size of their clients’ aggregate holdings, the materiality of the risks and the feasibility of achieving change through engagement. The companies with more material corporate governance and sustainability-related issues, and the greatest potential for change, are engaged with more intensively, using the following categorisation:

- Tier 1** – Companies with material client holdings that have more significant or numerous long-term sustainability or corporate governance issues with the opportunity of feasible engagement and which EOS consider require more time and effort to progress, leading to typically more intense engagement, with the expectation of a minimum of five interactions per year.
- Tier 2** – Companies with material client holdings and identifiable long-term sustainability or corporate governance issues with the opportunity of feasible engagement, which EOS consider can be meaningfully pursued with average levels of time and effort, with the expectation of three to five interactions per year.
- Tier 3** – Companies representing significant client holdings but with generally lower levels of risk to long-term sustainability or which are in the process of being monitored for implementation of previous engagement work.

EOS typically set only a small number of objectives or pursue engagement issues, rather than specific engagement objectives and plan one or two interactions per year.

EOS have a four-stage proprietary milestone system allows us and them to track the progress of the engagement, relative to the objectives set for each company. When they set an objective, they also identify the milestones that need to be achieved. Progress is assessed regularly and evaluated against the original engagement proposal. These 4 milestones are shown below:



EXAMPLE

Burberry – Board Diversity – SDG 5 & 10

Ahead of Burberry’s 2021 shareholder meeting, EOS gained assurance that the company had sufficiently refreshed its board and appointed candidates to achieve a balance of skills and diversity of perspectives. They first raised the need for board refreshment with the chair in 2014, which was acknowledged by him in 2015. In September 2017 and January 2018, two new non-executive directors, including one woman, joined the board. One addressed a skills gap in the US luxury market and the other on remuneration. Furthermore, the company appointed a new chair in May 2018. At this time, the company demonstrated in its annual report that five directors had digital and media expertise. However, EOS saw a need for greater knowledge in key areas such as the Asian markets. At the 2019 shareholder meeting, two long serving non-executive directors stepped down. Two new non-executive directors were subsequently appointed on 1 October and 1 November 2019. Engagement also touched on the company being highlighted as a laggard by the Parker Review, but it has since appointed a black director. In EOS’ conversation with a board member ahead of the 2021 shareholder meeting, they gained assurance that another board member had demonstrated particular expertise in marketing luxury brands in Asia. Furthermore, a new director with a strong sustainability background had been appointed with experience of integrating sustainability into business strategy and setting sustainability targets in the supply chain, in line with EOS’ expectations.

Source: Q3 2021 Hermes EOS Engagement Report

EXAMPLE

Novartis – Governance and Risk Management – SDG 5

EOS has engaged with global healthcare company Novartis since 2009. By 2018, EOS had escalated its engagement on gender diversity at the board level by recommending a vote against the re-election of the nominations committee chair. They did this again in 2019. In Switzerland, EOS expect at least 30% of the board to be women but Novartis had achieved just 25%. EOS reiterated its concerns with the vice chair in October 2019. EOS also suggested extending the horizon of the long-term incentive plan to be more aligned with the business cycle of a pharmaceutical company. Prior to the 2020 shareholder meeting, EOS informed the company of our recommendation to vote against the re-election of the auditor and the re-election of the audit committee chair. This was due to the excessive tenure of the auditor, as the same firm had been in place since 1940. In March 2020, EOS also had a call with the head of data science and AI and with the global head of ethics, risk and compliance. EOS noted the importance for the company to demonstrate the existence of robust governance processes considering the firm’s strategy to ‘go big on data and digital’. Subsequently, EOS noted the company’s nomination of a woman to the board and its aspiration to find female candidates for two of the other nominations. In December 2020, the vice chair provided EOS with further assurance on gender diversity and the latest annual report also gives EOS confidence, in line with the engagement. On remuneration, EOS welcomed the introduction of a post-vesting holding period for the long-term incentives. EOS were also pleased to hear that a new audit firm would be proposed for election at the 2022 shareholder meeting. In February 2021, in line with EOS’ suggestion to leverage its leadership position on AI, the company sent them a copy of its new paper on the ethical and responsible use of AI. EOS now wish to see Novartis joining global efforts to reverse nature loss by 2030.

Source: Q2 2021 Hermes EOS Engagement Report

EXAMPLE

FANUC – COVID-19 Response – SDG 3 & 8

The impact of Covid-19 on robotics company FANUC’s supply chain was raised in Q1 2020 with the CEO. It told EOS that its Covid-19 taskforce, headed by the CEO, was established in February to gather information and tackle the impact. The company followed the guidelines released by the Japanese government to reduce social contact by 70-80%. It also implemented working from home, safety shielding and social distancing measures. The supply chain faced some issues in China, but the supplier’s factories had resumed regular operation by the end of Q1 2020. In EOS’ engagement call in December 2020, the CFO said that Covid-19 had had a minimal impact. On its website, the company has disclosed its policy and measures to tackle the impact. It has established a disaster response team to oversee the supply chain, identify challenges in procurement and work with a second supplier to avoid delays. The company has also changed its recruitment activities, offering medical examinations to new joiners. EOS continues to engage on other ESG issues including climate change and gender diversity.

Source: Q3 2021 Hermes EOS Engagement Report

An overview of all of each quarter’s Engagement activities can be found on the Barclay’s website [here](#).



Principle 10

Collaborative engagement policies and initiatives

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

As previously mentioned, we have partnered with Hermes EOS for the provision of engagement services. Nonetheless Barclays itself is a member of various collaborative coalitions. For example, BAML is a signatory to the United Nations Principles for Responsible Investment (UNPRI), a voluntary framework for incorporating ESG issues into investment decision-making and ownership practices. Additionally, Barclays is a member of and/or involved in the following organisations and initiatives: the Investment Association (IA), UK Sustainable Investment and Finance Association (UKSIF), Carbon Disclosure Project (CPD), Taskforce on Climate-Related Financial Disclosures (TCFD), Banking Environment Initiative (BEI), Green Bond Principles, and United Nations Environment Programme Finance Initiative (UNEP FI).

Hermes EOS is a member of over 70 relevant collaborative bodies; the most high profile of which are shown here:



In terms of some specific examples, within Climate Action 100+ EOS was the lead / co-lead at 27 engagements and involved in another 14 and within the PRI, EOS was the lead investor for the Vale dam failure group and is actively involved in other groups including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax.

EOS measure the progress of these engagements in the same way as they measure progress of company engagements – using the milestone measurement system as discussed in the previous chapter. Details on all engagements, including collaborative ones, are stored on their very comprehensive and recently overhauled client portal.

EXAMPLE

Climate Transition Votes — TotalEnergies

In EOS’ role as Climate Action 100+ (CA100+) co-lead for the French oil and gas major Total, it led a group of 35 institutional investors to move a collective statement at the annual shareholder meeting. Although they and the other CA100+ co-leads all recommended voting against Total’s climate policy, only 8% of shareholders did so, demonstrating that there is more work to do to educate investors on what it takes to be Paris aligned.

Source: Q2 2021 Hermes EOS Engagement Report

EXAMPLE

Steel Companies and Climate Change — POSCO

EOS has engaged extensively with Posco on climate change as a co-lead for the company under CA100+. EOS asked Posco to set new, ambitious, long-term targets for reducing its Scopes 1 and 2 emissions in line with the Paris Agreement, and to adopt the recommendations of the TCFD. Posco has now set targets to reduce its carbon emissions by 20% by 2030, by 50% by 2040, and for carbon neutrality by 2050, against the 2017- 2019 average baseline of its Scopes 1 and 2 emissions. It has also adopted the recommendations of the TCFD.

Source: Q2 2021 Hermes EOS Engagement Report

As a multi-manager and fund investor, we collaborate with the external fund managers that we employ to influence and effect change. We influence them by making our expectations clear and sharing with them our own approach to responsible investing. As mentioned earlier, we have collaborated with all our external mandate managers to ensure that only one of them remains to be a signatory to the UNPRI (and that outlier is expected to sign this year).

EXAMPLE

Collaborating on a holding within our external fund managers — UK Listed PE company

A UK listed Private Equity company is held in some of the UK Equity accounts run on behalf of our funds. We met with the firm. The company had a good track record of investing in private companies, but had only recently started to develop its approach to incorporating ESG considerations in its investment process, and its reporting of ESG related matters to investors of its shares and its underlying investments. As part of this process, it came to light that the firm had mapped a number of its investments against the UN’s Sustainable Development Goals (SDG). Upon further investigation, to give just one example, we found that the company was mapping a holding in an online share trading business as being aligned to the ‘No Poverty’ SDG. We felt this was an incorrect classification on the part of the manager. We took it up with them, and expressed our view that this particular investment was not directly aligned to the SDG. As such, we felt it could be an example of ‘greenwashing’. The company took on board our feedback with an open mind, and asked us to share our views on what it felt was best practice in the industry, so that it could incorporate it into its approach and influence future decisions and reporting to investors. It saw itself at an early stage of its journey to develop a coherent ESG approach, and welcomed our feedback.



Principle 11

Stewardship escalation

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

We can escalate issues in number of ways in order to exert influence, including via our relationship with Hermes EOS, over the holdings within our segregated mandates with 3rd party managers and and via the external fund managers that we employ (both of those segregated mandates and where we are an investor in their external funds). Further details on EOS' engagement priority areas can be found [here](#).

EOS regularly escalates engagements where the company is not receptive to engagement, no progress is being made or progress is too slow. Escalations include attempting engagement at a more senior level, letters to the board of directors, collaborating with investors or other stakeholders, questions or statements at annual meetings, recommending votes against annual meeting items, shareholder resolutions or open letters.

Most engagement takes the form of confidential one-on-one discussions with a company.

This helps EOS develop a relationship based on mutual trust while jointly exploring solutions. However, at times it does not yield results quickly enough, particularly if management has entrenched views against progress in a particular area. In such cases, investors can employ different engagement techniques:

Collaborative engagement

This is when investors join forces to represent a larger block of shares. Often engagers will hear the refrain from a company that their view is unique: “We have not heard that concern from anyone else.” However, if investors are working in a group, this notion is dispelled. CA100+, a major global initiative that aims to help limit global warming to less than 2°C, is one of the most effective collaborative engagement initiatives.

Public statements

These include open letters to sectors. For example, EOS participated in ShareAction’s co-ordinated letter-writing campaign to banks, which called for more robust and relevant climate-related disclosure to be supplied to investors.

Annual shareholder meeting statements

EOS raises concerns at shareholder meetings, putting questions to companies on behalf of our clients and CA100+. This has the advantage of allowing them to engage the whole board, raise awareness, and potentially gain press attention.

Voting against the company

There are certainly occasions where EOS has recommended voting against management and the following chapter details this in more depth and with examples.

Shareholder resolutions

These are proposals put forward by shareholders in an effort to change a company’s approach. Their effectiveness varies by jurisdiction as in the US they are advisory, and investors must avoid ‘micromanaging’ the company. However, with careful planning, investors can succeed.

Our Responsible Investing Policy, as already mentioned, is on our website and states what our beliefs are and therefore what we expect of the managers of third-party funds in which we have a holding. We also send a due diligence questionnaire (DDQ) comprising ESG questions to all potential funds which helps set our expectations of them. We encourage the asset managers that we invest in to have robust stewardship activity and review examples of engagement with them at our regular 6-monthly meeting if not more often. Their responses help us understand that our expectations have been met. We mostly set these expectations with, and engage with, the fund managers on the funds, but we will also often speak with, for example, Heads of Responsible Investing, and CIOs or CEOs if needs be.

EXAMPLE

Escalation to Fund Manager — Boohoo — Q4 2021

Boohoo, an online fashion retailer, was owned by a number of managers across our UK Equity accounts. After allegations came to light of slavery in their factories, we initiated meetings with the fund managers. These meetings were held to help us ensure we understood both the issue and how the managers were addressing it with the company. It was important to us to know that the managers were taking the issue seriously on our behalf, and that they were taking proactive steps in their dealings with the underlying company to try to ensure the issue was being addressed, and improvements made. All of the investment managers discussed with us their views on the company and the action they had taken as a result of the issues raised. The manager with the largest holding in the firm disclosed how it was engaging, both in person and by letter, with the company’s executive management team and non-executive directors. The investment manager explained to us a number of the suggestions they had made to the company which they felt could do, with a particular focus on how it could improve its regime of governance and oversight. The company has since undertaken an independent review of its supply chains, and removed a number of suppliers as a result, and a number of changes to the firm’s senior management team have also taken place.

EXAMPLE

Escalation by Hermes EOS — Exxon Mobil — Q1 2022

In 2017 EOS urged management to demonstrate how long-term strategy accounts for climate change, stress test against various demand assumptions and policy scenarios, and develop plans to manage the transition to a low-carbon economy. EOS asked the board to consider gaining wider international experience through appointment of a non-US national director. In 2018, EOS was the only investor representative group to ask a question at the company’s pre-annual meeting webinar. In 2019, EOS was disappointed that ExxonMobil appeared to be withdrawing from dialogue on climate change with investors and their representatives, reducing access to management. They recommended votes against the members of the board affairs and public issues committees, for insufficient response to climate change. In 2020, EOS submitted an AGM question about the high oil price assumptions the company used to stress test capital projects and make other capital allocation decisions. The company did not answer the question. In 2021, ExxonMobil faced a proxy contest in which an activist shareholder, Engine No. 1, proposed an alternative list of directors to those put forward by the company’s board. EOS met with Engine No. 1 to discuss its criticisms of the company, which included: long-term financial underperformance; overly aggressive capital expenditure; and lack of sufficient plans for the energy transition. Engine No. 1 reported that, “ExxonMobil has underperformed the S&P 500 and each of its proxy statement peers (BP, Chevron, Shell and Total) for the last three, five and ten year periods, before and after the pandemic. EOS met with ExxonMobil to discuss its response to the proxy contest. The company reported enhanced shareholder dialogue and changes in response to shareholder concerns, including greater capital expenditure discipline since 2017. The company described its climate change strategy around mitigating emissions in operations, providing products to help customers reduce their emissions, and developing and deploying scalable technology solutions. The company announced targets to reduce Scope 1 and 2 emissions intensity by 15-20% before 2025, for operated assets only. Following engagement with both Engine No. 1 and ExxonMobil, EOS recommended supporting the proxy contest. They believed additional board refreshment was necessary given the company’s long-term financial underperformance. The concerns expressed by Engine No. 1 echo many of those expressed in EOS’ engagement with the company over the years. Prior to the annual meeting, EOS filed an SEC Notice of Exempt Solicitation disclosing their position publicly.



Principle 12

The active exercise of rights and responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

We do not permit our external asset managers to exercise rights and responsibilities on our behalf within our funds. Rather, we partner with Hermes EOS who provide daily voting recommendations to us. These have been made with reference to research and additional engagements with companies (if needed).

A summary of all our votes are disclosed quarterly [here](#) and we voted in all instances where EOS made a recommendation.

As can be seen, we voted on many thousands of resolutions in the period. The details of all the individual votes, and rationales, are stored within the ISS portal. There is an automated feed between our funds' custodian's system – Northern Trust – and the ISS portal. This is how we monitor what shares and voting right we have. We do not always use the default recommendations from EOS, although it is certainly the case in the vast majority of instances. We have a triage process (as detailed in chapter 8). Where this is activated, we also document and store the rationale at Barclays. Such instances are also presented to our Responsible Investing Forum.

We adhere to EOS' global voting guidelines which are available on our website [here](#).

We voted at 430 meetings on 4,466 resolutions over the reporting period.

Meetings voted with management by exception

10

Meetings voted against (or against AND abstain)

214

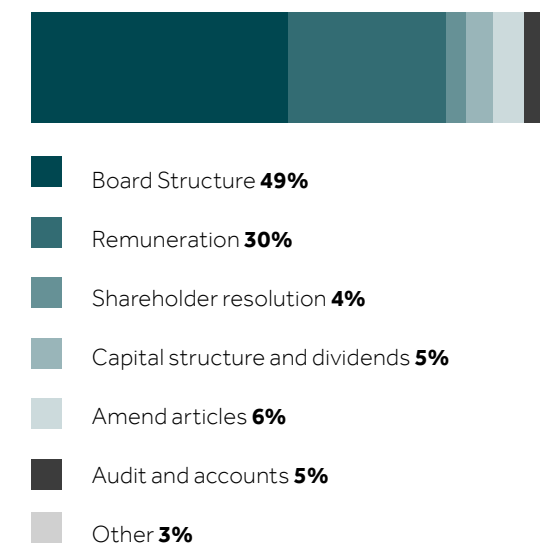
Meetings voted in favour

203

Number of voting recommendations

430

Hermes EOS recommended voting against or abstaining on 587 resolutions over the reporting period. As can be seen, the majority of voting issues relate to board structure and remuneration policies.



Additionally we recognise that approaches are not uniform globally and so EOS also has regional corporate governance guidelines. As we are managing discretionary assets, clients do not have discretion over voting. We do not stock lend. We meet with Hermes EOS quarterly and discuss and monitor voting there. Automated linkages between our custodian and ISS, which in turn EOS feeds into, ensure that shares held and votes cast are monitored and accurate.

EXAMPLE

SSE Plc – Net Zero Transition Report – With Management - Q3 2021

Context

We had some concerns about the company’s existing emissions reduction targets but supported its proposal to adopt a plan to become a net-zero company by 2050 or sooner, consistent with limiting the average global temperature increase to 1.5°C with low or no overshoot. EOS noted concerns related to the absence of short-term targets however the company’s medium and long-term targets are comprehensive and cover both intensity and absolute GHG emissions. It has set 2040 targets for Scopes 1 and 2 and a 2034 target for Scope 3. According to EOS, their support was justified by the company’s commitments to: regularly update the interim emissions reduction targets based on the latest scientific developments; publish a report annually on the implementation of its transition plan; and provide an annual advisory vote on this report at each annual shareholder meeting. Overall, the Company’s climate commitments and reporting are considered sufficient at this time. As such we believed a vote for this resolution was warranted.

Outcome

This proposal received 99% support in favour. Following the AGM, EOS met with the sustainability head and challenged her on the absence of a short-term emissions reduction target. She explained that this is inappropriate for electricity generation because it is a highly dynamic market requiring constant balancing of demand and supply, both of which are inherently unpredictable. Such targets could have a distortive effect on the efficient functioning of the electricity market. Medium-term targets on the other hand will allow for an orderly decarbonisation of the electricity sector, and the company has a track record of delivering such targets since 2009. EOS were pleased to hear that the company had submitted updated targets to SBTi for approval that are aligned with a 1.5 degrees scenario. EOS raised concerns regarding the absence of a roadmap for the achievement of these targets, and the company indicated that this will be provided soon. They also questioned the timeline of its ambition which is to become net-zero by 2050 or sooner since the power sector must reach net-zero at least 10 years ahead of the rest of the economy. She indicated that the company should be close to this in 2030 but the last 10% of residual emissions could prove extremely expensive to achieve and the answer for this is at the sector level. Finally, EOS discussed the company’s efforts to support a just transition. A first report on the implementation of its just transition plan with a focus on workers will be published soon. EOS intend to review this and the transition strategy of the company before the 2022 AGM since the company committed to providing its shareholders with an annual advisory vote on the implementation of its transition plan.

Next steps

EOS continue to engage the company on this issue. At the 2022 AGM, the engagement provider decided to support the company based on its positive track record, commitments to achieving net zero in line with the Paris Agreement and to include an advisory vote at following AGMs. It was also pleasing to know of the company’s strengthening of the climate elements for executive pay mechanisms and seemingly advanced progress on a just transition.

Source: Hermes EOS – Client Relations

EXAMPLE

Cie Financiere Richmont – Re-election of audit committee chair – Against Management – Q3 2021

Context

We had concerns on the audit committee chairman’s long tenure at the company. EOS also recommended a vote against the re-election of the audit committee chair as they would prefer to see an independent chair. In February 2019, EOS updated its European Voting Guidelines, newly requiring that the chairman of the audit committee at widely held companies be independent. At that point in time, non-independent director Josua Malherbe was the chair of the audit committee, and the company had not indicated in the meeting materials that he would be replaced in this position. Therefore, a vote against this resolution was warranted.

Outcome

The proposal was passed but unfortunately the percentage in favour was not available. Detailed information on the outcome of the vote was not disclosed. EOS continue to request detailed disclosure of vote results as the company only indicates in a qualitative manner whether resolutions have passed.

Next steps

As part of EOS’ ongoing engagement with the company, they met Richemont’s head of corporate communications to discuss concerns related to its 2022 AGM. EOS raised concerns about the lack of independence on the audit committee, which they expect to be fully independent. In line with Swiss Code of Best Practice, EOS expect the audit committee to be majority independent. Currently it is only considered to be 40% independent and therefore recommended votes against all non-independent directors of the audit committee. EOS continues to engage the company on these issues.

Source: Hermes EOS – Client Relations

EXAMPLE

Prosus – Remuneration report and policy for executive and non-executive directors – Against Management – Q3 2021

Context

We had some concerns about the company’s performance and independence in the oversight and approval of the tender offer for Naspers’ shares by Prosus. In 2021 EOS recommended a vote against the re-election of the incumbent directors due to the lack of engagement and a vote against the remuneration report and policy, as long-standing concerns about quantum and structure had not been substantially addressed. EOS noted that the quantum of long-term incentives awarded is high (approximately USD 13.5 million), with a large portion not subject to performance conditions (40%). As highlighted in previous EOS analysis for Naspers, whilst the company discloses the financial metrics applicable to the annual bonus, it does not provide the actual financial targets. Whilst this is not uncommon in South Africa and the Netherlands, it restricts the analysis of the link between pay and performance. There has been some improvement in the disclosures around the strategic and operational targets which account for 50% of the bonus opportunity. The company provides an indication of the achievement against the performance metrics and the pay-outs against these objectives. This is viewed positively, but there remains scope for improvement, particularly as the bonus pay-outs are relatively high and practically all pay out at maximum. Albeit we recognize the company has made a number of efforts to address shareholders concerns as raised at the 2020 AGM, given the level of dissent the changes are not considered to fully address or fully mitigate concerns around transparency, structure and quantum of remuneration. Therefore, a vote against this resolution was warranted.

Outcome

The proposal for Remuneration Report and Remuneration policy for executive and non-executive directors received 85% and 84% respectively in favour of the resolution. EOS continued to express multiple concerns regarding the company’s remuneration programme, The head of investor relations responded to each concern. He argued that the company must pay executives a very high variable salary in order to compete for talent with Big Tech companies. He also argued that tying the annual bonus to the share repurchase is appropriate, since investors had been asking the company to reduce the discount to net asset value. We generally do not accept the argument that only a CEO from the USA, paid according to the USA’s unusually high pay levels, is capable of leading a company effectively. Regarding the annual bonus, EOS believe the CEO will be rewarded more than sufficiently once the stock price rises as a result of the buyback programme, and there is therefore no need to grant him a cash bonus of five times salary just for conducting the buyback.

Next steps

We maintain significant concerns regarding the company’s remuneration programme, as mentioned previously. EOS will continue to recommend votes against until they are comfortable with the company’s approach.

Source: Hermes EOS – Client Relations

EXAMPLE

Apple Inc – Ratify CEO’s Compensation – Against Management - Q1 2022

Context

We had concerns around the magnitude and structure of the FY21 compensation proposed for the CEO (Tim Cook). Proposed pay included a \$3m salary, \$12m bonus and non-equity incentives, and \$75m in restricted stock. Together with changes in pension, deferred comp. etc, this brings the total to \$91.3m. This is a 519 % increase on the prior year and 1,447 times the median Apple employee salary of \$68,254. It is also above industry peers at 4.23x total CEO peer median pay (even comparing to the largest technology firms). Although Apple has demonstrated strong performance last year and has a market cap of \$3.0tn, this level of compensation is excessive, especially considering Apple’s performance was boosted by short-term coronavirus-related factors . Cook is eligible for retirement one year from the grant date and, as it stands, the award will continue to vest in full, which diminishes its retentive value. Finally, despite the large total salary, the company covered aircraft and security-related expenses for Cook totalling \$1.3m. As such we believed a vote against this resolution was warranted.

Outcome

This proposal received 64.4% support in favour. Despite the company’s historically high financial performance, EOS recommended opposing the advisory vote on executive compensation due to concerns about the quantum of the CEO’s equity grant. The company pointed EOS to its performance – this was the first grant in 10 years and explained Apple was not readily comparable to other companies. While EOS noted the company’s strong financial performance, they explained the quantum has a ratcheting effect that is inconsistent with its stated focus on addressing inequities in society. EOS raised concerns about CEO succession planning. They also explained that a meaningful holding period requirement, and requiring Apple’s NEOs, who are all compensated at CEO level, to hold eight to ten times their salary in shares and holding requirements, are essential for aligning with long-term shareholder interests. The company confirmed it will deliver their feedback to the compensation committee. Considering the above, EOS also recommended opposing the election of compensation committee chair Andrea Jung this year. Nonetheless, it is worth highlighting Apple’s team-based approach to compensating NEOs with internal pay equity as a primary consideration. By granting the two female and two male NEOs the same salary and equity pay, the company has created an example that all companies should reflect upon.

Next steps

Over the years, Apple has demonstrated some responsiveness to shareholder concerns around compensation, including adding an ESG modifier to short term compensation. It has also set cash compensation at a level that while still high, is relatively modest within the US technology sector context. Following the AGM, EOS wrote to share their expectations around ongoing controversies playing out in the press on allegations of sexual harassment, discrimination, and retaliation. EOS expected these controversies to be reflected in executive compensation. They also suggested revamping the compensation committee charter that is responsible for people to include human capital development and DEI. EOS continue to engage the company on executive remuneration.

Source: Hermes EOS – Client Relations

EXAMPLE

Walt Disney – Human Rights Report – Against Management – Q1 2022

Context

We had concerns on the company's human rights due diligence process with regards to the human rights impacts of its business and associations with foreign entities specifically, totalitarian and authoritarian regimes that violate human rights. EOS discussed their intended vote recommendations with the company's investor relations prior to the AGM. They expressed broad support for human rights due diligence reports. In December 2021, EOS engaged with the company on various issues including human rights. The company was asked to disclose material supply chain risks by geography and to disclose access to remedy for human rights violations. The UN Guiding Principles of Business and Human Rights assert that companies have an individual responsibility to respect human rights. EOS noted that while Disney claim that it is committed to complying with national and international export laws and regulations, the company does not appear to have comprehensive policies and procedures to ensure its business operations specifically materials sourcing as well as film production are not involved and/or complicit in serious human rights violations. The business decision to film the movie "Mulan" in XUAR and the following public backlash demonstrate the need for additional clarity in the human right's due diligence process. Additional information regarding policies the company has implemented to address human rights impacts in its operations including materials sourcing traceability protocols, high risk sourcing countries risk assessments, and film production protocols would allow shareholders to better gauge how well Disney is managing human rights related risks. Therefore, a vote for this proposal was warranted.

Outcome

This proposal received 60% against the resolution. EOS maintains two corporate issues with the company – Xinjiang human rights engagement and improvement in modern slavery act statement. On Xinjiang, EOS expect the company carries out appropriate due diligence related to the risks of forced labour in or from the Xinjiang Uyghur Autonomous Region (XUAR) in its value chain and can explain whether and how it is connected. Their Modern Slavery Act statement has room for improvement, including better use of relevant reporting frameworks, disclosure on gaps identified and improvements that need to be made.

Next steps

EOS will continue to engage the company on human rights, with a focus on providing access to remedies.

Source: Hermes EOS – Client Relations

Clearly we cannot vote on fixed income as we can with equities, but EOS still engages with such issuers on our clients' behalf. We also engage with the fund managers themselves to ensure they are exercising their rights and responsibilities. The terms and conditions of most investment grade corporate bonds are pretty standardised and have rarely been subject to negotiation in recent years. The primary market for issues rated below investment grade is really the only market that has more negotiable terms and conditions but primary issuance here has been muted recently. That said, we have seen our external fixed income managers participate in discussions to seek amendments to the terms and conditions, which have led to changes in the bond structure. We expect them to engage actively with underwriters to shape the terms and conditions of new issues. We also expect them to meet issuers during the pre-marketing phase of potential new issues, advising companies how to structure their sustainable bond issues and highlighting structural deficiencies in their labelled bond offerings. Transparency on the use of proceeds is encouraged. Such engagements allow our external fund managers to identify those companies that are serious about achieving their sustainable goals and helps combat potential greenwashing.

EXAMPLE

Oaktree — Oaktree believes that ESG factors can directly impact upon performance

Environmental, Social, and Governance (ESG) factors have always been an important consideration in our investment decision-making process.

We systematically review all holdings based on MSCI research, UNGC compliance, and current ESG controversies.

Our ESG research process is summarized below:

- In evaluating any investment, we identify and assess ESG factors we expect to be material to investment performance and incorporate our analysis into the investment process through our proprietary Credit Scoring Matrix, which is the framework we use to determine if a company is creditworthy.
- Any company that MSCI rates CCC, has a 0 or 1 controversy score, or is a UN Global Compact fail, is immediately added to our ESG Watch List. Analysts must conduct enhanced due diligence on the ESG risk of these names, engage management to better assess the shortcomings, and endeavor to influence positive change where possible.
- Analysts must document their ESG research and engagement, including management's plan for remedying the situation, and review each Watch List name on a quarterly basis with the Portfolio Managers.
- We will continuously monitor the ESG performance of our investments and report any significant ESG-related issues to the ESG Governance Committee for discussion, including any action taken in client funds and accounts.

